

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Qingdao Holdings International Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This circular is for information purposes only and is being provided to you solely for the purpose of considering the ordinary resolutions to be voted upon at the SGM of the Company to be held on Tuesday, 13 April 2021. This circular does not constitute an invitation or offer to acquire, purchase or subscribe for securities, nor is it calculated to invite any such offer or invitation. Neither this circular nor any copy thereof may be taken into or distributed, directly or indirectly, in or into the United States (including its territories and dependencies, any State of the United States and the District of Columbia). In particular, this circular does not constitute and is not an offer to sell or a solicitation of any offer to purchase or subscribe for securities in the United States or elsewhere. No securities may be offered or sold in the United States absent registration or an exemption from registration under the United States Securities Act of 1933, as amended. There is no intention to make a public offering of the securities referred to in this circular in the United States.



QINGDAO HOLDINGS INTERNATIONAL LIMITED

青島控股國際有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00499)

- (1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF APPROXIMATELY 81.91% OF
THE EQUITY INTEREST IN
QINGDAO RURAL CONSTRUCTION FINANCIAL LEASING COMPANY LIMITED*
(青島城鄉建設融資租賃有限公司);
- (2) CONNECTED TRANSACTION IN RELATION TO THE ISSUE OF
CONVERTIBLE BONDS UNDER THE SPECIFIC MANDATE;
- (3) PROPOSED RIGHTS ISSUE OF RIGHTS SHARES ON THE BASIS OF
ONE (1) RIGHTS SHARE FOR EVERY ONE (1) EXISTING SHARE
HELD ON THE RIGHTS ISSUE RECORD DATE
AT THE RIGHTS ISSUE SUBSCRIPTION PRICE OF HK\$0.39 PER RIGHTS SHARE;
AND
- (4) NOTICE OF SPECIAL GENERAL MEETING

Financial Adviser to the Company



Underwriter of the Rights Issue



睿智金融國際有限公司
VISION FINANCE INTERNATIONAL COMPANY LIMITED

Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders



RAINBOW CAPITAL (HK) LIMITED
流博資本有限公司

A letter from the Board is set out on pages 17 to 56 of this circular.

A letter from the Independent Board Committee is set out on pages 57 to 58 of this circular, and a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 59 to 122 of this circular.

A notice convening the SGM to be held at Unit Nos. 9-11, 26th Floor, Tower 1, Admiralty Centre, No. 18 Harcourt Road, Hong Kong on Tuesday, 13 April 2021 at 11:00 a.m. is set out on pages SGM-1 to SGM-4 of this circular.

A form of proxy for use at the SGM is enclosed. If you do not intend or are unable to attend the meeting and wish to appoint a proxy/proxies to attend and vote on your behalf at the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to with the Hong Kong Share Registrar, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

It should be noted that the Rights Issue is underwritten on a best effort basis and that the Underwriting Agreement contains provisions entitling the Underwriter by notice in writing to the Company to terminate the obligations of the Underwriter thereunder with immediate effect at any time prior to the Latest Time for Termination, upon the occurrence of certain events, including force majeure events. These events are set out in the section headed "Letter from the Board – Rights Issue – Termination of the Underwriting Agreement" on pages 42 to 43 of this circular.

Shareholders should note that the existing Shares will be dealt with in on an ex-rights basis from Thursday, 15 April 2021. The Rights Shares in their nil-paid form will be dealt in from 9:00 a.m. on Wednesday, 28 April 2021 to 4:00 p.m. on Wednesday, 5 May 2021 (both days inclusive). If the Underwriting Agreement is terminated by the Underwriter on or before the Latest Time for Termination, or if any of the conditions of the Rights Issue as set out in the section headed "Letter from the Board – Rights Issue – Conditions Precedent" on pages 38 to 39 of this circular is not fulfilled or waived (as appropriate), the Rights Issue will not proceed. If the Underwriter terminates or rescinds the Underwriting Agreement, the Rights Issue will not proceed.

Any dealings in the Shares from the date of this circular up to the date on which all the conditions of the Rights Issue are fulfilled or waived (as appropriate) and the date on which the Underwriter's right of termination of the Underwriting Agreement ceases, and/or any dealings in the nil-paid Rights Shares shall bear the risk that the Rights Issue may not become unconditional and may not proceed. Any Shareholders or other persons contemplating any dealings in the Shares and/or the nil-paid Rights Shares are recommended to consult their own professional advisers and exercise caution.

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EXPECTED TIMETABLE

The following expected timetable is indicative only and is subject to change. If necessary, further announcements in relation to any revised timetable will be published as and when appropriate.

| Events | Time and Date ⁽¹⁾ |
|--|--|
| Latest time for lodging transfer of the Shares for the purpose of ascertaining Shareholders' entitlements to attend and vote at the SGM | 4:30 p.m. on Thursday, 1 April 2021 |
| Closure of register of members for the purpose of ascertaining Shareholders' entitlement to attend and vote at the SGM (both dates inclusive)..... | Wednesday, 7 April 2021 to Tuesday, 13 April 2021 |
| Latest time for lodging forms of proxy for the SGM | 11:00 a.m. on Sunday, 11 April 2021 |
| Record date for attending and voting at the SGM | Tuesday, 13 April 2021 |
| SGM | 11:00 a.m. on Tuesday, 13 April 2021 |
| Announcement of the poll results of the SGM to be published | Tuesday, 13 April 2021 |
| Last day of dealings in the Shares on a cum-rights basis | Wednesday, 14 April 2021 |
| First day of dealings in the Shares on an ex-rights basis | Thursday, 15 April 2021 |
| Latest time for lodging transfer document of the Shares in order to be qualified for the Rights Issue | 4:30 p.m. on Friday, 16 April 2021 |
| Closure of register of members of the Company for the purpose of determining entitlements under the Rights Issue (both days inclusive)..... | Monday, 19 April 2021 to Friday, 23 April 2021 |
| Rights Issue Record Date for determining entitlements under the Rights Issue | Friday, 23 April 2021 |
| Register of members of the Company re-opens | Monday, 26 April 2021 |
| Despatch of Prospectus Documents | Monday, 26 April 2021 |

EXPECTED TIMETABLE

| Events | Time and Date ⁽¹⁾ |
|---|--|
| First day of dealings in nil-paid Rights Shares | 9:00 a.m. on Wednesday, 28 April 2021 |
| Latest time for splitting nil-paid Rights Shares | 4:30 p.m. on Friday, 30 April 2021 |
| Last day of dealings in nil-paid Rights Shares | 4:00 p.m. on Wednesday, 5 May 2021 |
| Latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares | 4:00 p.m. on Monday, 10 May 2021 |
| Latest time to terminate the Underwriting Agreement and for the Rights Issue to become unconditional | 4:00 p.m. on Tuesday, 11 May 2021 |
| Publication of announcement of completion of the Acquisition and the issue of the Consideration CB and the results of the Rights Issue on or before | Monday, 17 May 2021 |
| Despatch of refund cheques in relation to wholly or partially unsuccessful applications for excess Rights Shares | Tuesday, 18 May 2021 |
| Despatch of share certificates for fully-paid Rights Shares | Tuesday, 18 May 2021 |
| Commencement of dealings in fully-paid Rights Shares | 9:00 a.m. on Thursday, 20 May 2021 |
| Issue of the Consideration CB on or before | Monday, 31 May 2021 |
| Completion of the Acquisition on or before | Monday, 31 May 2021 |
| Acquisition Long Stop Date | Saturday, 31 July 2021 |

Note:

- (1) All times and dates in this circular refer to Hong Kong local time and dates unless otherwise specified. Dates stated in this circular for events in the timetable are indicative only and may be extended or varied. Any changes to the anticipated timetable for the Rights Issue will be announced as appropriate.

EXPECTED TIMETABLE

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE RIGHTS SHARES AND FOR APPLICATION AND PAYMENT FOR THE EXCESS RIGHTS SHARES

The latest time for acceptance of and payment for the Rights Shares and for application and payment for the excess Rights Shares will not take place if there is a tropical cyclone warning signal no. 8 or above, or a “black” rainstorm warning and/or extreme conditions caused by super typhoons announced by the government of Hong Kong:

- (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the Latest Acceptance Date. Instead, the latest time for acceptance of and payment for the Rights Shares and for application and payment for the excess Rights Shares will be extended to 5:00 p.m. on the same day; and
- (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Latest Acceptance Date. Instead, the latest time of acceptance of and payment for the Rights Shares and for application and payment for the excess Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m..

If the latest time for acceptance of and payment for the Rights Shares and for application and payment for the excess Rights Shares does not take place on the Latest Acceptance Date, the dates mentioned in this section may be affected. The Company will notify the Shareholders by way of announcement(s) of any change to the expected timetable as soon as practicable.

DEFINITIONS

In this circular, the following expressions have the following meanings unless the context specifies otherwise:

| | |
|------------------------------|---|
| “10M2019” | the 10 months ended 31 October 2019 |
| “10M2020” | the 10 months ended 31 October 2020 |
| “Acquisition” | the sale and purchase of the Target Equity Interest as contemplated under the Sale and Purchase Agreement |
| “Acquisition Long Stop Date” | 31 July 2021 |
| “acting in concert” | has the meaning ascribed to it under the Takeovers Code |
| “Announcement” | the announcement of the Company dated 17 March 2021 (as supplemented by the supplemental announcement of the Company dated 22 March 2021) in relation to, among other things, the Sale and Purchase Agreement, the issue of the Consideration CB and the Rights Issue |
| “Base Conversion Price” | HK\$1.496 per Conversion Share |
| “Board” | the board of Directors |
| “BOCOM Asia” | BOCOM International (Asia) Limited, a corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO |
| “Business Day” | any day(s) (other than a Saturday, Sunday or public holiday in the PRC and Hong Kong) on which banks in the PRC or Hong Kong are generally open for normal banking business to the public |
| “BVI” | the British Virgin Islands |
| “Bye-laws” | the bye-laws of the Company |
| “CBIRC” | the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會), a regulatory authority formed via the merger of its predecessors, the China Banking Regulatory Commission (中國銀行業監督管理委員會, the “CBRC”) and China Insurance Regulatory Commission (中國保險監督管理委員會), approved by the National People’s Congress of the PRC on 17 March 2018, and including, where appropriate, its local counterparts |
| “CCASS” | the Central Clearing and Settlement System established and operated by HKSCC |

DEFINITIONS

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|------------------------------|---|
| “Chinese Capital” | Chinese Capital Investment Holdings Limited (華融投資(控股)有限公司), a company incorporated in Hong Kong with limited liability on 16 November 2010 |
| “CIC” | China Insights Consultancy Limited, a private independent research firm that provides market research and analysis, and an Independent Third Party |
| “Companies Act” | the Companies Act 1981 of Bermuda, as amended, supplemented or otherwise modified from time to time |
| “Companies Ordinance” | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| “Companies (WUMP) Ordinance” | the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| “Company” | Qingdao Holdings International Limited (青島控股國際有限公司*), a company incorporated in Bermuda with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 499) |
| “Completion” | the completion of the Acquisition pursuant to the terms and conditions of the Sale and Purchase Agreement |
| “Consideration” | approximately HK\$2,378.7 million, which shall be satisfied in the manner set out in the section headed “Letter from the Board – Sale and Purchase Agreement – Principal Terms of the Sale and Purchase Agreement – Consideration” in this circular |
| “Consideration CB” | the convertible bonds of an aggregate principal of approximately HK\$2,224.2 million due on the Maturity Date to be issued by the Company for settling part of the Consideration pursuant to the Sale and Purchase Agreement |
| “Controlling Shareholder(s)” | has the meaning ascribed thereto under the Listing Rules and, for the purpose of this circular, refers to CQIH, CQDHG and QCCIG |
| “Conversion Share(s)” | new Share(s) to be allotted and issued by the Company upon the exercise of the conversion rights attached to the Consideration CB |

DEFINITIONS

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|---|---|
| “CQDHG” | China Qingdao Development (Holdings) Group Company Limited (華青發展(控股)集團有限公司), a company incorporated in Hong Kong with limited liability on 1 April 2014 and wholly owned by QCCIG, and being one of the Controlling Shareholders and a connected person of the Company |
| “CQIH” | China Qingdao International (Holdings) Company Limited, a company incorporated in BVI with limited liability on 12 June 2014 and wholly owned by CQDHG, and being one of the Controlling Shareholders |
| “CQIH Committed Shares” | an aggregate of 344,621,633 Rights Shares agreed to be taken up by CQIH pursuant to the CQIH Undertakings, being 100% of the 344,621,633 Rights Shares provisionally allotted to CQIH pursuant to the Rights Issue |
| “CQIH Undertakings” | the irrevocable and unconditional undertakings given by CQIH in favour of the Company and the Underwriter on 17 March 2021, the details of which are set out in the section headed “Letter from the Board – Sale and Purchase Agreement – Rights Issue – Irrevocable Undertakings from CQIH” in this circular |
| “Director(s)” | the director(s) of the Company |
| “EAF(s)” | the excess application form(s) for use by the Qualifying Shareholders or transferees of the nil-paid Rights Shares who wish to apply for excess Rights Shares |
| “Enlarged Group” | the Group and the Target Group |
| “FY2017” | the financial year ended 31 December 2017 |
| “FY2018” | the financial year ended 31 December 2018 |
| “FY2019” | the financial year ended 31 December 2019 |
| “FY2020” | the financial year ended 31 December 2020 |
| “Group” | the Company and its subsidiaries |
| “HK\$” or “HKD” or “Hong Kong dollar(s)” | Hong Kong dollar(s), the lawful currency of Hong Kong |

DEFINITIONS

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|---------------------------------|---|
| “HKFRS” | the Hong Kong Financial Reporting Standards |
| “HKICPA” | Hong Kong Institute of Certified Public Accountants |
| “HKSCC” | Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Hong Kong Share Registrar” | Tricor Secretaries Limited, the Company’s Hong Kong branch share registrar and transfer office |
| “Independent Board Committee” | the independent board committee of the Board comprising Mr. Yin Tek Shing, Paul, Mr. Wong Tin Kit, Ms. Zhao Meiran and Mr. Li Xue, each being an independent non-executive Director, established to consider, and if thought fit, give a recommendation to the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Consideration CB) and the Rights Issue |
| “Independent Financial Adviser” | Rainbow Capital (HK) Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Consideration CB) and the Rights Issue |
| “Independent Shareholders” | the Shareholders other than CQIH and its associates |
| “Independent Third Party(ies)” | any entity(ies) or person(s) who, as far as our Directors are aware after having made all reasonable enquiries, is/are not connected person(s) of the Company within the meaning of the Listing Rules |
| “Industry Report” | an independent industry report prepared by CIC on the financial leasing industry in the PRC |
| “Initial Conversion Price” | HK\$1.87 per Conversion Share (subject to adjustments pursuant to the terms and conditions of the Consideration CB) |

DEFINITIONS

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| “Last Trading Day” | 17 March 2021, being the last trading day for the Shares before the entering into of the Sale and Purchase Agreement |
| “Latest Acceptance Date” | Monday, 10 May 2021, being the last day for acceptance of and payment for the Rights Shares, or such other date as the Company may determine |
| “Latest Practicable Date” | 17 March 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular |
| “Latest Time for Termination” | 4:00 p.m. on Tuesday, 11 May 2021, being the next Business Day after the Latest Acceptance Date, or such other time or date as may be agreed in writing between the Company and the Underwriter |
| “Listing Rules” | The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time |
| “Longyuan Taifu Investment” | Beijing Longyuan Taifu Investment Development Company Limited* (北京隆元泰福投資發展有限公司), a company established in the PRC with limited liability on 5 February 2013 |
| “Maturity Date” | the date falling on the ninth (9th) anniversary of the date of the issue of the Consideration CB, provided that if such date is not a Business Day, the first Business Day immediately after such date |
| “MOFCOM” | the PRC Ministry of Commerce (中華人民共和國商務部), or its predecessor, the Ministry of Foreign Trade and Economic Cooperation, as appropriate to the context |
| “Mr. Chen” | Mr. Chen Penggong (陳鵬功), the head of the legal and asset management department of the Target Group |
| “Mr. Hou” | Mr. Hou Xiaopan (侯小攀), the head of the risk management department of the Target Group |
| “Mr. Shang” | Mr. Shang Zhitian (尚志田), a director of the Target Company and the general manager of the Target Group |

DEFINITIONS

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|---------------------------------|--|
| “Mr. Wan” | Mr. Wan Jun (萬軍), a director of the Target Company and one of the deputy general managers of the Target Group |
| “Mr. Xu” | Mr. Xu Hua (許華), one of the deputy general managers of the Target Group |
| “Mr. Zhu” | Mr. Zhu Ang (朱昂), one of the deputy general managers of the Target Group |
| “Ms. Peng” | Ms. Peng Lisha (彭麗莎), the head of the finance department of the Target Group |
| “Ms. Wang” | Ms. Wang Ming (王敏), the spouse of Mr. Shang |
| “Ms. Xu” | Ms. Xu Meiling (徐美玲), the head of the internal control and compliance department of the Target Group |
| “Ms. Zhang” | Ms. Zhang Yang (張洋), a director of the Target Company and one of the deputy general managers of the Target Group |
| “Non-Qualifying Shareholder(s)” | Overseas Shareholder(s) in respect of whom the Directors, based on the legal advice provided by the legal advisers in the relevant jurisdictions, consider it necessary or expedient to exclude from the Rights Issue, on account either of the legal restrictions under the law of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place |
| “NUR” | National United Resources Holdings Limited (國家聯合資源控股有限公司), a company incorporated in Hong Kong with limited liability on 28 July 1992 |
| “Overseas Letter” | the letter from the Company to the Non-Qualifying Shareholders explaining the circumstances in which the Non-Qualifying Shareholders (if any) are not permitted to participate in the Rights Issue |
| “Overseas Shareholder(s)” | Shareholder(s) whose name(s) appear(s) on the register of members of the Company as at the close of business on the Rights Issue Record Date and whose address(es) as shown on such register is/are outside Hong Kong |
| “PBOC” | People’s Bank of China* (中國人民銀行), the central bank of the PRC |

DEFINITIONS

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| “Posting Date” | Monday, 26 April 2021, or such other date as the Company may determine in writing for the despatch of the Prospectus Documents |
| “PRC” or “China” | the People’s Republic of China and, for the purpose of this circular only, excludes Hong Kong, the Macau Special Administrative Region and Taiwan |
| “PRC GAAP” | the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC on 15 February 2006, and other relevant accounting regulations as promulgated in the PRC |
| “Prospectus” | the prospectus to be issued by the Company in relation to the Rights Issue |
| “Prospectus Documents” | the Prospectus, the PAL and EAF |
| “Provisional Allotment Letter(s)” or “PAL(s)” | the provisional allotment letter(s) to be used in connection with the Rights Issue in such form as the Company may approve |
| “Purchaser” | Yangfan (Holdings) Group Limited (揚帆(控股)集團有限公司), a company incorporated in Hong Kong with limited liability on 19 August 2020, and an indirect wholly-owned subsidiary of the Company |
| “QCCIG” | Qingdao City Construction Investment (Group) Co., Ltd.* (青島城市建設投資(集團)有限責任公司), a company established in the PRC with limited liability on 23 May 2008 and wholly owned by the State-owned Assets Supervision & Administration Commission of Qingdao Municipal Government (青島市人民政府國有資產監督管理委員會), and being one of the Controlling Shareholders |
| “QCIFH” | Qingdao City Investment Finance Holding Group Co., Ltd.* (青島城投金融控股集團有限公司), a company established in the PRC with limited liability on 5 December 2014 and wholly owned by QCCIG |
| “Qualifying Shareholder(s)” | Shareholder(s), other than the Non-Qualifying Shareholder(s), whose name(s) appear(s) on the register of members of the Company as at the close of business on the Rights Issue Record Date |

DEFINITIONS

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|-----------------------------------|--|
| “Rights Issue” | the proposed offer of the Rights Shares to the Qualifying Shareholders at the Rights Issue Subscription Price, on the basis of one (1) Rights Share for every one (1) existing Share held by each Qualifying Shareholder on the Rights Issue Record Date |
| “Rights Issue Long Stop Date” | 30 May 2021 |
| “Rights Issue Record Date” | Friday, 23 April 2021, being the date by reference to which entitlements under the Rights Issue are expected to be determined |
| “Rights Issue Subscription Price” | the subscription price of HK\$0.39 per Rights Share |
| “Rights Share(s)” | the new Share(s) to be allotted and issued in respect of the Rights Issue |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “SAFE” | the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局) |
| “SAFE Circular No. 37” | State Administration of Foreign Exchange Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) |
| “Sale and Purchase Agreement” | the sale and purchase agreement dated 17 March 2021 and entered into between the Purchaser and the Vendor in relation to the Acquisition |
| “SFC” | the Securities and Futures Commission of Hong Kong |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |

DEFINITIONS

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|--------------------------|--|
| “SGM” | the special general meeting of the Company to be convened and held at Unit Nos. 9–11, 26th Floor, Tower 1, Admiralty Centre, No. 18 Harcourt Road, Hong Kong on Tuesday, 13 April 2021 at 11:00 a.m. to consider, and if thought fit, approve, among other things, (i) the Acquisition, the Sale and Purchase Agreement and the transactions contemplated thereunder, including the issue of the Consideration CB; and (ii) the Rights Issue |
| “Share Option Scheme” | the share option scheme approved by the Shareholders on 22 August 2013 |
| “Share(s)” | ordinary share(s) of HK\$0.1 each in the share capital of the Company |
| “Shareholder(s)” | holder(s) of the Shares |
| “Specific Mandate” | the specific mandate to be granted to the Directors by the Shareholders at the SGM to allot and issue the Conversion Shares to CQDHG |
| “Specified Event” | an event occurring or matter arising on or after the date of the Underwriting Agreement and prior to the Latest Time for Termination which if it had occurred or arisen before the date of the Underwriting Agreement would have rendered any of the warranties contained in the Underwriting Agreement untrue or incorrect in any respect |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Takeovers Code” | The Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time |
| “Target Company” | Qingdao Rural Construction Financial Leasing Company Limited* (青島城鄉建設融資租賃有限公司), a company established in the PRC with limited liability on 11 June 2014 |
| “Target Equity Interest” | approximately 81.91% equity interest in the Target Company to be acquired by the Purchaser from the Vendor pursuant to the Sale and Purchase Agreement |
| “Target Group” | the Target Company and its subsidiaries |

DEFINITIONS

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|--------------------------|--|
| “Tibet Luoyou” | Tibet Luoyou Investment Management Company Limited* (西藏絡優投資管理有限公司) (formerly known as Shanghai Luoyou Investment Management Company Limited* (上海絡優投資管理有限公司)), a company established in the PRC with limited liability on 5 December 2013 |
| “Track Record Period” | FY2017, FY2018, FY2019 and 10M2020 |
| “Underwriter” | Vision Finance International Company Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO |
| “Underwriting Agreement” | the underwriting agreement dated 17 March 2021 and entered into between the Company and the Underwriter in relation to the underwriting arrangements in respect of the Rights Issue |
| “Underwritten Shares” | such number of Rights Shares (excluding the CQIH Committed Shares and up to 154,655,047 Rights Shares) to be underwritten by the Underwriter on a best effort basis subject to the terms and conditions of the Underwriting Agreement |
| “United States” or “US” | the United States of America (including its territories and dependencies, any state in the US and the District of Columbia) |
| “US\$” or “USD” | United States dollar(s), the lawful currency of the United States |
| “Vasari (HK)” | Vasari Investment Holdings (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability on 14 September 2016 |
| “Vasari Investment” | Vasari Investment Holdings Limited, a company incorporated in BVI with limited liability on 3 April 2003 and wholly owned by Vasari (HK) |
| “Vendor” | CQDHG |

DEFINITIONS

1. *Unless the context otherwise requires, the terms “associate”, “close associate”, “connected person”, “connected transaction”, “core connected person”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules.*
2. *Unless expressly stated or otherwise required by the context, all data are as at the Latest Practicable Date.*
3. *If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translations of company names in Chinese which are marked with “*” are for identification purpose only.*
4. *Solely for your convenience, this circular contains translations of certain RMB or USD amounts into Hong Kong dollars at a specified rate. You should not construe these translations as a representation that the RMB or USD amounts could actually be, or have been, converted into Hong Kong dollars at the rate indicated or at all. Unless otherwise indicated, the translations of RMB amounts into Hong Kong dollars have been made at the rate of RMB1.0 to HK\$1.2 and the translations of USD amounts into Hong Kong dollars have been made at the rate of USD1.0 to HK\$7.75.*

GLOSSARY

This glossary contains explanations of certain terms used in this circular in connection with the Enlarged Group and its business. These terms and their meanings may not always correspond to standard industry meanings or usage of these terms.

“CAGR” compound annual growth rate

“IT” information technology

CORPORATE INFORMATION

| | |
|-----------------------------------|--|
| Registered office | Clarendon House 2 Church Street Hamilton HM11 Bermuda |
| Principal office | Unit No. 8, 26th Floor Tower 1, Admiralty Centre No. 18 Harcourt Road Hong Kong |
| Company secretary | Mr. Chan Kwong Leung, Eric, <i>ACG, ACS</i> Unit 2406, 24/F Strand 50, 50 Bonham Strand Sheung Wan Hong Kong |
| Authorised representatives | Mr. Yuan Zhi Flat 302, Unit 4 No. 38 Xu Zhou Lu Shi Nan Qu Qingdao City Shandong Province China Mr. Chan Kwong Leung, Eric Unit 2406, 24/F Strand 50, 50 Bonham Strand Sheung Wan Hong Kong |
| Audit committee | Mr. Li Xue (<i>Chairman</i>) Mr. Yin Tek Shing, Paul Mr. Wong Tin Kit Ms. Zhao Meiran |
| Remuneration committee | Mr. Wong Tin Kit (<i>Chairman</i>) Mr. Yin Tek Shing, Paul Ms. Zhao Meiran Mr. Li Xue |
| Nomination committee | Mr. Gao Yuzhen (<i>Chairman</i>) Mr. Yin Tek Shing, Paul Mr. Wong Tin Kit Ms. Zhao Meiran Mr. Li Xue |

CORPORATE INFORMATION

Principal share registrar and transfer office

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Hong Kong branch share registrar and transfer office

Tricor Secretaries Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal bankers

Bank of Communications Co., Ltd.
20 Pedder Street
Central
Hong Kong

Hang Seng Bank Limited
88 Des Voeux Road
Central
Hong Kong

Company's website

<http://www.qingdaohi.com>

(A copy of this circular is available on the Company's website. Except for the information contained in this circular, none of the other information contained on the Company's website forms part of this circular)

DIRECTORS AND PARTIES INVOLVED

The current members of the Board are as follows:

| Name | Business address | Nationality |
|---|--|-------------|
| <i>Executive Directors</i> | | |
| Mr. Gao Yuzhen (高玉貞) | Unit No. 8, 26th Floor Tower 1, Admiralty Centre No. 18 Harcourt Road Hong Kong | Chinese |
| Mr. Yuan Zhi (袁治) | Unit No. 8, 26th Floor Tower 1, Admiralty Centre No. 18 Harcourt Road Hong Kong | Chinese |
| Mr. Hu Liang (胡亮) | Unit No. 8, 26th Floor Tower 1, Admiralty Centre No. 18 Harcourt Road Hong Kong | Chinese |
| <i>Non-executive Director</i> | | |
| Mr. Li Shaoran (李少然) | Unit No. 8, 26th Floor Tower 1, Admiralty Centre No. 18 Harcourt Road Hong Kong | Chinese |
| <i>Independent Non-executive Directors</i> | | |
| Mr. Yin Tek Shing, Paul (尹德勝) | Unit No. 8, 26th Floor Tower 1, Admiralty Centre No. 18 Harcourt Road Hong Kong | Chinese |
| Mr. Wong Tin Kit (王殿杰) | Unit No. 8, 26th Floor Tower 1, Admiralty Centre No. 18 Harcourt Road Hong Kong | Chinese |
| Ms. Zhao Meiran (趙美然) | Unit No. 8, 26th Floor Tower 1, Admiralty Centre No. 18 Harcourt Road Hong Kong | Chinese |
| Mr. Li Xue (李雪) | Unit No. 8, 26th Floor Tower 1, Admiralty Centre No. 18 Harcourt Road Hong Kong | Chinese |

DIRECTORS AND PARTIES INVOLVED

| | |
|---|---|
| Financial adviser to the Company | BOCOM International (Asia) Limited 9/F, Man Yee Building 68 Des Voeux Road Central Hong Kong |
| Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders | Rainbow Capital (HK) Limited Room 5B, 12/F, Tung Ning Building No. 2 Hillier Street Sheung Wan Hong Kong |
| Legal advisers to the Company | <i>As to Hong Kong laws:</i> King & Wood Mallesons 13/F, Gloucester Tower The Landmark 15 Queen's Road Central Central Hong Kong <i>As to PRC laws:</i> Zhong Lun Law Firm 6/F, 10/F, 11/F, 16/F & 17/F, IFC II No. 8 Century Ave Pudong New District Shanghai PRC |
| Legal adviser to the financial adviser | <i>As to Hong Kong laws:</i> O'Melveny & Myers 31/F, AIA Central 1 Connaught Road Central Hong Kong |
| Reporting accountants for the unaudited pro forma financial information of the Enlarged Group | PricewaterhouseCoopers <i>Certified Public Accountants</i> <i>Registered Public Interest Entity Auditor</i> 22/F, Prince's Building Central Hong Kong |
| Reporting accountants for the financial information of the Target Group | PricewaterhouseCoopers <i>Certified Public Accountants</i> <i>Registered Public Interest Entity Auditor</i> 22/F, Prince's Building Central Hong Kong |
| Industry consultant | China Insights Industry Consultancy Limited 10F, Block B Jing'an International Center 88 Puji Road Jing'an District Shanghai PRC |

LETTER FROM THE BOARD



QINGDAO HOLDINGS INTERNATIONAL LIMITED

青島控股國際有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00499)

Executive Directors:

Mr. Gao Yuzhen (*Chairman*)

Mr. Yuan Zhi (*Deputy Chairman and Chief Executive Officer*)

Mr. Hu Liang

Non-executive Director:

Mr. Li Shaoran

Independent non-executive Directors:

Mr. Yin Tek Shing, Paul

Mr. Wong Tin Kit

Ms. Zhao Meiran

Mr. Li Xue

Registered Office:

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

Principal Office:

Unit No. 8, 26th Floor

Tower 1, Admiralty Centre

No. 18 Harcourt Road

Hong Kong

24 March 2021

To the Shareholders

Dear Sir or Madam,

- (1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN
RELATION TO THE ACQUISITION OF APPROXIMATELY 81.91% OF
THE EQUITY INTEREST IN
QINGDAO RURAL CONSTRUCTION FINANCIAL LEASING COMPANY LIMITED*
(青島城鄉建設融資租賃有限公司);**
- (2) CONNECTED TRANSACTION IN RELATION TO THE ISSUE OF
CONVERTIBLE BONDS UNDER THE SPECIFIC MANDATE;**
- (3) PROPOSED RIGHTS ISSUE OF RIGHTS SHARES ON THE BASIS OF
ONE (1) RIGHTS SHARE FOR EVERY ONE (1) EXISTING SHARE
HELD ON THE RIGHTS ISSUE RECORD DATE
AT THE RIGHTS ISSUE SUBSCRIPTION PRICE OF HK\$0.39 PER RIGHTS SHARE;
AND**
- (4) NOTICE OF SPECIAL GENERAL MEETING**

* For identification purpose only

LETTER FROM THE BOARD

INTRODUCTION

Reference is made to the Announcement whereby it was announced that on 17 March 2021 (after trading hours), the Purchaser and the Vendor entered into the Sale and Purchase Agreement, pursuant to which the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Target Equity Interest, being approximately 81.91% of the equity interest in the Target Company, at a consideration of approximately HK\$2,378.7 million. The Consideration shall be satisfied as follows: (i) approximately HK\$154.5 million shall be payable by the Purchaser (or its designated corporation) to the Vendor (or its nominee(s)) in cash upon Completion; and (ii) approximately HK\$2,224.2 million shall be payable by the issue of the Consideration CB by the Company to the Vendor (or its nominee(s)) upon Completion.

As (i) CQDHG intended to consolidate and strengthen its controlling stake in the Target Company in view of the prospect of the financial leasing industry in the PRC and the Target Company as well as the resources available to CQDHG as a leading state-owned enterprise in Qingdao; and (ii) both Chinese Capital and Vasari Investment were financial investors of the Target Company and had been seeking to exit their respective investments, the Vendor entered into the sale and purchase agreement with each of Vasari Investment and Chinese Capital in August 2020 to acquire their respective equity interest in the Target Company (the “**Previous Acquisitions**”). Details of the sale and purchase agreements in respect of the Previous Acquisitions are set out in the section headed “History and Development of the Target Group – The Target Group” in this circular. Upon completion of the Previous Acquisitions, the Vendor, which had held approximately 43.15% equity interest in the Target Company, acquired (i) approximately 25.58% equity interest in the Target Company from Vasari Investment; and (ii) approximately 13.18% equity interest in the Target Company from Chinese Capital (collectively, the “**Acquired Interest**”).

The total consideration paid by the Vendor in respect of the Acquired Interest was approximately US\$149.0 million (equivalent to approximately HK\$1,154.8 million). According to the relevant regulatory requirements of the State-owned Assets Supervision and Administration Commission of the State Council, as the Previous Acquisitions involved a state-owned enterprise, the value of the Target Company under the Previous Acquisitions shall be appraised by an independent qualified valuer. The consideration of the Acquired Interest was determined primarily based on reassessed net asset value of the Target Group and based on the asset approach valuation methodology with reference to the audited net asset value of the Target Group as at 31 December 2019 under PRC GAAP. As at 31 December 2019, the Target Group’s net asset value attributable to shareholders under PRC GAAP (the “**PRC GAAP NAV**”) amounted to approximately RMB2,727.2 million (equivalent to approximately HK\$3,272.6 million, whereas the Target Group’s valuation under the asset approach (the “**PRC Asset Valuation Approach**”) amounted to RMB2,868.7 million (equivalent to approximately HK\$3,442.4 million.

The corresponding valuation of the Acquired Interest under the PRC Asset Valuation Approach amounted to approximately RMB1,111.9 million (equivalent to approximately US\$158.8 million based on the then prevailing exchange rate of 1USD:7RMB at the time of

LETTER FROM THE BOARD

execution of the sale and purchase agreements of the Previous Acquisitions). Under the asset-based valuation methodology, the appraised equity value of the Target Company is arrived at by summing up the appraised value of each component asset forming the enterprise and then deducting the appraised value of its liabilities. The difference between the PRC GAAP NAV and the PRC Asset Valuation Approach mainly reflects the result of (i) the evaluation of the fair value of the loan receivables based on assessment of their recoverability and adequacy of the amount of bad debt provision; and (ii) the reassessed value of certain fixed assets including office furnitures, electronic equipment and motor vehicles of the Target Group primarily based on replacement cost method, which measured the current cost of replacing an asset with its modern equivalent asset less the physical deterioration and all relevant forms of obsolescence and optimisation of the subject asset. The valuation under the PRC Asset Valuation Approach is principally based on the assumptions that (i) the transaction involving the appraised entity will be conducted in the open, fair and informed market; (ii) the business of the appraised entity will be conducted in a legitimate manner, the scope of the business operation and business model will remain substantially the same and will not be suspended in the foreseeable future; (iii) there will be no material change in the existing laws and policies, political environment, economic environment and social environment applicable to the appraised entity; (iv) the management of the appraised entity remain stable and are dully capable of discharging their duties; (v) the accounting policies adopted by the appraised entity and the applicable tax rates and other government fee and rates will remain substantially the same; and (vi) there will not be any force majeure or unpredictable factors that would have material adverse impact to the appraised entity. The Previous Acquisitions were completed in December 2020, upon which the Vendor was interested in approximately 81.91% of the equity interest in the Target Company. The total investment cost of the Vendor in the Target Company, including the original capital contribution and capital injection in 2015 (totalling approximately US\$109.6 million) in respect of approximately 43.15% equity interest of the Target Company, and the consideration under the Previous Acquisitions (totalling approximately US\$149.0 million), amounted to approximately US\$258.6 million (equivalent to approximately HK\$2,004.2 million).

The Target Group is a financial leasing company and is principally engaged in the provision of financial leasing and factoring services in the PRC. Upon Completion, the Target Company will become a non-wholly owned subsidiary of the Company and the financial statements of the Target Group will be consolidated into the financial statements of the Company.

The Acquisition constitutes a very substantial acquisition of the Company under Rule 14.06(5) of the Listing Rules as one or more of the relevant percentage ratios under Rule 14.07 of the Listing Rules are over 100%. Accordingly, the Sale and Purchase Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

In addition, as at the Latest Practicable Date, CQIH, a Controlling Shareholder which held 344,621,633 Shares (representing approximately 69.02% of the issued share capital of the Company), was wholly owned by CQDHG. Accordingly, CQDHG is an associate of CQIH and a connected person of the Company. The Acquisition is therefore a connected transaction of the

LETTER FROM THE BOARD

Company under Chapter 14A of the Listing Rules. Since one or more of the applicable percentage ratios in respect of the Acquisition exceeds 5%, the Acquisition is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Listing Committee of the Stock Exchange has determined that the Acquisition is an extreme transaction which is not subject to the reverse takeover rules. The Company is required to prepare a transaction circular with enhanced disclosure comparable to the standard for listing documents for new listing applicants. BOCOM Asia has been appointed as the financial adviser of the Company in relation to the Acquisition to conduct due diligence with reference to Practice Note 21 of the Listing Rules as clarified under the Stock Exchange's Guidance Letter HKEx-GL104-19.

In order to raise sufficient funds to settle part of the Consideration and to finance the associated transaction expenses relating to the Acquisition, the Board proposed the Rights Issue on the basis of one (1) Rights Share for every one (1) existing Share. Assuming no new Shares are issued and no Shares are repurchased on or before the Rights Issue Record Date, the maximum number of 499,276,680 Rights Shares to be issued pursuant to the terms of the Rights Issue represents (i) 100% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 50% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares.

In addition, the Board proposed to issue the Consideration CB to the Vendor (or its nominee(s)) under the Specific Mandate as part of the Consideration. Assuming that there is no change in the issued share capital of the Company other than the issue of the Rights Shares and the Conversion Shares since the Latest Practicable Date and up to the date of full conversion of the Consideration CB, (i) the maximum number of 1,189,386,362 Conversion Shares to be allotted and issued by the Company upon full conversion of the Consideration CB at the Initial Conversion Price represents: (a) approximately 238.2% of the issued share capital of the Company as at the Latest Practicable Date; and (b) approximately 54.4% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares and the Conversion Shares; and (ii) the maximum number of 1,486,732,953 Conversion Shares to be allotted and issued by the Company upon full conversion of the Consideration CB at the Base Conversion Price represents: (a) approximately 297.8% of the issued share capital of the Company as at the Latest Practicable Date; and (b) approximately 59.8% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares and the Conversion Shares.

In the event that the proceeds raised from the Rights Issue are not sufficient to cover the cash payment obligation of the Company under the Sale and Purchase Agreement, the Company intends to use its internal resources and/or other debt financing to settle the shortfall of the cash payment obligation under the Sale and Purchase Agreement.

As CQDHG is an associate of CQIH and a connected person of the Company, the issue of the Consideration CB to the Vendor (or its nominee(s)) as part of the Consideration constitutes a

LETTER FROM THE BOARD

connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

General

The purpose of this circular is to provide you with, among other things, (i) further details of the Sale and Purchase Agreement; (ii) further details of the Consideration CB; (iii) further details of the Rights Issue; (iv) further information about the Target Group and the Enlarged Group (including the accountant's report of the Target Group and pro-forma financial information of the Enlarged Group); (v) the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Consideration CB) and the Rights Issue; (vi) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Consideration CB) and the Rights Issue; and (vii) the notice of the SGM.

SALE AND PURCHASE AGREEMENT

Principal Terms of the Sale and Purchase Agreement

The principal terms of the Sale and Purchase Agreement are set out below:

Date

17 March 2021

Parties

- (i) The Purchaser: Yangfan (Holdings) Group Limited (揚帆(控股)集團有限公司)
- (ii) The Vendor: CQDHG

Subject Matter

Pursuant to the Sale and Purchase Agreement, the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Target Equity Interest, being approximately 81.91% of the equity interest in the Target Company.

LETTER FROM THE BOARD

Consideration

The Consideration of approximately HK\$2,378.7 million shall be satisfied as follows:

- (i) approximately HK\$154.5 million shall be payable by the Purchaser (or its designated corporation) to the Vendor (or its nominee(s)) in cash by way of cheque, bank transfer or any other manner as designated by the Vendor upon Completion; and
- (ii) approximately HK\$2,224.2 million shall be payable by the issue of the Consideration CB in the principal amount of approximately HK\$2,224.2 million by the Company to the Vendor (or its nominee(s)) upon Completion.

The Consideration was determined after arm's length negotiations between the Vendor and the Purchaser on normal commercial terms and with reference to the following factors: (i) the unaudited consolidated net asset value of the Target Group of RMB2,363.2 million (equivalent to approximately HK\$2,835.9 million) as at 31 December 2019 with reference to the unaudited financial statement of the Target Group prepared based on HKFRS; (ii) the consideration in respect of the Acquired Interest paid by the Vendor in 2020; (iii) the historical financial performance of the Target Group; (iv) the market position, industry outlook, business development and growth prospects of the Target Group; and (v) the settlement terms concluded between the Vendor and the Purchaser (in particular, more than 90% of the Consideration will be settled by way of issuance of the Consideration CB at nil coupon rate and with a nine-year maturity term, and less than 10% of the Consideration will be settled by cash).

The net asset value of the Target Group as at 31 December 2019 made under PRC GAAP was higher than that of HKFRS. The difference was mainly due to the different accounting standards adopted and was resulted primarily from certain adjustments including (i) the provision of impairment loss made based on the new expected credit loss model in accordance with HKFRS 9 "Financial Instruments"; and (ii) the revenue recognition based on HKFRS 15 "Revenue from Contracts with Customers".

The Directors (excluding Mr. Gao Yuzhen, Mr. Yuan Zhi and Mr. Hu Liang, who have abstained from voting on the relevant Board resolutions due to their directorship in CQDHG, but including the independent non-executive Directors), having considered the interest of the Independent Shareholders, are of the view that it would be more appropriate for the Company, being a company listed on the Stock Exchange, to adopt the net asset value of the Target Group under HKFRS as the benchmark in evaluating the Consideration.

In light of the above, the Directors (excluding Mr. Gao Yuzhen, Mr. Yuan Zhi and Mr. Hu Liang, who have abstained from voting on the relevant Board resolutions due to their directorship in CQDHG, but including the independent non-executive Directors) are of the view that the Consideration, representing approximately 1.02x and 0.88x of the price to book ratio of the Target Group's net asset value as at 31 December 2019 and 31 October 2020, respectively, based on HKFRS and the exchange rate of RMB1:HK\$1.2, is fair and reasonable.

LETTER FROM THE BOARD

Consideration Adjustment

If the Vendor procures the Target Company to declare and pay a dividend in respect of its undistributed profits as at 31 December 2019 between the date of the Sale and Purchase Agreement and the date of Completion, the Consideration will be reduced by the amount of dividends received by the Vendor in proportionate to its equity interest in the Target Company.

Consideration CB

Upon Completion, the Company will issue the Consideration CB to the Vendor (or its nominee(s)) to settle part of the Consideration. Set out below are the principal terms of the Consideration CB:

| | |
|-------------------|---|
| Issuer: | The Company |
| Principal amount: | Approximately HK\$2,224.2 million |
| Coupon rate: | Zero |
| Maturity Date: | The date falling on the ninth (9th) anniversary of the date of the issue of the Consideration CB, provided that if such date is not a Business Day, the first Business Day immediately after such date. |
| Ranking: | The Conversion Shares, when allotted and issued, will be credited as fully paid and will rank <i>pari passu</i> in all respects with the Shares then in issue including the right to all dividends, distributions and other payments made or to be made, on the record date which falls on or after the date of such allotment and issue. |
| Security: | The obligations of the Company under the Consideration CB are unsecured. |

LETTER FROM THE BOARD

Conversion rights and restrictions:

The holder of the Consideration CB shall, subject to the compliance with the procedures set out in the terms and conditions thereunder, have the right at any time during the conversion period to convert the whole or part of the outstanding principal amount of the Consideration CB registered in its name into Conversion Shares, provided that (i) any conversion shall be made in amounts of not less than a whole multiple of HK\$10,000,000 on each conversion save that if at any time the aggregate outstanding principal amount of the Consideration CB is less than HK\$10,000,000, the whole (but not part only) of the outstanding principal amount of the Consideration CB may be converted; (ii) the conversion price at which the Conversion Shares will be issued shall not in any event be lower than the Base Conversion Price; (iii) the exercise of the conversion right attached to the Consideration CB will not cause the Company to be unable to meet the public float requirement under the Listing Rules; and (iv) the exercise of the conversion right attached to the Consideration CB will not trigger a mandatory general offer obligation under the Takeovers Code on the part of the holder of the Consideration CB and/or its nominee(s) together with the parties acting in concert with any of them.

Conversion period:

The period commencing from the date of issue of the Consideration CB and ending at 4:30 p.m. (Hong Kong time) on the day immediately prior to and exclusive of the Maturity Date.

Initial Conversion Price⁽¹⁾⁽²⁾:

HK\$1.87 per Conversion Share, subject to the adjustment mechanism as set out in the instrument of the Consideration CB.

LETTER FROM THE BOARD

Adjustment events⁽³⁾:

The Initial Conversion Price may be subject to a downward adjustment on each Reset Date (as defined hereinafter) upon the occurrence of any of the following events (the “**Conversion Price Adjustment Events**”):

- (i) any alteration of the nominal value of the Shares by reason of consolidation, sub-division or re-classification of Shares;
- (ii) any issue of Shares credited as fully paid (other than in lieu of cash dividend) by way of capitalisation of profits or reserves of the Company;
- (iii) any capital distribution made by the Company to the Shareholders (except where the Initial Conversion Price falls to be adjusted under (ii) above);
- (iv) any dividend or other distribution, whether of cash, assets or other properties, by the Company to the Shareholders;
- (v) any issue of Shares by way of rights, or any issue or grant of options, warrants or other rights to subscribe for, purchase or otherwise acquire the Shares;
- (vi) any issue of other securities of the Company by way of rights, or any issue or grant of options, warrants or other rights to subscribe for, purchase or otherwise acquire securities of the Company;
- (vii) any modification of rights of conversion, exchange, subscription, purchase or acquisition attaching to any securities of the Company arising from a conversion or exchange of other existing securities of the Company so that the consideration per Share is less than 95% of the then current market price;
- (viii) any other offers by the Company or a subsidiary of the Company to the Shareholders who are entitled to participate in arrangements whereby they may acquire securities of the Company;

LETTER FROM THE BOARD

- (ix) other events not referred to above including, but not limited to, corporate actions that in the Company's opinion would have an effect on the position of the holder of the Consideration CB as compared with the position of the holders of all other securities of the Company which are analogous to any of the above events,

provided that the conversion price at which the Conversion Shares will be issued shall not in any event be lower than the Base Conversion Price.

Reset date: Each anniversary date after the date of issue of the Consideration CB (the "**Reset Date**").

Initial Conversion Price reset⁽⁴⁾: If the average of the volume weighted average price of the Shares for the period of 10 consecutive trading days immediately prior to and excluding the Reset Date is less than the Initial Conversion Price on the Reset Date, the conversion price shall be adjusted on the Reset Date such that the adjusted conversion price will be equal to the Average Market Price. "Average Market Price" means the average of the volume weighted average price of the Shares for the period of 10 consecutive trading days immediately prior to and excluding the Reset Date, provided that:

- (i) any such adjustment to the conversion price shall be limited such that the adjusted conversion price in no event shall be less than the Base Conversion Price (taking into account any adjustments which may have occurred prior to the Reset Date);
- (ii) subject to (i) above, the Conversion Price Adjustment Events shall apply; and
- (iii) any such adjustment to the conversion price shall only be a downward adjustment.

Base Conversion Price⁽²⁾: HK\$1.496 per Conversion Share.

LETTER FROM THE BOARD

- Early redemption at the option of the Company: The Company shall be entitled to, at its sole discretion and by giving not less than seven (7) Business Days' notice to the holder of the Consideration CB, propose to the holder to redeem the outstanding Consideration CB (in multiples of HK\$10,000,000 or such lesser amount as may represent the entire principal amount thereof) of an amount equivalent to 100% of the principal amount of such outstanding Consideration CB at any time after the date of issue of the Consideration CB up to and including the date falling seven (7) Business Days immediately before the Maturity Date.
- Transferability⁽⁵⁾: Subject to the compliance with the Listing Rules, the Takeovers Code and all applicable laws and regulations, the Consideration CB may be transferred or assigned in whole or in part in integral multiples of HK\$10,000,000 by the Vendor to any party, save and except that the Consideration CB shall not be transferred to a connected person of the Company unless with the prior written consent of the Company.
- Voting rights: The Consideration CB shall not carry any voting rights.
- Listing: No application will be made by the Company for the listing of the Consideration CB on the Stock Exchange. An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

Notes:

- (1) The Initial Conversion Price was determined primarily based on the net asset value per Share with reference to (i) the combined net asset value of the Target Group as at 31 October 2020 amounting to HK\$3,155.5 million and net asset value of the Group attributable to the equity owners as at 30 June 2020 amounting to HK\$257.5 million prior to pro-forma adjustment; (ii) the expected increase in the net asset value of the Enlarged Group upon Completion; (iii) the estimated net proceeds of HK\$171.7 million to be raised from the Rights Issue; and (iv) the number of Shares to be in issue upon the completion of the Rights Issue and full conversion of the Consideration CB.

In addition to the factors set out above, after taking into account (i) the lengthy maturity term of the Consideration CB; and (ii) the future prospect of the Target Group as evidenced by its financial performance during the Track Record Period, the Directors are of the view that the value of the Company will be enhanced in the future when the benefits of the transactions contemplated under the Sale and Purchase Agreement materialise.

- (2) After taking into account the factors set out below, the Directors considered that the Initial Conversion Price and the Base Conversion Price are fair and reasonable:
- (i) the Initial Conversion Price was assessed with reference to prevailing market condition, share price performance of the Company and the future value of the Company upon Completion;

LETTER FROM THE BOARD

- (ii) the Initial Conversion Price represented a substantial premium over the prevailing market price of the Shares and the net asset value per Share attributable to the Shareholders as at 30 June 2020; and
 - (iii) the Base Conversion Price under the conversion price re-set mechanism will not be lower than the average of the volume weighted average price of the Shares for a period of 10 consecutive trading days immediately prior to and excluding the Reset Date.
- (3) The Directors (excluding Mr. Gao Yuzhen, Mr. Yuan Zhi and Mr. Hu Liang, who have abstained from voting on the relevant Board resolutions due to their directorship in CQDHG, but including the independent non-executive Directors) considered that the Initial Conversion Price, the Base Conversion Price and the conversion price adjustment mechanism are fair and reasonable and in the interest of the Company and the Shareholders given that (i) the Initial Conversion Price is set at a substantial premium over the prevailing market price of the Shares immediately prior to the date of the Sale and Purchase Agreement; (ii) the conversion price will only be reset on specified Reset Dates and is subject to an 80% adjustment floor of the Initial Conversion Price and will not be lower than the Average Market Price; (iii) all of the other adjustment events of the conversion price are normal anti-dilution provisions serving to mitigate the potential dilutive effect of any issuance of equity securities by the Company; and (iv) it is not uncommon for investors to seek for a downward conversion price adjustment mechanism for convertible bonds with a lengthy maturity period having considered the substantial premium of conversion price over the prevailing market price of Shares since the Initial Conversion Price was determined after taking into account the potential enhancement of the equity value of the Company to be derived from the future benefits of the Acquisition which may or may not be materialised and subject to significant degree of risk of uncertainty.
- (4) The Initial Conversion Price and the conversion price re-set mechanism were determined based on arm's length negotiation between the Company and the Vendor.

The Directors noted that the conversion price of the convertible securities issued by companies listed on the Stock Exchange is generally assessed primarily based on, among other things, the prevailing share price of the listed company at the time of issuance of the convertible securities. In light of the significant size of the Target Company, in particular, the substantial enhancement that the Target Company is expected to bring to the Company's future operations and financial performance, the Directors considered that the prevailing market price of the Shares might not reflect the future value of the Company upon Completion and therefore did not provide an appropriate pricing benchmark in determining the conversion price of the Consideration CB with a particularly long maturity term (i.e. nine years).

The conversion price re-set mechanism was put in place so as to incorporate a "mark-to-market" mechanism where the Vendor is allowed to reset the conversion price of the Consideration CB at a fair price based on the prevailing share price of the Company at each anniversary date after the issuance of the Consideration CB, which is not uncommon in transactions relating to convertible securities issued by companies listed on the Stock Exchange.

- (5) In any event that the transfer of the Consideration CB shall constitute a connected transaction of the Company, the Company shall take all necessary steps to fully comply with the Listing Rules and the requirements of the Stock Exchange. The transferee's right of conversion of the Consideration CB shall be subject to restrictions applicable to the holder of the Consideration CB as delineated in this section above, including, but not limited to, the Company's fulfillment of the public float requirement under the Listing Rules and that the exercise of the conversion right shall not trigger a mandatory general offer obligation under the Takeovers Code on the part of the holder of the Consideration CB and/or its nominee(s) together with the parties acting in concert with any of them.

LETTER FROM THE BOARD

Assuming that there is no change in the issued share capital of the Company other than the issue of the Rights Shares and the Conversion Shares since the Latest Practicable Date and up to the date of full conversion of the Consideration CB:

- (i) the maximum number of 1,189,386,362 Conversion Shares to be allotted and issued by the Company upon full conversion of the Consideration CB at the Initial Conversion Price represents: (a) approximately 238.2% of the issued share capital of the Company as at the Latest Practicable Date; and (b) approximately 54.4% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares and the Conversion Shares; and
- (ii) the maximum number of 1,486,732,953 Conversion Shares to be allotted and issued by the Company upon full conversion of the Consideration CB at the Base Conversion Price represents: (a) approximately 297.8% of the issued share capital of the Company as at the Latest Practicable Date; and (b) approximately 59.8% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares and the Conversion Shares.

The Initial Conversion Price of HK\$1.87 per Conversion Share was determined with reference to, among other things, the prevailing market conditions, the Company's share price performance and the future value of the Company after taking into account the net asset value of the Enlarged Group upon Completion and conversion of the Consideration CB, and it represents:

- (i) a premium of approximately 289.6% over the closing price of HK\$0.48 per Share as quoted on the Stock Exchange on the date of the Sale and Purchase Agreement;
- (ii) a premium of approximately 336.9% over the average closing price of HK\$0.428 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the date of the Sale and Purchase Agreement;
- (iii) a premium of approximately 289.6% over the closing price of HK\$0.48 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (iv) a premium of approximately 262.4% to the unadjusted consolidated net asset value of approximately HK\$0.516 per Share (based on the consolidated net asset value attributable to the equity holders of the Company as at 30 June 2020 of approximately HK\$257,468,000 and the number of issued Shares of 499,276,680).

LETTER FROM THE BOARD

Conditions Precedent

The Acquisition is conditional on each of the following conditions being fulfilled or waived (where applicable):

- (i) the Purchaser being satisfied with the results of the due diligence review on the assets, liabilities, operations and affairs of the Target Group to be conducted by the Purchaser and/or its advisers and agents;
- (ii) all necessary consents of, approvals by and filings with government authorities required for the consummation of the Acquisition having been obtained or completed to the Purchaser's satisfaction;
- (iii) all necessary consents and approvals required to be obtained on the part of the Vendor in respect of the Acquisition and the transactions contemplated thereunder having been obtained;
- (iv) all necessary consents and approvals required to be obtained on the part of the Purchaser in respect of the Acquisition and the transactions contemplated thereunder having been obtained;
- (v) all necessary consents and approvals required to be obtained in respect of the issue of the Consideration CB and the Rights Issue having been obtained;
- (vi) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Conversion Shares and the Rights Shares in both nil-paid and fully-paid forms (and such approval not being subsequently revoked or withdrawn);
- (vii) the Independent Shareholders having approved the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Consideration CB, the allotment and issue of the Conversion Shares and the granting of the Specific Mandate);
- (viii) the Independent Shareholders having approved the Rights Issue and the Underwriting Agreement by way of poll at the SGM in accordance with the Listing Rules; and
- (ix) the warranties provided by the Vendor under the Sale and Purchase Agreement remaining true and accurate and not misleading in all material respect as if repeated at Completion and at all times between the date of the Sale and Purchase Agreement and the date of Completion.

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If the conditions precedent above are not satisfied or waived (where applicable) on or before the Acquisition Long Stop Date, the Sale and Purchase Agreement will be terminated and the Acquisition will not proceed.

Completion

Completion shall take place on a date within three (3) Business Days after fulfillment or waiver (as the case may be) of all of the conditions precedent set out in the Sale and Purchase Agreement or such other date as the Purchaser and the Vendor may agree in writing.

Upon Completion, the Target Company will become a non-wholly owned subsidiary of the Company and the financial statements of the Target Group will be consolidated into the financial statements of the Company.

Specific Mandate to Issue the Conversion Shares

The Conversion Shares will be allotted and issued by the Company under the Specific Mandate. The Company will seek the grant of the Specific Mandate from the Independent Shareholders at the SGM.

The allotment and issue of the Conversion Shares will not result in a change of control of the Company.

Application for Listing of the Conversion Shares

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

Reasons and Benefits of the Acquisition

The Group is principally engaged in the business of (i) leasing of investment properties; (ii) distribution of digital Chinese calligraphy education equipment; and (iii) provision of loan financing services. The Group commenced its loan financing business in 2008. Since then, the Group has been actively pursuing opportunities to expand its money lending business in Hong Kong. In view of the increasing demand for financing services in the PRC, the Group has recently expanded its loan financing business in the PRC by providing an entrusted loan to a PRC property developer. Please refer to the announcement of the Company dated 7 May 2020 for further details.

The Target Company is a financial leasing company and is principally engaged in the provision of financial leasing and factoring services in the PRC. The Target Group is one of the leading foreign-funded financial leasing companies in the PRC focusing on the medical and healthcare, public infrastructure, travelling and tourism sectors. According to the Industry Report, the Target Group ranked: (i) fourth in terms of revenue in medical device financial

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leasing among the foreign-funded medical device financial leasing companies in the PRC; and (ii) fifth in terms of the medical device finance lease receivables among the foreign-funded medical device financial leasing companies in the PRC. The Target Group has a solid and proven track record with a revenue of approximately RMB594.5 million, RMB866.5 million and RMB1,157.3 million, and a net profit of approximately RMB221.2 million, RMB260.6 million and RMB336.9 million for FY2017, FY2018, FY2019, respectively. The Target Group's revenue and net profit increased at a CAGR of approximately 39.5% and 23.4% between FY2017 to FY2019, respectively. For 10M2020, the Target Group recorded a revenue of approximately RMB1,182.6 million and a net profit of approximately RMB373.3 million.

In view of the operational and financial performance of the Target Group during the Track Record Period, the Board believes that the Acquisition will broaden the Group's revenue base and mitigate the risk of concentration on its existing business segments. Considering the Group's industry experience and resources in loan financing, financial leasing business is a natural extension of the Group's existing loan financing business and will create synergies and complement the Group's existing loan financing services. Following the Acquisition, the Group will be able to offer a wider range of financial services to customers, thus enhancing the competitiveness of its financial services. The Acquisition will also allow the Group to capture the business opportunities in the fast-growing financial leasing industry in the PRC.

Given the substantial size of the Acquisition, in assessing the terms of the Acquisition, the Board has also evaluated the settlement terms of the Acquisition and the associated financial burden to the Group. In view of the Group's existing financial capabilities and the potential financial impact arising from the burden of the settlement of the Consideration, the Consideration CB is set at zero coupon rate and with a maturity term of nine years so as to minimise finance costs and repayment pressure. The Initial Conversion Price of HK\$1.87 per Share represents a premium of 289.6% to the closing price of HK\$0.48 per Share as quoted on the Stock Exchange on 17 March 2021, being the date of the Sale and Purchase Agreement. As such, the Consideration CB will not have an immediate and material dilution effect on the shareholding of the existing Shareholders.

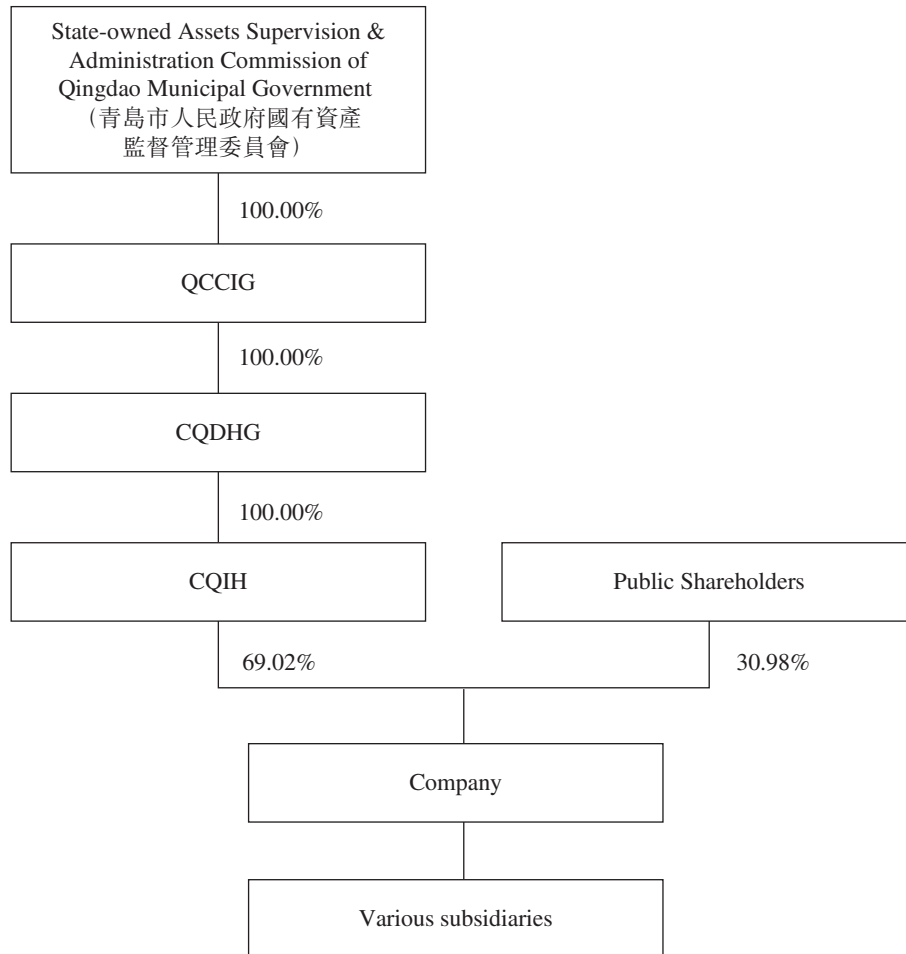
Furthermore, as part of the fund-raising exercise to finance the Consideration and the relevant transaction expenses, the Board proposed the Rights Issue on the basis of one (1) Rights Share for every one (1) existing Share at the prevailing market price. The Rights Issue will provide an opportunity for the Shareholders to participate in the Company's equity fund raising activities at prevailing market price and to enjoy the potential upside of the Company's share price performance upon Completion and when the benefits of the Acquisition materialise in the future.

In view of the above, the Directors (excluding Mr. Gao Yuzhen, Mr. Yuan Zhi and Mr. Hu Liang, who have abstained from voting on the relevant Board resolutions due to their directorship in CQDHG, but including the independent non-executive Directors) consider that the terms of the Sale and Purchase Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

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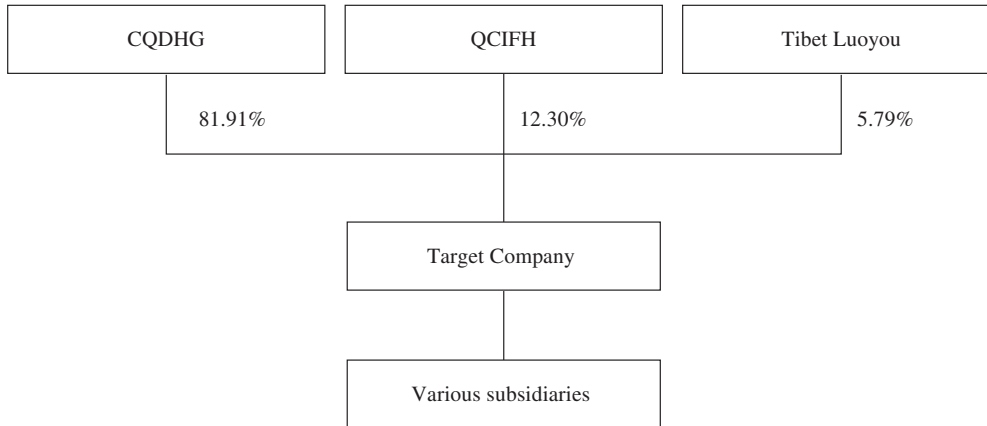
Simplified Shareholding Structure of the Group, the Target Group and the Enlarged Group

Set out below is the simplified shareholding structure of the Group as at the Latest Practicable Date:

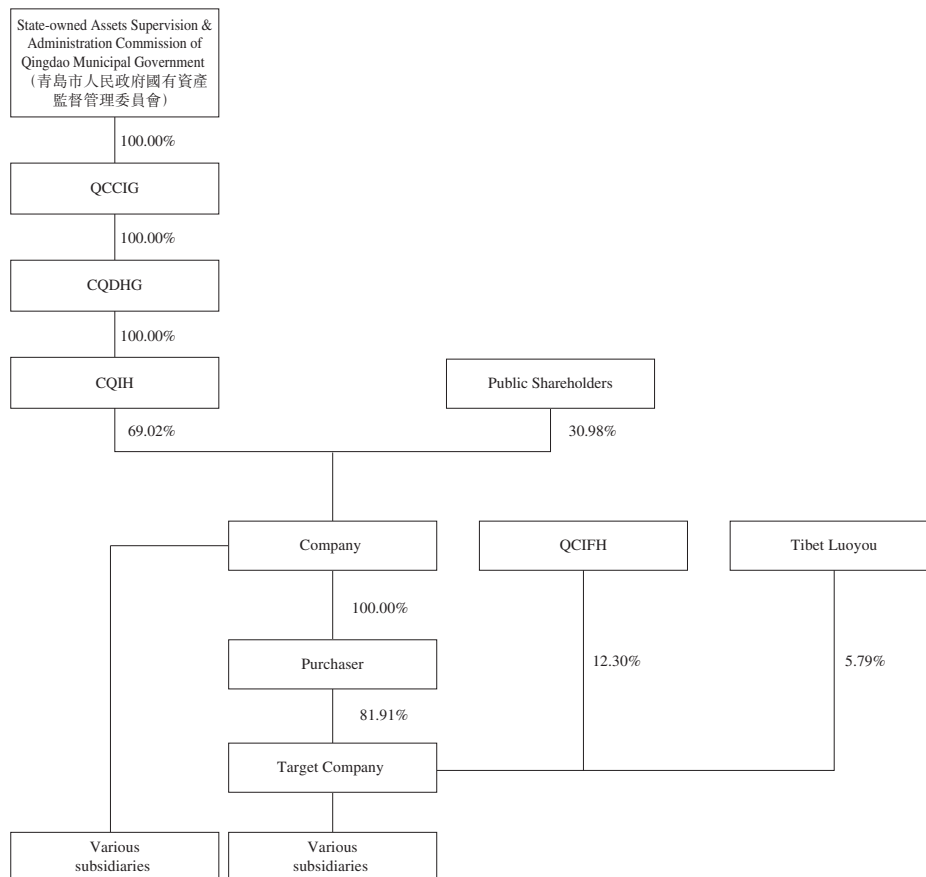


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Set out below is the simplified shareholding structure of the Target Group as at the Latest Practicable Date:



Set out below is the simplified shareholding structure of the Enlarged Group immediately upon Completion:



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Note:

- (1) The calculation is based on the assumptions that (i) all Rights Shares have been taken up by the Qualifying Shareholders and/or the Underwriter or the subscribers procured by it; and (ii) there is no change in the issued share capital of the Company other than the issue of the Rights Shares since the Latest Practicable Date and up to Completion.

Financial and Other Impact of the Acquisition

The Acquisition is a part of the Group's expansion of its business scope to encompass financial leasing services in the PRC. Upon Completion, the Enlarged Group will engage in the business of (i) leasing of investment properties; (ii) distribution of digital Chinese calligraphy education equipment; and (iii) provision of loan financing, financial leasing and factoring services. By diversifying its business scope and broadening its revenue base, the Enlarged Group is expected to generate stable income and cash flows, thus allowing it to achieve sustainable growth and development. The Acquisition is also expected to enable the Enlarged Group to obtain equity and debt financing more easily, thus allowing it to create greater shareholder value.

The table below sets out the audited financial information of the Target Group for FY2017, FY2018, FY2019 and 10M2020 prepared in accordance with HKFRS as extracted from the accountant's report as set out in Appendix III to this circular:

| | FY2017 | FY2018 | FY2019 | 10M2020 |
|------------------------|----------------|----------------|----------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Revenue | 594,464 | 866,540 | 1,157,312 | 1,182,616 |
| Profit before taxation | 295,245 | 350,828 | 450,909 | 496,423 |
| Profit after taxation | 221,247 | 260,569 | 336,925 | 373,251 |

The audited net asset value of the Target Group attributable to owners of the Target Company as at 31 October 2020 was approximately RMB2,736.5 million.

Upon Completion, the Target Company will become a non-wholly owned subsidiary of the Company and the financial statements of the Target Group will be consolidated into the financial statements of the Company.

Going forward, the Company will continue to monitor and review the performance of its business. Apart from the Acquisition, the Company has no plans to make significant changes to its existing principal business activities immediately after Completion.

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RIGHTS ISSUE

In order to raise sufficient funds to settle part of the Consideration and to finance the associated transaction expenses relating to the Acquisition, the Board proposed the Rights Issue, the details of which are summarised below:

Issue Statistics

| | |
|--|--|
| Basis of the Rights Issue: | One (1) Rights Share for every one (1) existing Share held on the Rights Issue Record Date |
| Rights Issue Subscription Price: | HK\$0.39 per Rights Share |
| Number of existing Shares in issue as at the Latest Practicable Date: | 499,276,680 Shares |
| Number of Rights Shares: | Up to 499,276,680 Rights Shares (assuming no new Shares are issued and no Shares are repurchased on or before the Rights Issue Record Date) |
| Enlarged issued share capital upon completion of the allotment and issue of the Rights Shares: | 998,553,360 Shares (assuming no new Shares are issued (other than the Rights Shares) and no Shares are repurchased on or before the Completion) |
| Maximum gross proceeds to be raised under the Rights Issue: | Approximately HK\$194.7 million before expense (assuming no new Shares are issued and no Shares are repurchased on or before the Rights Issue Record Date) |
| Underwriter to the Rights Issue: | Vision Finance International Company Limited |
| Number of Rights Shares underwritten by the Underwriter: | The Underwritten Shares of up to 154,655,047 Rights Shares |
| Rights of excess application: | Qualifying Shareholders may apply for Rights Shares in excess of their provisional allotment |

The gross proceeds from the Rights Issue will be approximately HK\$194.7 million (assuming that there is no change in the number of issued Shares on or before the Rights Issue Record Date). The estimated net proceeds after deducting the transaction expenses from the Rights Issue and the Acquisition will be approximately HK\$171.7 million (assuming that there is no change in the number of issued Shares on or before the Rights Issue Record Date), which are intended to be used in the following manner:

- (a) approximately HK\$154.5 million (representing 90% of the estimated net proceeds from the Rights Issue) will be applied towards the cash settlement of the Consideration; and
- (b) approximately HK\$17.2 million (representing 10% of the estimated net proceeds from the Rights Issue) will be used as the Group's general working capital.

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In the event that the proceeds raised from the Rights Issue are not sufficient to cover the cash payment obligation of the Company under the Sale and Purchase Agreement, the Company intends to use its internal resources and/or other debt financing to settle the shortfall of the cash payment obligation under the Sale and Purchase Agreement.

Assuming no new Shares are issued and no Shares are repurchased on or before the Rights Issue Record Date, the maximum number of 499,276,680 Rights Shares to be issued pursuant to the terms of the Rights Issue represents (i) 100% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 50% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares.

Save as disclosed in this circular, the Company had no outstanding share options, warrants, derivatives or other securities convertible into or exchangeable for the Shares as at the Latest Practicable Date.

The Rights Issue is only underwritten on a best effort basis. Pursuant to the Company's constitutional documents and the Companies Act, and as advised by the Company's legal adviser, there are no requirements for minimum levels of subscription in respect of the Rights Issue. Subject to fulfillment of the conditions of the Rights Issue, the Rights Issue will proceed regardless of the ultimate subscription level. Based on the CQIH Undertakings given by CQIH, it is anticipated that at least 344,621,633 Rights Shares will be taken up. In the event that the Rights Issue is undersubscribed, any Rights Shares not taken up by the Qualifying Shareholders or transferees of nil-paid Rights Shares or otherwise subscribed by the Underwriter or other subscribers procured by it pursuant to the Underwriting Agreement will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. Investors are advised to exercise caution when dealing in the Shares.

Rights Issue Subscription Price

The subscription price of HK\$0.39 per Rights Share is payable in full when a Qualifying Shareholder accepts his/her/its provisional allotment under the Rights Issue or applications for excess Rights Shares, or when a transferee of nil-paid Rights Shares subscribes for the Rights Shares.

The Rights Issue Subscription Price represents:

- (i) a discount of approximately 18.8% to the closing price of HK\$0.48 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 8.9% to the average closing price of approximately HK\$0.428 per Share for the last five consecutive trading days as quoted on the Stock Exchange up to and including the Last Trading Day;
- (iii) a discount of approximately 10.3% to the theoretical ex-rights price of approximately HK\$0.435 per Share based on the closing price of HK\$0.48 per Share as quoted on the Stock Exchange on the Last Trading Day;

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- (iv) a discount of approximately 24.4% to the unadjusted consolidated net asset value of approximately HK\$0.516 per Share (based on the consolidated net asset value of the Company attributable to the equity holders of the Company as at 30 June 2020 of approximately HK\$257,468,000 and the number of issued Shares of 499,276,680); and
- (v) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of approximately 9.4%, represented by the theoretical diluted price of approximately HK\$0.435 per Share to the benchmarked price of approximately HK\$0.48 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of the closing price on the Last Trading Day of HK\$0.48 per Share and the average of the closing price of the Shares as quoted on the Stock Exchange for the last five consecutive trading days prior to the date of the Company's announcement of approximately HK\$0.428 per Share).

Under the Rights Issue, each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the same price in proportion to his/her/its existing shareholding in the Company. The Board considers that the discount of the Rights Issue Subscription Price to the current market price will encourage them to participate in the Rights Issue. The Rights Issue Subscription Price and the Rights Issue ratio were determined by the Board based on the funding needs of the Group.

Status of the Rights Shares

The Rights Shares (when allotted, issued and fully paid) will rank *pari passu* in all respects with the existing Shares in issue. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid on or after the date of allotment and issue of the fully-paid Rights Shares. Dealings in the Rights Shares will be subject to payment of stamp duty, the Stock Exchange trading fee, transaction levy, investor compensation levy or any other applicable fees and charges in Hong Kong.

Conditions Precedent

The Rights Issue is conditional on each of the following conditions being fulfilled or waived (where applicable):

- (i) the Independent Shareholders having approved the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Consideration CB, the allotment and issue of the Conversion Shares and the granting of the Specific Mandate);
- (ii) all conditions precedent in relation to the Acquisition (other than the condition precedent of the Independent Shareholders having approved the Rights Issue by way of poll at the SGM in accordance with the Listing Rules) having been fulfilled or waived (where applicable);
- (iii) the Independent Shareholders having approved the Rights Issue and the Underwriting Agreement by way of poll at the SGM in accordance with the Listing Rules;
- (iv) the delivery to the Stock Exchange and registration with the Registrar of Companies in Hong Kong, respectively, of a copy of each of the Prospectus Documents duly certified in compliance with the Companies (WUMP) Ordinance (and other documents required to be attached thereto) and otherwise complying with the requirements of the Companies (WUMP) Ordinance, the Companies Ordinance and the Listing Rules;

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- (v) the despatch of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus stamped “For Information Only” to the Non-Qualifying Shareholders, if any, for information purpose only;
- (vi) the Listing Committee of the Stock Exchange granting or agreeing to grant and not having withdrawn or revoked the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms;
- (vii) all relevant consents and approvals being obtained from the regulatory authorities, including the Stock Exchange, as the case may require in connection with the Rights Issue by the relevant time that each consent and approval is required; and
- (viii) the Underwriting Agreement not being terminated by the Underwriter pursuant to the terms thereof on or before the Latest Time for Termination.

If the conditions precedent above are not satisfied or waived (where applicable) on or before the Rights Issue Long Stop Date, the Rights Issue will be terminated.

As at the Latest Practicable Date, none of the conditions precedent had been satisfied.

Underwriting Agreement

The principal terms of the Underwriting Agreement are as follows:

Date: 17 March 2021

Underwriter: Vision Finance International Company Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Underwriter is independent of and not connected with the Company and its connected persons

Number of Rights Shares to be underwritten by the Underwriter: Up to 154,655,047 Rights Shares, being 499,276,680 Rights Shares to be issued pursuant to the Rights Issue less 344,621,633 Rights Shares which CQIH has undertaken to take up under the CQIH Undertakings

Underwriting commission: 4.5% of the aggregate Rights Issue Subscription Price of the Underwritten Shares

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The Rights Issue, other than the CQIH Committed Shares that will be provisionally allotted to and which are to be taken up by CQIH pursuant to the CQIH Undertakings on the terms and conditions set out therein, is underwritten by the Underwriter on a best effort basis on the terms of the Underwriting Agreement.

The underwriting commission was determined after arm's length negotiation between the Company and the Underwriter with reference to, among other things, the scale of the Rights Issue, the current and expected market conditions and the underwriting commission charged by underwriters in recent market precedents of rights issues. In particular, the Directors, based on the information available on the website of the Stock Exchange, noticed that a total of 36 listed companies announced their proposed rights issues for the year ended 31 December 2020 (which, to the best knowledge of the Directors, were not subsequently terminated), among which 26 rights issues were underwritten by independent underwriters and ten out of these 26 cases (which raised proceeds in the range of approximately HK\$105 million and HK\$335 million) charged an underwriting commission in the range of 1.5% and 5.5%. The Directors (excluding Mr. Gao Yuzhen, Mr. Yuan Zhi and Mr. Hu Liang, who have abstained from voting on the relevant Board resolutions due to their directorship in CQDHG, but including the independent non-executive Directors), having taken into account the aforesaid precedent cases of rights issues as well as the reasons for the Rights Issue as detailed in the paragraph headed "Reasons for the Rights Issue and Use of Proceeds" below, consider the terms of the Underwriting Agreement, including the underwriting commission payable by the Company, are on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole. None of the Directors has a material interest in the transactions contemplated under the Underwriting Agreement.

Conditions of the Underwriting Agreement

The Rights Issue is conditional upon the Underwriting Agreement becoming unconditional and not being terminated in accordance with its terms. The Underwriting Agreement is conditional upon the following being fulfilled or waived (as the case may be):

- (i) the Independent Shareholders having approved the Rights Issue by way of poll at the SGM in accordance with the Listing Rules;
- (ii) the Listing Committee of the Stock Exchange granting or agreeing to grant and not having withdrawn or revoked the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms;
- (iii) the delivery to the Stock Exchange and registration with the Registrar of Companies in Hong Kong, respectively, of a copy of each of the Prospectus Documents duly certified in compliance with the Companies (WUMP) Ordinance (and other documents required to be attached thereto) and otherwise complying with the requirements of the Companies (WUMP) Ordinance, the Companies Ordinance and the Listing Rules;

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- (iv) the despatch of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus with the Overseas Letter to the Non-Qualifying Shareholders, if any, for information purpose only;
- (v) all relevant consents and approvals being obtained from the regulatory authorities, including the Stock Exchange, as the case may require in connection with the Rights Issue by the relevant time that each consent and approval is required;
- (vi) (a) the execution and delivery of the CQIH Undertakings on the date of the Underwriting Agreement; and (b) the compliance by CQIH of all of its obligations as set out in the CQIH Undertakings by the times specified therein, and the CQIH Undertakings not having been terminated;
- (vii) all the representations and warranties and other statements in the Underwriting Agreement on the part of the Company being true and accurate in all material respects and not misleading as at the date of the Underwriting Agreement and as at the Latest Time for Termination;
- (viii) there being no breach of the undertakings and obligations of the Company under the terms of the Underwriting Agreement at the Latest Time for Termination;
- (ix) the Underwriter receiving from the Company certain documents as specified in the Underwriting Agreement by the times and dates specified therein;
- (x) the obligation of the Underwriter under the Underwriting Agreement not being terminated in accordance with the terms thereof; and
- (xi) there being no Specified Event occurring on or before the Latest Time for Termination.

Save for conditions (vii), (viii), (ix), (x) and (xi) above that may be waived by the Underwriter (in whole or in part), none of the above conditions is capable of being waived by the Underwriter.

If the above conditions are not fulfilled and/or waived (as the case may be) by the Latest Time for Termination or such later date or dates as the Underwriter may agree with the Company in writing, the Underwriting Agreement shall terminate and (save in respect of the provisions in relation to fees and expenses, indemnity, notices and governing law and any rights or obligations which have accrued under the Underwriting Agreement prior to such termination) no party will have any claim against any other party for costs, damages, compensation or otherwise (save for any antecedent breaches), and the Rights Issue will not proceed.

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Termination of the Underwriting Agreement

If prior to the Latest Time for Termination, in the absolute opinion of the Underwriter:

- (i) one or more of the following events or matters shall occur, arise, exist or come into effect:
 - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) after the signing of the Underwriting Agreement; or
 - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature, or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets; or
 - (c) any material adverse change after the signing of the Underwriting Agreement in the business or in the financial or trading position of any member of the Group; or
 - (d) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out occurring after the signing of the Underwriting Agreement; or
 - (e) after signing of the Underwriting Agreement, there occurs or comes into effect the imposition of any moratorium, suspension or material restriction on trading in the Shares generally on the Stock Exchange whether due to exceptional financial circumstances or otherwise; or
 - (f) there is, after signing of the Underwriting Agreement, any change or any development involving a prospective change in market conditions (including without limitation, a change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or restriction on trading in securities, imposition of economic sanctions, in/on Hong Kong, the PRC or other jurisdiction relevant to any member of the Group and a change in currency conditions includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States) occurs; or
 - (g) the Prospectus when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date hereof been publicly announced or published by the Company and which may, in the absolute opinion of the Underwriter, is material to the Group as a whole and is likely to affect the success of the Rights Issue; or

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which event or events is or are in the absolute opinion of the Underwriter:

- (a) likely to have a material adverse effect on the business or financial or trading position or prospects of the Group as a whole;
 - (b) likely to have a material adverse effect on the success of the Rights Issue or the level of the Rights Shares taken up; or
 - (c) make it inappropriate, inadvisable or inexpedient to proceed further with the Rights Issue;
- (ii) any breach of any of the warranties or undertakings or any omission to observe any of the obligations or undertakings in the Underwriting Agreement comes to the knowledge of the Underwriter; or
- (iii) any Specified Event comes to the knowledge of the Underwriter,

the Underwriter shall be entitled to terminate the Underwriting Agreement by notice in writing to the Company served prior to the Latest Time for Termination.

Upon giving notice pursuant to the Underwriting Agreement, the obligations of the Underwriter and the Company under the Underwriting Agreement shall terminate forthwith provided that the Company shall remain liable to pay to the Underwriter such fees and expenses (other than the underwriting commission) payable by the Company pursuant to the Underwriting Agreement. If the Underwriter exercises such right, the Rights Issue will not proceed.

Information about the Underwriter

The Underwriter is a company incorporated in Hong Kong with limited liability and a corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. As at the Latest Practicable Date, the Underwriter did not hold any Shares.

The Underwriter confirms that (i) it is independent of and not connected with the Company or its connected persons; and (ii) it has complied with Rule 7.19(1)(a) of the Listing Rules that it is licensed under the SFO for type 1 regulated activity and its ordinary business include underwriting of securities. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Underwriter and its ultimate beneficial owner(s) and/or associates are third parties independent of the Company.

Irrevocable Undertakings from CQIH

As at the Latest Practicable Date, CQIH held 344,621,633 Shares (representing approximately 69.02% of the issued share capital of the Company). Pursuant to the Rights Issue, 344,621,633 Rights Shares will be provisionally allotted to CQIH. CQIH has executed

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the CQIH Undertakings, pursuant to which CQIH has irrevocably and unconditionally undertaken to the Company and the Underwriter that it:

- (i) will apply and pay for the CQIH Committed Shares, being all of the 344,621,633 Rights Shares provisionally allotted to CQIH pursuant to the Rights Issue, by lodging the duly completed and signed PAL before the latest time for acceptance of and payment for the Rights Shares;
- (ii) will not sell, dispose of or transfer the Shares beneficially held by it, including the 344,621,633 Shares currently held by it, during the period from the date of execution of the CQIH Undertakings to the Rights Issue Record Date (both dates inclusive); and
- (iii) save for the Rights Shares provisionally allotted to it, will not apply for any excess Rights Shares.

CQIH has confirmed that its commitment in respect of the application and payment for the CQIH Committed Shares was made after taking into account its financial and investment plans.

Save for CQIH, as at the Latest Practicable Date, the Board had not received any information or other undertakings from any Shareholders of their intention to take up or not to take up the securities of the Company to be offered to them under the Rights Issue.

Qualifying Shareholders

To qualify for the Rights Issue, a Qualifying Shareholder must be registered as a member of the Company on the Rights Issue Record Date and not being a Non-Qualifying Shareholder. In order to be registered as members of the Company on the Rights Issue Record Date, all transfers of Shares (together with the relevant share certificate(s)) must be lodged with the Hong Kong Share Registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on Friday, 16 April 2021. It is expected that the last day of dealings in the Shares on a cum-rights basis is Wednesday, 14 April 2021 and the Shares will be dealt with on an ex-rights basis from Thursday, 15 April 2021.

The Company will despatch the Prospectus Documents to the Qualifying Shareholders on the Posting Date.

Application for all or any part of a Qualifying Shareholder's provisional allotment should be made by completing the Provisional Allotment Letter and lodging the same with a cheque or banker's cashier order for the Rights Shares being applied with the Hong Kong Share Registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong on or before 4:00 p.m. on the Latest Acceptance Date.

The Qualifying Shareholders who take up their pro-rata entitlement in full will not experience any dilution to their interests in the Company. **If a Qualifying Shareholder does not**

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take up any of his/her/its entitlement in full under the Rights Issue, his/her/its proportionate shareholding in the Company will be diluted.

Overseas Shareholders

As at the Latest Practicable Date, according to the register of members of the Company, the Company had seven Overseas Shareholders holding a total of 250,622,119 Shares with registered addresses in the following jurisdictions: Australia, the BVI, Canada, New Zealand and the US.

In compliance with Rule 13.36(2)(a) of the Listing Rules, the Company will make enquiries regarding the feasibility of extending the Rights Issue to the Overseas Shareholders in the relevant jurisdictions. If, after making such enquiries, the Directors consider that it would be necessary or expedient on account of either the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory bodies or stock exchanges in that place to exclude such Overseas Shareholder from the Rights Issue, such Overseas Shareholder will become a Non-Qualifying Shareholder and therefore will not be entitled to participate in the Rights Issue, subject to limited exceptions.

The Company will continue to ascertain whether there are any other Overseas Shareholders in any other jurisdiction(s) on the Rights Issue Record Date and will, if necessary, make further enquiries regarding the feasibility of extending the Rights Issue to such other Overseas Shareholders on the Rights Issue Record Date. Further information in this connection will be set out in the Prospectus containing, among other things, details of the Rights Issue, to be despatched to the Shareholders on the Posting Date.

Notwithstanding the foregoing, the Prospectus is expected to include provisions permitting certain categories of sophisticated and/or qualified investors in certain overseas jurisdictions to take up their rights under the Rights Issue, subject to complying with certain certification and other requirements (to be set out in the Prospectus) which the Directors consider necessary or desirable in order to enable those investors to take part in the Rights Issue in compliance with their applicable local laws and regulations. The Company reserves the absolute discretion to determine whether to allow such participation as well as the identity of any person(s) who may be allowed to do so.

The Company reserves the right to treat as invalid any acceptance of or application for Rights Shares where it believes that such acceptance or application would violate the applicable securities laws or other laws or regulations of any territory or jurisdiction.

It is the responsibility of any person (including, without limitation, a nominee, agent and trustee) receiving the Prospectus Documents outside Hong Kong and wishing to take up the Rights Shares to satisfy themselves as to the full and relevant compliance of the laws of the relevant jurisdictions including the obtaining of any governmental or other consents and

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observing other formalities which may be required in such jurisdictions, and to pay any taxes, duties and other amounts required to be paid in such jurisdictions in connection therewith. Any acceptance of the Rights Shares by any person will be deemed to constitute a representation and warranty from such person to the Company that such local laws, regulations and requirements of the relevant territory or jurisdiction have been fully complied with. If you are in any doubt as to your position, you should consult a professional adviser.

Overseas Shareholders (excluding those with registered address in jurisdictions which are included in the Rights Issue) on the Rights Issue Record Date may not be eligible to take part in the Rights Issue as explained below.

The Prospectus Documents are not intended to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong. Pursuant to Rule 13.36(2)(a) of the Listing Rules, the Board has made enquiries regarding the legal restrictions under the applicable securities legislation of the relevant jurisdictions and the requirements of the relevant regulatory body or stock exchange with respect to the rights of the Rights Shares to such Overseas Shareholders.

The Company will send copies of the Overseas Letter and the Prospectus to the Non-Qualifying Shareholders for their information only, but will not send them the PAL and the EAF.

Fractional Entitlements

On the basis of provisional allotment of one (1) Rights Share for every one (1) Share held by the Qualifying Shareholders on the Rights Issue Record Date, no fractional entitlements to the Rights Shares will arise under the Rights Issue.

Application for Excess Rights Shares

Qualifying Shareholders shall be entitled to apply, by way of excess application, for (i) the Rights Shares representing the entitlement of the Non-Qualifying Shareholders and which cannot be sold at a net premium; and (ii) any Rights Shares provisionally allotted but not validly accepted by the Qualifying Shareholders or otherwise not subscribed for by transferees of the nil-paid Rights Shares. Application for the excess Rights Shares may be made by completing the EAF and lodging the same with a separate remittance for the excess Rights Shares being applied for by the latest time for the application and payment for the excess Rights Shares. The Board will allocate the excess Rights Shares at its discretion on a fair and equitable basis and on the following principles: (i) as far as practicable, in proportion to the number of excess Rights Shares being applied for under each application; and (ii) no preference will be given to applications made for topping up odd lot holdings to whole board lot holdings.

Any Rights Shares not taken up (i) by the Qualifying Shareholders or transferees of nil-paid Rights Shares under PALs; or (ii) by excess applications by the Qualifying Shareholders

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under EAFs will be taken up by the Underwriter on a best effort basis pursuant to the terms and conditions of the Underwriting Agreement.

Shareholders with Shares held by a nominee (or which are held in CCASS) should note that the Board will consider the nominee (including HKSCC Nominees Limited) as one single Shareholder according to the register of members of the Company. Accordingly, such Shareholders should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to the relevant beneficial owners individually. Shareholders with Shares held by a nominee (or which are held in CCASS) are advised to consider whether they would like to arrange for the registration of their relevant Shares under the names of the beneficial owners prior to the Rights Issue Record Date for the purpose of the Rights Issue. Shareholders and investors should consult their professional advisers if they are in doubt as to their status.

Application for Listing of the Rights Shares

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms. Nil-paid Rights Shares are expected to be traded in board lots of 2,000. No part of the securities of the Company in issue or for which listing or permission to deal is being or is proposed to be sought is listed or dealt in or on any other stock exchange. Dealings in the Rights Shares (in both nil-paid and fully-paid forms) will be subject to the payment of stamp duty, Stock Exchange trading fee, SFC transaction levy and other applicable fees and charges in Hong Kong.

Share Certificates and refund cheque for the Rights Shares

Subject to the fulfilment of the conditions of the Rights Issue set out below, certificates for all fully-paid Rights Shares are expected to be sent by ordinary post on or before Tuesday, 18 May 2021 to those persons who have validly accepted and, where applicable, applied for, and paid for the Rights Shares, at their own risk, to their registered addresses. Each Shareholder will receive one share certificate for all allotted Rights Shares. Refund cheques in respect of wholly or partially unsuccessful applications for the excess Rights Shares (if any) are expected to be sent by ordinary post on or before Tuesday, 18 May 2021 to the applicants, at their own risk, to their registered addresses.

Rights Shares will be Eligible for Admission into CCASS

Subject to the granting of listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Rights Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter.

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All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their licensed securities dealer(s) or other professional adviser(s) for details of those settlement arrangements and how such arrangements will affect their rights and interests.

Splitting and Transfer of Provisional Allotment Letter

If you wish to accept only part of your provisional allotment or transfer only part of your rights to subscribe for the Rights Shares provisionally allotted to or to transfer all or part of your rights to more than one person, the original PAL must be surrendered and lodged for cancellation and splitting of the relevant PAL(s) first together with a covering letter stating clearly the number of split PALs required and the number of nil-paid Rights Shares to be comprised in each split PAL (which, in aggregate, should be equal to the number of Rights Shares provisionally allotted to such holder as stated in the original PAL) by 4:30 p.m. on Friday, 30 April 2021 to the Hong Kong Share Registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, who will then cancel this original PAL and issue new PAL(s) in the denominations required, which will be available for collection at the Hong Kong Share Registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong after 9:00 a.m. on the second Business Day after the surrender of this original PAL and the related fee will be borne by the Company. Thereafter, upon collection of new PAL(s), you can transfer the relevant nil-paid Rights Shares to the relevant transferee(s) following the procedures and steps as stated in the below paragraph.

The PAL contains further information regarding the procedures to be followed for acceptance and/or transfer of the whole or part of the provisional allotment of the Rights Shares by the Qualifying Shareholders. All cheques or cashier orders accompanying completed PALs will be presented for payment immediately upon receipt and all interest earned on such monies (if any) will be retained for the benefit of the Company. Completion and return of the PAL with a cheque or a cashier's order, whether by a Qualifying Shareholder or by any nominated transferees, will constitute a warranty by the applicant that the cheque or the cashier's order will be honoured on first presentation. Without prejudice to the other rights of the Company in respect thereof, the Company reserves the right to reject any PAL in respect of which the cheque or cashier order is dishonoured on first presentation, and in that event the provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

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Warning of the Risks of Dealing in the Shares and Nil-Paid Rights Shares

Shareholders and potential investors of the Company should note that the Rights Issue is conditional upon, among others, the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the sub-paragraph headed “Termination of the Underwriting Agreement” above). Accordingly, the Rights Issue may or may not proceed. The Shares will be dealt with on an ex-rights basis from Thursday, 15 April 2021. Dealings in the Rights Shares in nil-paid form are expected to take place from Wednesday, 28 April 2021 to Wednesday, 5 May 2021 (both days inclusive). Any Shareholder or other person contemplating transferring, selling or purchasing the Shares and/or Rights Shares in their nil-paid form is advised to exercise caution when dealing in the Shares and/or the nil-paid Rights Shares. Any person who is in any doubt about his/her/its position or any action to be taken is recommended to consult his/her/its own professional adviser(s). Any Shareholder or other person dealing in the Shares or in the nil-paid Rights Shares up to the date on which all the conditions to which the Rights Issue is subject are fulfilled (or waived (as appropriate)) (and the date on which the Underwriter’s right of termination of the Underwriting Agreement ceases) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

Reasons for the Rights Issue and Use of Proceeds

The Board proposed the Rights Issue to raise funds to settle part of the Consideration and to finance the associated transaction expenses relating to the Acquisition. The Rights Issue will also provide an opportunity for the Shareholders to participate in the Company’s equity fund raising activities at prevailing market price and to enjoy the potential upside of the Company’s share price performance upon Completion and when the benefits of the Acquisition materialise in the future.

Assuming that there is no change in the number of issued Shares on or before the Rights Issue Record Date and that all Rights Shares have been taken up by the Qualifying Shareholders and/or the Underwriter or the subscribers procured by it, the gross proceeds from the Rights Issue will be approximately HK\$194.7 million. The estimated net proceeds after deducting the transaction expenses from the Rights Issue and the Acquisition will be approximately HK\$171.7 million (assuming that there is no change in the number of issued Shares on or before the Rights Issue Record Date), which are intended to be used in the following manner:

- (a) approximately HK\$154.5 million (representing 90% of the estimated net proceeds from the Rights Issue) will be applied towards the cash settlement of the Consideration; and
- (b) approximately HK\$17.2 million (representing 10% of the estimated net proceeds from the Rights Issue) will be used as the Group’s general working capital.

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In the event that the proceeds raised from the Rights Issue are not sufficient to cover the cash payment obligation of the Company under the Sale and Purchase Agreement, the Company intends to use its internal resources and/or other debt financing to settle the shortfall of the cash payment obligation under the Sale and Purchase Agreement.

The aforesaid intended use of the net proceeds from the Rights Issue will remain unaffected regardless of the ultimate subscription level.

EFFECT OF THE ISSUE OF THE CONSIDERATION CB AND THE RIGHTS ISSUE ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the Company had 499,276,680 Shares in issue. The Company has adopted the Share Option Scheme, which became effective on 27 August 2013, pursuant to which the Company may grant options to subscribe for Shares to selected eligible participants. As at the Latest Practicable Date, the Company had no outstanding convertible securities, options, warrants or other derivatives in issue which are convertible or exchangeable into Shares.

Set out below is the shareholding structure of the Company (a) as at the Latest Practicable Date; (b) immediately after allotment and issue of the Rights Shares (assuming that (i) all Qualifying Shareholders (including CQIH) take up their respective allotment of Rights Shares in full; and (ii) there is no change in the issued share capital of the Company other than the issue of the Rights Shares since the Latest Practicable Date and up to Completion); (c) immediately after allotment and issue of the Rights Shares (assuming that (i) no Qualifying Shareholder takes up any of the Rights Shares (other than CQIH taking up the CQIH Committed Shares) and the Underwritten Shares are fully taken up by the Underwriter; and (ii) there is no change in the issued share capital of the Company other than the issue of the Rights Shares since the Latest Practicable Date and up to Completion); (d) immediately after allotment and issue of the Rights Shares and upon full conversion of the Consideration CB at the Initial Conversion Price (assuming that (i) the Underwriter holds no Share as at the time of conversion of the Consideration CB; and (ii) there is no change in the issued share capital of the Company other than the issue of the Rights Shares and the Conversion Shares since the Latest Practicable Date and up to the date of full conversion of the Consideration CB); and (e) immediately after allotment and issue of the Rights Shares and upon full conversion of the Consideration CB at the Base Conversion Price (assuming that (i) the Underwriter holds no Share as at the time of conversion of the Consideration CB; and (ii) there is no change in the issued share capital of the

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Company other than the issue of the Rights Shares and the Conversion Shares since the Latest Practicable Date and up to the date of full conversion of the Consideration CB):

| | As at the Latest Practicable Date | | Immediately after allotment and issue of the Rights Shares (assuming all Qualifying Shareholders (including CQIH) take up their respective allotment of Rights Shares in full) ⁽²⁾ | | Immediately after allotment and issue of the Rights Shares (assuming no Qualifying Shareholder takes up any of the Rights Shares (other than CQIH taking up the CQIH Committed Shares) and the Underwritten Shares are fully taken up by the Underwriter) ⁽²⁾ | | Immediately after allotment and issue of the Rights Shares and upon full conversion of the Consideration CB at the Initial Conversion Price (assuming the Underwriter holds no Share as at the time of conversion of the Consideration CB) ⁽³⁾ | | Immediately after allotment and issue of the Rights Shares and upon full conversion of the Consideration CB at the Base Conversion Price (assuming the Underwriter holds no Share as at the time of conversion of the Consideration CB) ⁽³⁾ | |
|----------------------------|-----------------------------------|-------------------------------------|---|-------------------------------------|--|-------------------------------------|---|-------------------------------------|--|-------------------------------------|
| | Approximate Number of Shares held | Approximate shareholding percentage | Approximate Number of Shares held | Approximate shareholding percentage | Approximate Number of Shares held | Approximate shareholding percentage | Approximate Number of Shares held | Approximate shareholding percentage | Approximate Number of Shares held | Approximate shareholding percentage |
| CQIH ⁽¹⁾ | 344,621,633 | 69.02% | 689,243,266 | 69.02% | 689,243,266 | 69.02% | 689,243,266 | 31.50% | 689,243,266 | 27.73% |
| CQDHG | - | - | - | - | - | - | 1,189,386,362 | 54.36% | 1,486,732,953 | 59.82% |
| Underwriter ⁽⁴⁾ | - | - | - | - | 154,655,047 | 15.49% | - | - | - | - |
| Other Public Shareholders | 154,655,047 | 30.98% | 309,310,094 | 30.98% | 154,655,047 | 15.49% | 309,310,094 | 14.14% | 309,310,094 | 12.45% |
| Total | 499,276,680 | 100.0% | 998,553,360 | 100.0% | 998,553,360 | 100.0% | 2,187,939,722 | 100.0% | 2,485,286,313 | 100.0% |

Notes:

- (1) As at the Latest Practicable Date, CQIH was wholly owned by CQDHG, which was wholly owned by QCCIG. By virtue of the SFO, QCCIG and CQDHG are deemed to be interested in the Shares held by CQIH.
- (2) The calculation is based on the assumption that there is no change in the issued share capital of the Company other than the issue of the Rights Shares since the Latest Practicable Date and up to Completion.
- (3) The calculation is based on the assumption that there is no change in the issued share capital of the Company other than the issue of the Rights Shares and the Conversion Shares since the Latest Practicable Date and up to the date of full conversion of the Consideration CB.
- (4) This scenario is for illustrative purpose only. Pursuant to the Underwriting Agreement, the Underwriter has undertaken to the Company that, in the event of it being called upon to subscribe for or procure subscribers to subscribe for the Underwritten Shares, (i) it will not and shall procure that the subscribers procured by it, together with parties acting in concert with each of them, will not own 10% or more of the voting rights of the Company immediately after completion of the Rights Issue; (ii) it shall and shall procure subscribers independent of the Company and its connected persons to take up such number of the Underwritten Shares necessary to ensure that the public float requirements under the Listing Rules are complied with upon completion of the Rights Issue; and (iii) it will not, for its own account, and shall procure that the subscribers procured by it will not, together with any party acting in concert with it, hold such number of the Underwritten Shares which will result in it (together with parties acting in concert with it) holding 30% or more of the voting rights of the Company immediately upon completion of the Rights Issue.

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FUND RAISING EXERCISE OF THE COMPANY IN THE PAST 12 MONTHS

The Company had not conducted any equity fund raising activities in the 12 months immediately prior to the Latest Practicable Date.

INFORMATION OF THE TARGET GROUP

Please refer to the sections headed “History and Development of the Target Group”, “Business of the Target Group”, “Core Management Team of the Target Group” and “Financial Information of the Target Group” in this circular for further details.

INFORMATION OF THE VENDOR

CQDHG is a company incorporated in Hong Kong with limited liability on 1 April 2014 and is an investment holding company. As at the Latest Practicable Date, CQDHG was wholly owned by QCCIG, which is a company established in the PRC with limited liability and is wholly owned by the State-owned Assets Supervision & Administration Commission of Qingdao Municipal Government (青島市人民政府國有資產監督管理委員會).

As at the Latest Practicable Date, CQIH held 344,621,633 Shares (representing approximately 69.02% of the issued share capital of the Company). Accordingly, CQIH, CQDHG and QCCIG are Controlling Shareholders and connected persons of the Company under Chapter 14A of the Listing Rules.

TAXATION

Shareholders are advised to consult their professional advisers if they are in doubt as to the taxation implications of the receipt, purchase, holding, exercising, disposing of or dealing in, the nil-paid Rights Shares or the fully-paid Rights Shares and, regarding the Non-Qualifying Shareholders, their receipt of the net proceeds, if any, from sales of the nil-paid Rights Shares on their behalf.

IMPLICATIONS UNDER THE LISTING RULES

Sale and Purchase Agreement

The Acquisition constitutes a very substantial acquisition of the Company under Rule 14.06(5) of the Listing Rules as one or more of the relevant percentage ratios under Rule 14.07 of the Listing Rules are over 100%. Accordingly, the Sale and Purchase Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, circular and shareholders’ approval requirements under Chapter 14 of the Listing Rules.

In addition, as at the Latest Practicable Date, CQIH, a Controlling Shareholder which held 344,621,633 Shares (representing approximately 69.02% of the issued share capital of the Company), was wholly owned by CQDHG. Accordingly, CQDHG is an associate of CQIH and a

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connected person of the Company. The Acquisition is therefore a connected transaction of the Company under Chapter 14A of the Listing Rules. Since one or more of the applicable percentage ratios in respect of the Acquisition exceeds 5%, the Acquisition is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Listing Committee of the Stock Exchange has determined that the Acquisition is an extreme transaction which is not subject to the reverse takeover rules. The Company is required to prepare a transaction circular with enhanced disclosure comparable to the standard for listing documents for new listing applicants. BOCOM Asia has been appointed as the financial adviser of the Company in relation to the Acquisition to conduct due diligence with reference to Practice Note 21 of the Listing Rules as clarified under the Stock Exchange's Guidance Letter HKEx-GL104-19.

As CQDHG is an associate of CQIH and a connected person of the Company, the issue of the Consideration CB to the Vendor (or its nominee(s)) as part of the Consideration constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Mr. Gao Yuzhen, Mr. Yuan Zhi and Mr. Hu Liang, the executive Directors, are directors of CQDHG and are deemed to have a material interest in the transactions contemplated under the Sale and Purchase Agreement, each of them had abstained from voting on the board resolutions to approve the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Consideration CB).

Rights Issue

In order to raise sufficient funds to settle part of the Consideration, the Board proposed the Rights Issue on the basis of one (1) Rights Share for every one (1) existing Share. Assuming no new Shares are issued and no Shares are repurchased on or before the Rights Issue Record Date, the maximum number of 499,276,680 Rights Shares to be issued pursuant to the terms of the Rights Issue represents (i) 100% of the total issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 50% of the total issued share capital of the Company as enlarged by the allotment and issue of and the Rights Shares.

In accordance with Rules 7.19A(1) and 7.27A of the Listing Rules, as the Rights Issue will increase the issued Shares by more than 50%, the Rights Issue will be made conditional on approval by the minority Shareholders by way of poll at the SGM, and the Controlling Shareholders and their associates shall abstain from voting in favor of the resolution relating to the Rights Issue at the SGM. Accordingly, CQIH, a Controlling Shareholder which held 344,621,633 Shares (representing approximately 69.02% of the issued share capital of the Company) as at the Latest Practicable Date, and its associates will abstain from voting on the resolutions in relation to the Rights Issue to be proposed at the SGM.

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As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save for CQIH, no other Shareholder is required or has indicated his/her/its intention to abstain from voting on the resolutions in relation to the Rights Issue to be proposed at the SGM.

As Mr. Gao Yuzhen, Mr. Yuan Zhi and Mr. Hu Liang, the executive Directors, are directors of CQDHG, each of them had abstained from voting on the board resolutions approving the Rights Issue.

ESTABLISHMENT OF INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising Mr. Yin Tek Shing, Paul, Mr. Wong Tin Kit, Ms. Zhao Meiran and Mr. Li Xue, each being an independent non-executive Director, has been established to advise the Independent Shareholders in relation to the Sale and Purchase Agreement, the Rights Issue and the issue of the Consideration CB. Each of Mr. Yin Tek Shing, Paul, Mr. Wong Tin Kit, Ms. Zhao Meiran and Mr. Li Xue has confirmed that he/she has no material interest in the Sale and Purchase Agreement, the Rights Issue and the issue of the Consideration CB.

The Company has, with the approval of the Independent Board Committee, appointed the Independent Financial Adviser in accordance with the requirements under the Listing Rules to advise the Independent Board Committee and the Independent Shareholders on matters in relation to the Sale and Purchase Agreement, the Rights Issue and the issue of the Consideration CB.

SGM

A notice of the SGM to be held at Unit Nos. 9–11, 26th Floor, Tower 1, Admiralty Centre, No. 18 Harcourt Road, Hong Kong on Tuesday, 13 April 2021 at 11:00 a.m. is set out on pages SGM-1 to SGM-4 of this circular for the purpose of considering and, if thought fit, approving, among others, (i) the Sale and Purchase Agreement; (ii) the Specific Mandate; and (iii) the Rights Issue. A form of proxy for use at the SGM is enclosed. If you do not intend or are unable to attend the meeting and wish to appoint a proxy/proxies to attend and vote on your behalf at the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Hong Kong Share Registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending, and voting in person at the SGM or any adjournment thereof should you so wish and, in such event, the instrument appointing a proxy will be deemed to be revoked.

Voting on the resolutions at the SGM will be taken by poll.

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As CQIH has a material interest in the Acquisition, CQIH and its associates are required under the Listing Rules to abstain from voting on the resolutions in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder to be proposed at the SGM.

In addition, pursuant to Rules 7.19A(1) and 7.27A of the Listing Rules, as the Rights Issue will increase the issued Shares by more than 50%, CQIH and its associates will abstain from voting on the resolutions in relation to the Rights Issue to be proposed at the SGM.

CLOSURE OF REGISTER OF MEMBERS

To ascertain the identity of the Shareholders who are entitled to attend and vote at the SGM, the register of members of the Company will be closed from Wednesday, 7 April 2021 to Tuesday, 13 April 2021 (both days inclusive) during which no transfer of Shares can be registered. In order to be eligible to attend and vote at the SGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong Share Registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 1 April 2021.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 57 to 58 of this circular and the letter from the Independent Financial Adviser set out on pages 59 to 122 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and the Specific Mandate.

On the basis of the information set out in this circular, the Directors (including the members of the Independent Board Committee after considering the advice of the Independent Financial Adviser) consider that the terms and conditions of the Sale and Purchase Agreement, the Rights Issue and the issue of the Consideration CB are on normal commercial terms, and that the Sale and Purchase Agreement, the Rights Issue and the issue of the Consideration CB are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors, therefore, recommend the Independent Shareholders to vote in favor of the resolutions set out in the notice of the SGM at the end of this circular.

ADDITIONAL INFORMATION

Your attention is drawn to other sections of and appendices to this circular, which contain further information on the Target Group, the Enlarged Group and other information required to be disclosed under the Listing Rules. You should carefully consider all the information in this circular before making a decision in relation to the resolutions to be proposed at the SGM or dealing in the Shares of the Company.

LETTER FROM THE BOARD

WARNING

As the Completion is subject to fulfilment of the conditions precedent set out in the Sale and Purchase Agreement, the Acquisition may or may not proceed. Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.

Yours faithfully,
By order of the Board
Qingdao Holdings International Limited
Gao Yuzhen
Executive Director and Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Consideration CB) and the Rights Issue.



QINGDAO HOLDINGS INTERNATIONAL LIMITED

青島控股國際有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00499)

24 March 2021

To the Independent Shareholders

Dear Sir or Madam,

- (1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF APPROXIMATELY 81.91% OF
THE EQUITY INTEREST IN
QINGDAO RURAL CONSTRUCTION FINANCIAL LEASING COMPANY
LIMITED* (青島城鄉建設融資租賃有限公司);**
- (2) CONNECTED TRANSACTION IN RELATION TO THE ISSUE OF
CONVERTIBLE BONDS UNDER THE SPECIFIC MANDATE; AND**
- (3) PROPOSED RIGHTS ISSUE OF RIGHTS SHARES ON THE BASIS OF
ONE (1) RIGHTS SHARE FOR EVERY ONE (1) EXISTING SHARE
HELD ON THE RIGHTS ISSUE RECORD DATE
AT THE RIGHTS ISSUE SUBSCRIPTION PRICE OF
HK\$0.39 PER RIGHTS SHARE**

We refer to the circular of the Company dated 24 March 2021 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Consideration CB) and the Rights Issue,

* For identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

details of which are set out in the section headed “Letter from the Board” in the Circular. Rainbow Capital (HK) Limited has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this regard. Details of the independent advice from the Independent Financial Adviser, together with the principal factors and reasons they have taken into consideration, are set out on pages 59 to 122 of the Circular.

Having considered the principal factors and reasons and the advice of the Independent Financial Adviser as set out in the letter from the Independent Financial Adviser, we consider that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Consideration CB) and the Rights Issue are fair and reasonable so far as the Independent Shareholders are concerned, and have been entered into on normal commercial terms, and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favor of the ordinary resolutions to be proposed at the SGM in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Consideration CB) and the Rights Issue.

Yours faithfully,
For and on behalf of the
Independent Board Committee
Qingdao Holdings International Limited

| | | | |
|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Yin Tek Shing, Paul | Wong Tin Kit | Zhao Meiran | Li Xue |
| <i>Independent</i> | <i>Independent</i> | <i>Independent</i> | <i>Independent</i> |
| <i>non-executive director</i> | <i>non-executive director</i> | <i>non-executive director</i> | <i>non-executive director</i> |

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of a letter of advice from Rainbow Capital (HK) Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Consideration CB) and the Rights Issue, which has been prepared for the purpose of inclusion in this circular.

Rainbow Capital (HK) Limited

24 March 2021

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

- (1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF APPROXIMATELY 81.91% OF
THE EQUITY INTEREST IN
QINGDAO RURAL CONSTRUCTION FINANCIAL LEASING COMPANY LIMITED*
(青島城鄉建設融資租賃有限公司);**
- (2) CONNECTED TRANSACTION IN RELATION TO THE ISSUE OF
CONVERTIBLE BONDS UNDER THE SPECIFIC MANDATE;
AND**
- (3) PROPOSED RIGHTS ISSUE OF RIGHTS SHARES ON THE BASIS OF
ONE (1) RIGHTS SHARE FOR EVERY ONE (1) EXISTING SHARE
AT HK\$0.39 PER RIGHTS SHARE**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Consideration CB) and the Rights Issue, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 24 March 2021 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On 17 March 2021 (after trading hours of the Stock Exchange), the Purchaser and the Vendor entered into the Sale and Purchase Agreement, pursuant to which the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell the Target Equity Interest, being approximately 81.91% of the equity interest in the Target Company, at a consideration of approximately HK\$2,378.7 million. The Consideration shall be satisfied as to approximately HK\$154.5 million by cash upon Completion and as to approximately HK\$2,224.2 million by the issue of the Consideration CB by the Company to the Vendor (or its nominee(s)) upon Completion.

As one or more of the relevant percentage ratios under Rule 14.07 of the Listing Rules are over 100%, the Acquisition constitutes a very substantial acquisition for the Company under Rule 14.06(5) of the Listing Rules. Accordingly, the Sale and Purchase Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, CQIH, a Controlling Shareholder which held 344,621,633 Shares (representing approximately 69.02% of the issued share capital of the Company), was wholly-owned by CQDHG. Accordingly, CQDHG is an associate of CQIH and a connected person of the Company. The Acquisition is therefore a connected transaction for the Company under Chapter 14A of the Listing Rules. Since one or more of the applicable percentage ratios in respect of the Acquisition exceeds 5%, the Acquisition is subject to the reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As CQDHG is an associate of CQIH and a connected person of the Company, the issue of the Consideration CB to the Vendor (or its nominee(s)) as part of the Consideration constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As CQIH has a material interest in the Acquisition, CQIH and its associates shall abstain from voting on the resolution in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder to be proposed at the SGM.

To finance part of the Consideration and the associated transaction expenses relating to the Acquisition, the Board proposed to raise a maximum gross proceeds of approximately HK\$194.7 million from the Rights Issue on the basis of one (1) Rights Share for every one (1) existing Share. In accordance with Rule 7.19A(1) and 7.27A of the Listing Rules, as the Rights Issue will increase the issued Shares by more than 50%, the Rights Issue will be made conditional on approval by the minority Shareholders by way of poll at the SGM, and the Controlling Shareholders and their associates shall abstain from voting in favor of the resolution relating to the Rights Issue at the SGM. Accordingly, CQIH and its associates shall abstain from voting on the resolution in relation to the Rights Issue to be proposed at the SGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Yin Tek Shing, Paul, Mr. Wong Tin Kit, Ms. Zhao Meiran and Mr. Li Xue, has been formed to advise the Independent Shareholders on whether (i) the Sale and Purchase Agreement is entered into in the ordinary and usual course of business of the Group; and (ii) the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Consideration CB) and the Rights Issue are on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We, Rainbow Capital (HK) Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, we did not have any relationships or interests with the Group, CQIH, CQDHG and the Target Group that could reasonably be regarded as relevant to our independence. In the last two years, there was no engagement between the Group and us. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Group, CQIH, CQDHG and the Target Group. Accordingly, we are qualified to give independent advice in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Consideration CB) and the Rights Issue.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, CQIH, CQDHG and the Target Group, or any of its respective substantial shareholders, subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Consideration CB) and the Rights Issue are fair and reasonable so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. Background of the Group

The Group is principally engaged in the business of (i) leasing of investment properties located in the PRC and Hong Kong; (ii) production and sale of digital Chinese calligraphy education equipment and relevant learning and tutorial systems; and (iii) provision of loan financing services. The Group commenced its loan financing business in 2008. Since then, the Group has been actively pursuing opportunities to expand its money lending business in Hong Kong. In view of the increasing demand for financing services in the PRC, the Group has recently expanded its loan financing business in the PRC by providing an entrusted loan to a PRC property developer.

On 6 December 2019, the Company announced that the financial year end date of the Company has been changed from 31 March to 31 December of each year. Set out below is a summary of the consolidated financial information of the Group for the year ended 31 March 2019, the nine months ended 31 December 2019 and the six months ended 30 September 2019 and 30 June 2020 as extracted from the annual report of the Company for

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the nine months ended 31 December 2019 and the interim report of the Company for the six months ended 30 June 2020 (the “**2020 Interim Report**”), respectively:

(i) Financial performance

| | For the year ended 31 March 2019 <i>HK\$'000</i> (audited) | For the nine months ended 31 December 2019 <i>HK\$'000</i> (audited) | For the six months ended 30 September 2019 <i>HK\$'000</i> (unaudited) | For the six months ended 30 June 2020 <i>HK\$'000</i> (unaudited) |
|--|---|--|--|---|
| Revenue | 55,938 | 45,824 | 28,277 | 22,877 |
| – Production and sale of education equipment | 23,586 | 21,193 | 11,858 | 7,432 |
| – Leasing of investment properties | 31,152 | 23,736 | 15,819 | 15,378 |
| – Loan financing | 1,200 | 895 | 600 | 67 |
| Cost of inventories sold | (13,587) | (11,550) | (7,003) | (4,521) |
| – Finished goods purchased | (28,998) | (10,702) | (8,935) | (4,855) |
| – Change in inventories of finished goods | 15,411 | (848) | 1,932 | 334 |
| Increase/(decrease) in fair value of investment properties | 1,698 | 10,963 | (2,400) | 4,673 |
| Other income and gains | 13,352 | 6,177 | 7,706 | 2,199 |
| – Net foreign exchange gain | 11,402 | 5,159 | 7,012 | 2,020 |
| Employee benefit expenses | (6,896) | (5,893) | (3,490) | (4,335) |
| Other operating expenses | (17,991) | (15,300) | (9,083) | (9,072) |
| Finance costs | (20,124) | (15,562) | (10,392) | (10,231) |
| Profit before tax | 12,319 | 14,563 | 3,615 | 1,920 |
| Profit for the year/period attributable to the Shareholders | 9,535 | 12,929 | 3,829 | 1,626 |
| Basic earnings per Share (<i>HK cents</i>) | 1.91 | 2.59 | 0.76 | 0.33 |

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(a) For the year ended 31 March 2019 and nine months ended 31 December 2019

For the nine months ended 31 December 2019, revenue generated from production and sale of digital Chinese calligraphy education equipment, leasing of investment properties and provision of loan financing services accounted for approximately 46.2%, 51.8% and 2.0% of the Group's total revenue, respectively.

For the nine months ended 31 December 2019, revenue of the Group was approximately HK\$45.8 million, representing a decrease of approximately 18.1% as compared to approximately HK\$55.9 million for the year ended 31 March 2019. Such decrease was mainly attributable to a shorter reporting period, which led to (1) a decrease in revenue generated from leasing of investment properties by approximately 23.8% from approximately HK\$31.2 million for the year ended 31 March 2019 to approximately HK\$23.7 million for the nine months ended 31 December 2019; (2) a decrease in revenue generated from production and sale of digital Chinese calligraphy education equipment by approximately 10.1% from approximately HK\$23.6 million for the year ended 31 March 2019 to approximately HK\$21.2 million for the nine months ended 31 December 2019; and (3) a decrease in the revenue generated from provision of loan financing services by approximately 25.4% from approximately HK\$1.2 million for the year ended 31 March 2019 to approximately HK\$0.9 million for the nine months ended 31 December 2019.

For the nine months ended 31 December 2019, profit attributable to the Shareholders was approximately HK\$12.9 million, representing an increase of approximately 35.6% as compared to approximately HK\$9.5 million for the year ended 31 March 2019. Such increase was primarily attributable to (1) the decrease in cost of inventories sold by approximately 15.0% from approximately HK\$13.6 million for the year ended 31 March 2019 to approximately HK\$11.6 million for the nine months ended 31 December 2019, which was in line with the decrease in revenue; (2) the increase in fair value of investment properties from approximately HK\$1.7 million for the year ended 31 March 2019 to approximately HK\$11.0 million for the nine months ended 31 December 2019; and (3) the decrease in finance costs by approximately 22.7% from approximately HK\$20.1 million for the year ended 31 March 2019 to approximately HK\$15.6 million for the nine months ended 31 December 2019. This was partially offset by the decrease in other income and gains which mainly represented the exchange gain arising from the translation of monetary items denominated in foreign currencies other than the functional currencies of the members of the Group. Accordingly, earnings per Share increased from approximately 1.91 HK cents for the year ended 31 March 2019 to approximately 2.59 HK cents for the nine months ended 31 December 2019.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Excluding the fair value change of investment properties and net foreign exchange gain, the Group incurred loss attributable to the Shareholders of approximately HK\$3.6 million and HK\$3.2 million for the year ended 31 March 2019 and the nine months ended 31 December 2019, respectively.

(b) For the six months ended 30 September 2019 and 30 June 2020

For the six months ended 30 June 2020, revenue generated from production and sale of digital Chinese calligraphy education equipment, leasing of investment properties and provision of loan financing services accounted for approximately 32.5%, 67.2% and 0.3% of the Group's total revenue, respectively.

For the six months ended 30 June 2020, revenue of the Group was approximately HK\$22.9 million, representing a decrease of approximately 19.1% as compared to approximately HK\$28.3 million for the six months ended 30 September 2019. Such decrease was primarily due to the decrease in revenue generated from production and sale of digital Chinese calligraphy education equipment by approximately 37.3% from approximately HK\$11.9 million for the six months ended 30 September 2019 to approximately HK\$7.4 million for the six months ended 30 June 2020, as a result of (1) the delay of installation works for the Group's digital Chinese calligraphy education equipment in classrooms due to the suspension of classes at schools in the Group's major markets in the PRC in the first quarter of 2020; and (2) the disruption of the Group's production and promotional activities, caused by the COVID-19 outbreak.

Profit attributable to the Shareholders was approximately HK\$1.6 million for the six months ended 30 June 2020, representing a decrease of approximately 57.5% as compared to approximately HK\$3.8 million for the six months 30 September 2019. Such decrease was mainly attributable to (1) the outbreak of COVID-19, which adversely interrupted the normal production and sales activities of the digital Chinese calligraphy education equipment segment; and (2) the decrease in exchange gains due to the depreciation of RMB against United States dollars and Hong Kong dollars. Accordingly, earnings per Share decreased from approximately 0.76 HK cents for the six months ended 30 September 2019 to approximately 0.33 HK cents for the six months ended 30 June 2020.

Excluding the fair value change of investment properties and net foreign exchange gain, the Group incurred loss attributable to the Shareholders of approximately HK\$783,000 and HK\$5.1 million for the six months ended 30 September 2019 and the six months ended 30 June 2020, respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) Financial position

| | As at 31 March 2019 <i>HK\$'000</i> (audited) | As at 31 December 2019 <i>HK\$'000</i> (audited) | As at 30 June 2020 <i>HK\$'000</i> (unaudited) |
|--|---|--|--|
| Total assets | 742,752 | 745,030 | 741,743 |
| Non-current assets, including: | 619,116 | 607,809 | 607,813 |
| – Investment properties | 546,479 | 538,656 | 539,201 |
| Current assets, including: | 123,636 | 137,221 | 133,930 |
| – Cash and cash equivalents | 71,375 | 72,765 | 90,202 |
| Total liabilities | 453,678 | 452,826 | 448,475 |
| Current liabilities, including: | 9,997 | 64,787 | 61,156 |
| – Interest-bearing bank borrowings | – | 49,573 | 49,370 |
| Non-current liabilities, including: | 443,681 | 388,039 | 387,319 |
| – Loan from the ultimate holding company | 400,000 | 382,222 | 378,022 |
| – Loan from an intermediate holding company | 39,150 | – | – |
| Net current assets | 113,639 | 72,434 | 72,774 |
| Equity attributable to the Shareholders | 253,258 | 258,458 | 257,468 |
| Gearing ratio (Note) | 61.1% | 60.8% | 60.5% |

Note: being total liabilities divided by total assets

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at 30 June 2020, total assets of the Group amounted to approximately HK\$741.7 million, which remained stable as compared to that as at 31 March 2019 and 31 December 2019. As at 30 June 2020, investment properties and cash and cash equivalents accounted for approximately 84.9% of the Group's total assets. The investment properties of the Group are located in Hong Kong and the PRC.

As at 30 June 2020, total liabilities of the Group amounted to approximately HK\$448.5 million, representing a slight decrease from that as at 31 March 2019 and 31 December 2019. Interest-bearing bank borrowings and loan from the ultimate holding company accounted for approximately 95.3% of the Group's total liabilities. The loan from the ultimate holding company as at 30 June 2020 was unsecured and bore interest at a fixed rate of 4.75% per annum, which will expire on 31 December 2022.

As at 30 June 2020, the Group had cash and cash equivalents of approximately HK\$90.2 million with a gearing ratio of approximately 60.5%. Based on the equity attributable to the Shareholders as at 30 June 2020 and 499,276,680 Shares in issue as at the Latest Practicable Date, the net asset value per Share was approximately HK\$0.516.

(iii) Prospects

Production and sale of digital Chinese calligraphy education equipment, leasing of investment properties and provision of loan financing services are the three core businesses of the Group. During the period under review, the Group generated minimal profit and even incurred losses after excluding the fair value change of investment properties and net foreign exchange gain. As such, we consider that there is an imminent need for the Group to diversify its income and earnings stream to improve its profitability.

While leasing of investment properties provides the Group with a stable income stream, the Group's sale of education equipment and loan financing business in the first half of 2020 were adversely affected by the COVID-19 outbreak due to the suspension of classes at schools in the Group's major markets in the PRC in the first quarter of 2020 as one of the precautionary measures implemented by the PRC government and the slowing of business activities.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notwithstanding the impact of COVID-19, as stated in the 2020 Interim Report, the Group remains optimistic about the prospects of its Chinese calligraphy education related products in the long term since Chinese calligraphy training has been made compulsory for students in primary and secondary schools across in the PRC. In the meantime, although the revenue generated from provision of loan financing services was not significant, the Group is dedicated to growing its loan financing business and will explore business opportunities when arisen. As disclosed in the 2020 Interim Report, it is expected that the loan financing business will continue to be part of the main income streams of the Group when the general economic conditions gradually return to normal as the COVID-19 outbreak stabilises.

In May 2020, the Group expanded its loan financing business in the PRC by providing an entrusted loan to a PRC property developer. On 7 May 2020, Qingdao Qifeng Technology Services Co., Ltd. (“**Qifeng**”), an indirect wholly-owned subsidiary of the Company, Qingdao Urban Rural Construction Micro-credit Loan Co. Ltd. (“**QURC**”) and Huizhou Jiuyu Real Estate Company Limited (“**Huizhou Jiuyu**”) entered into an entrusted loan arrangement (the “**Arrangement**”), pursuant to which QURC, acting as the lending agent, agreed to release a loan in the principal amount of RMB195.1 million (the “**Entrusted Loan**”), which will be funded by Qifeng, to Huizhou Jiuyu for acquisition of a land located in Huizhou City, Guangdong Province, the PRC. Huizhou Jiuyu is indirectly held as to 49% by NEQH Development and Construction Co. Ltd. which is in turn held as to 51% by Qingdao Holdings (Hong Kong) Limited, a wholly-owned subsidiary of the Company. On the same date, QCCIG, a Controlling Shareholder, entered into a loan agreement with Qifeng, pursuant to which QCCIG agreed to provide, upon Qifeng’s request, an unsecured loan of RMB182 million to Qifeng. The Group intends to use its internal resources and the loan from QCCIG to fund the Entrusted Loan. The Arrangement was approved by the independent shareholders of the Company on 30 June 2020. It is expected that the Group will generate additional interest income under the Arrangement. We consider the Arrangement is consistent with the Group’s stated strategy to expand its loan financing business.

2. Background of the Target Group

The Target Group, which commenced its business in 2014, is a finance leasing company headquartered in Qingdao, providing (i) finance leasing service, which includes direct finance leasing and sale and leaseback; and (ii) factoring service in connection with finance leasing service in the PRC. The Target Group currently operates its business by targeting customers in four targeted industries in the PRC, including (i) public infrastructure; (ii) medical and healthcare; (iii) water supplies; and (iv) energy industries.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the summary of the consolidated financial information of the Target Group for FY2018, FY2019, 10M2019 and 10M2020 as extracted from Appendix III to the Circular:

(i) Financial performance

| | For the year ended 31 December | | For the ten months ended 31 October | |
|--|-----------------------------------|-----------|--|-----------|
| | 2018 | 2019 | 2019 | 2020 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | (audited) | (audited) | (unaudited) | (audited) |
| Revenue | 866,540 | 1,157,312 | 938,847 | 1,182,616 |
| – Interest income from sale and leaseback transactions | 860,801 | 1,147,067 | 933,898 | 1,110,983 |
| – Interest income from factoring | – | 6,397 | 2,393 | 56,251 |
| – Finance lease income | 3,287 | 3,479 | 2,556 | 7,384 |
| – Others | 2,452 | 369 | – | 7,998 |
| Other income, gains or losses | 57,193 | 39,800 | 22,483 | 14,997 |
| Expenses | | | | |
| – Depreciation | (3,124) | (3,789) | (3,002) | (4,839) |
| – Interest expenses | (477,824) | (607,765) | (465,032) | (551,267) |
| – Administrative expenses | (67,221) | (84,122) | (44,624) | (43,347) |
| – Credit impairment losses | (24,736) | (50,528) | (85,464) | (101,737) |
| Profit before income tax | 350,828 | 450,909 | 363,209 | 496,423 |
| Net profit attributable to shareholders of the Target Company | 260,569 | 336,925 | 272,347 | 373,251 |

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(a) For FY2018 and FY2019

The Target Group's revenue primarily consisted of finance lease income derived from sale and leaseback transactions and direct finance leasing and interest income from factoring. Since July 2019, the Target Group has commenced to provide factoring services. The Target Group generated most of its revenue from interest income from sale and leaseback transactions, which accounted for approximately 99.3% and 99.1% of total revenue for FY2018 and FY2019, respectively.

Interest income from sale and leaseback transactions amounted to approximately RMB1,147.1 million for FY2019, representing an increase of approximately 33.3% as compared to approximately RMB860.8 million for FY2018. Such significant increase was primarily attributable to (1) the increase in revenue from the public infrastructure industry from approximately RMB127.1 million for FY2018 to approximately RMB187.6 million for FY2019; (2) the increase in revenue from the water supplies industry from approximately RMB147.8 million for FY2018 to approximately RMB280.8 million for FY2019; and (3) the increase in revenue from the travelling and tourism industry from approximately RMB48.2 million for FY2018 to approximately RMB108.8 million for FY2019.

Other income, gains or losses, which mainly represented investment gains on financial instruments, government grants and bank interest income, decreased by approximately 30.4% from approximately RMB57.2 million for FY2018 to approximately RMB39.8 million for FY2019, primarily attributable to the decrease in investment gains on financial instruments and bank interest income. This was partially offset by the increase in government grants which represented the fiscal support from the local governments to enterprises and refund of value-added tax.

Interest expenses mainly represented interest on borrowings from bank and other financial institutions, bonds payable, borrowings from related parties and sale and leaseback transactions. The increase in interest expenses by approximately 27.2% from approximately RMB477.8 million for FY2018 to approximately RMB607.8 million for FY2019 was in line with that of revenue.

Administrative expenses, which mainly consisted of employee benefit expenses, tax and surcharges, rental expenses for short-term lease, business travelling expenses, professional service expenses, marketing and distribution expenses and property maintenance fee, increased by approximately 25.1% from approximately RMB67.2 million for FY2018 to approximately RMB84.1 million for FY2019. This was primarily due to the increase in employee benefit expenses, tax and surcharges and professional service expenses.

Credit impairment losses, which represented impairment loss recognised or reversed on loans and receivables, finance lease receivables and other receivables, amounted to approximately RMB24.7 million and RMB50.5 million

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for FY2018 and FY2019, representing approximately 0.2% and 0.3% of total loans and receivables and finance lease receivables as at 31 December 2018 and 2019, respectively.

As a result of the foregoing, net profit attributable to shareholders of the Target Company increased by approximately 29.3% from approximately RMB260.6 million for FY2018 to approximately RMB336.9 million for FY2019.

(b) For 10M2019 and 10M2020

Interest income from sale and leaseback transactions accounted for approximately 99.5% and 93.9% of total revenue for 10M2019 and 10M2020, respectively.

Interest income from sale and leaseback transactions increased by approximately 19.0% from approximately RMB933.9 million for 10M2019 to approximately RMB1,111.0 million for 10M2020, primarily attributable to (1) the increase in revenue from the public infrastructure industry from approximately RMB152.3 million for 10M2019 to approximately RMB188.7 million for 10M2020; (2) the increase in revenue from the water supplies industry from approximately RMB226.3 million for 10M2019 to approximately RMB301.3 million for 10M2020; (3) the increase in revenue from the heating industry from approximately RMB51.4 million for 10M2019 to approximately RMB83.0 million for 10M2020; and (4) the increase in revenue from the travelling and tourism industry from approximately RMB76.9 million for 10M2019 to approximately RMB197.4 million for 10M2020. This was partially offset by the decrease in revenue from the medical and healthcare industry from approximately RMB284.1 million for 10M2019 to approximately RMB210.1 million for 10M2020.

Other income, gains or losses decreased by approximately 33.3% from approximately RMB22.5 million for 10M2019 to approximately RMB15.0 million for 10M2020, primarily attributable to the decrease in government grants.

Interest expenses increased by approximately 18.5% from approximately RMB465.0 million for 10M2019 to approximately RMB551.3 million for 10M2020.

The decrease in administrative expenses by approximately 2.9% from approximately RMB44.6 million for 10M2019 to approximately RMB43.3 million for 10M2020 was primarily due to the decrease in employee benefit expenses and business traveling expenses.

Credit impairment losses amounted to approximately RMB101.7 million for 10M2020, representing approximately 0.7% of total loans and receivables and finance lease receivables as at 31 October 2020, as compared to approximately RMB85.5 million for 10M2019.

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As a result of the foregoing, net profit attributable to shareholders of the Target Company increased by approximately 37.0% from approximately RMB272.3 million for 10M2019 to approximately RMB373.3 million for 10M2020.

(ii) Financial position

| | As at 31 December | As at |
|-----------------------------------|--------------------------|-------------------|
| | 2018 | 31 October |
| | 2019 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (audited) | (audited) |
| Non-current assets, | | |
| including: | | |
| – Loans and receivables | 8,618,325 | 10,513,478 |
| – Finance lease receivables | 8,415,198 | 10,116,352 |
| – Cash and cash equivalents | 21,255 | 11,010 |
| | – | 154,000 |
| | | 204,000 |
| Current assets, including: | 3,763,991 | 5,559,345 |
| – Loans and receivables | 3,058,763 | 5,032,312 |
| – Finance lease receivables | 11,368 | 42,495 |
| – Cash and cash equivalents | 691,794 | 459,682 |
| | | 412,308 |
| Total assets | 12,382,316 | 16,072,823 |
| | | 16,407,798 |
| Current liabilities, | | |
| including: | | |
| – Borrowings | 5,618,227 | 7,395,989 |
| – Bond payables | 3,952,112 | 4,335,522 |
| | 918,165 | 2,390,481 |
| | | 1,932,285 |
| Net current (liabilities)/assets | (1,854,235) | (1,836,644) |
| | | 1,632,417 |
| Non-current liabilities, | | |
| including: | | |
| – Borrowings | 4,737,787 | 6,313,606 |
| – Bond payables | 3,335,434 | 2,473,969 |
| | 571,504 | 2,779,756 |
| | | 6,430,861 |
| Amounts due to related parties | 300,000 | 110,000 |
| | | – |
| Total liabilities | 10,356,014 | 13,709,595 |
| | | 13,671,319 |
| Total equity | 2,026,303 | 2,363,228 |
| | | 2,736,479 |
| Gearing ratio (Note) | 73.3% | 75.2% |
| | | 73.7% |

Note: being the sum of borrowings, bond payables and amounts due to related parties divided by total assets

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As at 31 October 2020, total assets of the Target Group amounted to approximately RMB16,407.8 million, as compared to approximately RMB12,382.3 million and RMB16,072.8 million as at 31 December 2018 and 2019, respectively. As at 31 October 2020, loans and receivables, finance lease receivables and cash and cash equivalents accounted for approximately 98.0% of the Target Group's total assets. Loan and receivables represented receivables arising from sale and leaseback transactions and factoring. Finance lease receivables are mainly secured by leased assets, deposits and/or leased assets repurchase arrangements.

As at 31 October 2020, total liabilities of the Target Group amounted to approximately RMB13,671.3 million, as compared to approximately RMB10,356.0 million and RMB13,709.6 million as at 31 December 2018 and 2019, respectively. As at 31 October 2020, borrowings, bond payables and amounts due to related parties accounted for approximately 88.5% of the Target Group's total liabilities. Borrowings comprised guaranteed and/or secured bank borrowings, borrowings from other financial institutions and interest payable with effective interest rates of 4.98% to 7.61%, 4.49% to 7.95% and 4.49% to 7.50% per annum for FY2018, FY2019 and 10M2020, respectively. Bond payables consisted of (a) asset-backed securities; (b) corporate bonds issued in 2019 and 2020 with coupon rates ranging from 4.02% to 5.50% and maturity of either three years or five years; and (c) a private placement note issued in 2020 with a coupon rate of 3.58% and a maturity of five years.

As at 31 October 2020, the Target Group had net current assets of approximately RMB1,632.4 million with a gearing ratio of approximately 73.7%.

3. Market overview

The Target Group is principally engaged in provision of finance leasing and factoring services in the PRC. For FY2019 and 10M2020, interest income from sale and leaseback transactions and finance lease income accounted for approximately 99.4% and 94.6% of the Target Group's total revenue, respectively.

The Target Group's interest income is primarily derived from three main downstream industries, namely medical and healthcare, public infrastructure and water supplies, which contributed approximately 29.1%, 16.4% and 24.5% of the Target Group's interest income from sale and leaseback transactions for FY2019, respectively. According to the Industry Report, the Target Group ranked fourth and occupied a market share of 1.6% among the foreign-funded medical device finance leasing companies in terms of revenue in 2019.

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The Target Group generated over 90% of its revenue from provision of finance leasing service, including direct finance leasing and sale and leaseback. Among the downstream industries, medical and healthcare, public infrastructure and water supplies are the major contributors of the Target Group's revenue. As a result, the financial performance of the Target Group is closely related to the development of the PRC finance leasing industry as well as the downstream industries.

(i) Growth potential in the overall finance leasing market in the PRC

According to the Industry Report, outstanding balance of the finance leasing market in the PRC increased from approximately RMB4.4 trillion by the end of 2015 to approximately RMB6.7 trillion by the end of 2019, representing a CAGR of approximately 10.6%, and is expected to grow at a CAGR of approximately 7.3% from 2019 to 2024. Meanwhile, new contract volume is expected to reach approximately RMB6.9 trillion in 2024 with a CAGR of approximately 9.6% from 2019 to 2024. While penetration rate of finance leasing in developed countries is generally around 20%, it remains at a low level in the PRC, increasing from approximately 5.3% in 2015 to approximately 7.8% in 2019. Penetration rate of the finance leasing market in the PRC is expected to reach approximately 10.0% in 2024. The growth of the finance leasing market in the PRC is expected to be driven by, among other things, (a) massive equipment and machinery demand arising from small and medium-sized enterprises' manufacturing and restructuring needs; (b) the low penetration rate; (c) favorable government policies to make finance leasing an important finance channel for companies with different financing needs; and (d) the rapid growth of downstream industries, including medical and healthcare, public infrastructure and water supplies.

(ii) Rapid growth of downstream industries

According to the Industry Report, with the PRC economic growth, the development of downstream industries, including medical and healthcare, public infrastructure and water supplies, is expected to accelerate, which calls for massive capital to flow in and will drive the development of the finance leasing market as a whole.

(a) The medical and healthcare industry in the PRC

Fixed assets investment of the medical and healthcare industry in the PRC increased at a CAGR of approximately 7.4% from approximately RMB581.2 billion in 2015 to approximately RMB772.6 billion in 2019. Driven by the aging population and growing number of private medical institutions and public hospitals in small lower tier cities or town which are short of medical sources and facilities in general, fixed assets investment of the healthcare industry in the PRC is expected to grow at a CAGR of approximately 3.7% from 2019 to 2024.

(b) The public infrastructure industry in the PRC

Fixed assets investment of urban infrastructure in the PRC increased from approximately RMB10,127.1 billion in 2015 to approximately RMB15,273.7 billion in 2019, representing a CAGR of approximately 10.8%. With increasing urbanisation rate which results in upgrade and expansion of public infrastructures such as water, electricity, gas and heat supply facilities, fixed assets investment of public infrastructure in the PRC is expected to grow at a CAGR of approximately 6.0% from 2019 to 2024.

(c) The water supplies industry in the PRC

The PRC's fixed assets investment in the water supplies industry increased significantly at a CAGR of approximately 12.7% between 2015 and 2019, and is expected to continue increasing at a CAGR of approximately 11.5% over the next five years. This is driven by the continued construction of water transportation, purification treatment and recycling infrastructure in the future resulting from the increase in capital investments from both social funds and governmental funds.

(iii) Overall comment

According to the Industry Report, the finance leasing market in the PRC is very fragmented given the large number of market participants in 2019, which totaled over 12,130 registered companies. Notwithstanding the competitive environment, the finance leasing industry in the PRC has experienced tremendous growth in the past few years and is expected to sustain high growth in the next few years. CIC projected that the finance leasing market in the PRC will grow at a CAGR of approximately 7.3% between 2019 and 2024 in terms of outstanding balance of finance lease receivables with the penetration rate reaching approximately 10.0% in 2024 from approximately 7.8% in 2019. Such growth is driven by, among other things, the rapid growth of downstream industries. The three downstream industries, from which the Target Group mainly derived its revenue, namely healthcare, public infrastructure and water supplies, are expected to grow at CAGRs of approximately 3.7%, 6.0% and 11.5% from 2019 to 2024, respectively, in terms of fixed assets investment. All these suggest that the outlook for the finance leasing industry in the PRC will be positive in the long run.

Independent Shareholders' attention is drawn to the Industry Report contained in Appendix I to the Circular, which set out the overview and prospects of the finance leasing industry in the PRC.

4. Reasons for and benefits of the Acquisition

The Group is principally engaged in the business of (i) leasing of investment properties located in the PRC and Hong Kong; (ii) production and sale of digital Chinese calligraphy education equipment and relevant learning and tutorial systems; and (iii) provision of loan financing services. The Group has commenced its loan financing business since 2008. As disclosed in the 2020 Interim Report, the Group is keen on growing its loan financing business and will explore business opportunities with its best effort. In view of the increasing demand for financing services in the PRC, in May 2020, the Group expanded its loan financing business in the PRC by providing an entrusted loan to a PRC property developer under the Arrangement. As described in the section headed “1. Background of the Group – (iii) Prospects” above, there is an imminent need for the Group to diversify its income and earnings stream to improve its profitability.

The Target Group is principally engaged in provision of finance leasing and factoring services in the PRC, and has a solid and proven track record. During the Track Record Period, the Target Group generated revenue of approximately RMB594.5 million, RMB866.5 million, RMB1,157.3 million and RMB1,182.6 million and net profit of approximately RMB221.2 million, RMB260.6 million, RMB336.9 million and RMB373.3 million, respectively. Between FY2017 and FY2019, the Target Group’s revenue and net profit grew at CAGRs of approximately 39.5% and 23.4%, respectively.

Given (i) the profitable track record of the Target Group, as detailed in the section headed “2. Background of the Target Group – (i) Financial performance” above; (ii) the outlook for the finance leasing industry in the PRC as detailed in the section headed “3. Market overview” above; (iii) the Group’s experience and resources in the loan financing business since 2008; (iv) provision of finance leasing and factoring services through the Acquisition represents an extension of the Group’s existing loan financing business, we concur with the Directors that the Acquisition will broaden the Group’s revenue base, improve its profitability and complement its existing loan financing business, allowing the Group to offer a wider range of financial services to its customers and capture the business opportunities in the fast-growing finance leasing industry in the PRC, which is consistent with the Group’s stated strategy to expand its loan financing business.

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5. Principal terms of the Sale and Purchase Agreement, the Consideration CB and the Rights Issue

(i) The Sale and Purchase Agreement

Details of the Sale and Purchase Agreement are set out in the Letter from the Board, which are summarised below:

| | | |
|----------------|---|---|
| Date | : | 17 March 2021 |
| Parties | : | (a) Yangfan (Holdings) Group Limited, an indirect wholly-owned subsidiary of the Company, as the Purchaser; and (b) CQDHG, as the Vendor |
| Subject matter | : | Approximately 81.91% of the equity interest in the Target Company |
| Consideration | : | Approximately HK\$2,378.7 million, which shall be satisfied upon Completion, as to: (a) approximately HK\$154.5 million by cash; and (b) approximately HK\$2,224.2 million by the issue of the Consideration CB in the principal amount of approximately HK\$2,224.2 million. |

As disclosed in the Letter from the Board, the Consideration was determined after arm's length negotiations between the Vendor and the Purchaser with reference to (a) the unaudited consolidated net asset value of the Target Group of RMB2,363.2 million (equivalent to approximately HK\$2,835.9 million) as at 31 December 2019 with reference to the unaudited financial statement of the Target Company prepared based on HKFRS; (b) the consideration in respect of the acquisition of approximately 25.58% and 13.18% equity interest in the Target Company by the Vendor from Vasari Investment and Chinese Capital, respectively, in 2020; (c) the historical financial performance of the Target Group; (d) the market position, industry outlook, business development and growth prospects of the Target Group; and (e) the settlement terms concluded between the Vendor and the Purchaser.

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If the Vendor procures the Target Company to declare and pay a dividend in respect of its undistributed profits as at 31 December 2019 between the date of the Sale and Purchase Agreement and the date of Completion, the Consideration will be reduced by the amount of dividends received by the Vendor in proportionate to its equity interest in the Target Company.

Conditions precedent : The Acquisition is conditional upon, among other things:

- (a) the Independent Shareholders having approved the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Consideration CB, the allotment and issue of the Conversion Shares and the granting of the Specific Mandate);
- (b) the Independent Shareholders having approved the Rights Issue and the Underwriting Agreement by way of poll at the SGM in accordance with the Listing Rules; and
- (c) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Conversion Shares and the Rights Shares (and such approval not being subsequently revoked or withdrawn).

If the conditions precedent above are not satisfied or waived (where applicable) on or before the Acquisition Long Stop Date, the Sale and Purchase Agreement will be terminated and the Acquisition will not proceed.

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(ii) The Consideration CB

Upon Completion, the Company will issue the Consideration CB to the Vendor (or its nominees) to settle part of the Consideration. Details of the principal terms of the Consideration CB are set out in the Letter from the Board, which are summarised below:

| | | |
|--------------------------|---|--|
| Principal amount | : | Approximately HK\$2,224.2 million |
| Coupon rate | : | Zero |
| Maturity Date | : | The date falling on the ninth (9th) anniversary of the date of the issue of the Consideration CB, provided that if such date is not a Business Day, the first Business Day immediately after such date |
| Initial Conversion Price | : | HK\$1.87 per Conversion Share (subject to adjustments) |
| Base Conversion Price | : | HK\$1.496 per Conversion Share |
| Conversion Shares | : | Assuming that there is no change in the issued share capital of the Company other than the issue of the Rights Shares and the Conversion Shares since the Latest Practicable Date and up to the date of full conversion of the Consideration CB: |

- (a) the maximum number of 1,189,386,362 Conversion Shares to be allotted and issued by the Company upon full conversion of the Consideration CB at the Initial Conversion Price represents (1) approximately 238.2% of the issued share capital of the Company as at the Latest Practicable Date; and (2) approximately 54.4% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares and the Conversion Shares; and

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- (b) the maximum number of 1,486,732,953 Conversion Shares to be allotted and issued by the Company upon full conversion of the Consideration CB at the Base Conversion Price represents (1) approximately 297.8% of the issued share capital of the Company as at the Latest Practicable Date; and (2) approximately 59.8% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares and the Conversion Shares.

The Conversion Shares will be allotted and issued by the Company under the Specific Mandate.

Conversion rights and restrictions : The holder of the Consideration CB shall have the right at any time during the conversion period to convert the whole or part of the outstanding principal amount of the Consideration CB registered in its name into Conversion Shares, provided that, among other things:

- (a) the conversion price at which the Conversion Shares will be issued shall not in any event be lower than the Base Conversion Price; and
- (b) the exercise of the conversion right attached to the Consideration CB will not:
 - (1) cause the Company to be unable to meet the public float requirement under the Listing Rules; and
 - (2) trigger a mandatory general offer obligation under the Takeovers Code.

Conversion period : The period commencing from the date of issue of the Consideration CB and ending at 4:30 p.m. (Hong Kong time) on the day immediately prior to and exclusive of the Maturity Date.

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Adjustment events : The Initial Conversion Price may be subject to a downward adjustment on each Reset Date (as defined below) upon the occurrence of, among other things, share consolidation or sub-division, capitalisation of profits or reserves, capital distribution, other distribution by assets or other properties, rights issue or any other offers made to the Shareholders in which they may acquire securities of the Company, provided that the conversion price shall not in any event be lower than the Base Conversion Price.

(the “**Conversion Price Adjustments Events**”)

Further details of the Conversion Price Adjustment Events are set out in the Letter from the Board.

Reset date of the : Each anniversary date after the date of issue of the Initial Conversion Price Consideration CB (the “**Reset Date**”)

Initial Conversion : If the average of the volume weighted average prices Price reset of the Shares for the period of 10 consecutive trading days immediately prior to and excluding the Reset Date (the “**Average Market Price**”) is less than the conversion price on the Reset Date, the conversion price shall be adjusted on the Reset Date such that the adjusted conversion price will be equal to the Average Market Price, provided that:

- (a) the adjusted conversion price in no event shall be less than the Base Conversion Price;
- (b) subject to (a) above, the Conversion Price Adjustment Events shall apply; and
- (c) any such adjustment to the conversion price shall only be a downward adjustment.

Early redemption at : The Company shall be entitled to, at its sole the option of the Company discretion and by giving not less than seven (7) Business Days’ notice to the holder of the Consideration CB, propose to the holder to redeem the outstanding Consideration CB of an amount equivalent to 100% of the principal amount of such outstanding Consideration CB at any time after the date of issue of the Consideration CB up to and including the date falling seven (7) Business Days immediately before the Maturity Date.

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| | | |
|-----------------|---|---|
| Transferability | : | The Consideration CB may be transferred or assigned in whole or in part by the Vendor to any party, save and except that the Consideration CB shall not be transferred to a connected person of the Company unless with the prior written consent of the Company. |
| Voting rights | : | The Consideration CB shall not carry any voting rights. |
| Listing | : | No application will be made by the Company for the listing of the Consideration CB on the Stock Exchange. |

(iii) The Rights Issue

The proceeds from the Rights Issue will be used to finance part of the Consideration and the associated transaction expenses relating to the Acquisition. Details of the terms of the Rights Issue are set out in the Letter from the Board, which are summarised below:

| | | |
|---|---|---|
| Basis of the Rights Issue | : | One (1) Rights Share for every one (1) existing Share held on the Rights Issue Record Date |
| Rights Issue Subscription Price | : | HK\$0.39 per Rights Share |
| Number of existing Shares in issue as at the Latest Practicable Date | : | 499,276,680 Shares |
| Number of Rights Shares | : | Up to 499,276,680 Rights Shares (assuming no new Shares are issued and no Shares are repurchased on or before the Rights Issue Record Date) |
| Enlarged issued share capital upon completion of the allotment and issue of the Rights Shares | : | 998,553,360 Shares (assuming no new Shares are issued (other than the Rights Shares) and no Shares are repurchased on or before Completion) |

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- Maximum gross proceeds to be raised under the Rights Issue : Approximately HK\$194.7 million before expense (assuming no new Shares are issued and no Shares are repurchased on or before the Rights Issue Record Date)
- Net proceeds to be raised under the Rights Issue : Approximately HK\$171.7 million after deducting the transaction expenses from the Rights Issue and the Acquisition (assuming no new Shares are issued and no Shares are repurchased on or before the Rights Issue Record Date), which shall be applied towards the cash settlement of the Consideration and the Group's general working capital
- Excess application : There will be excess application arrangement in relation to the Rights Issue.
- Underwriter to the Rights Issue : Vision Finance International Company Limited
- Number of Rights Shares underwritten by the Underwriter : The Underwritten Shares of up to 154,665,047 Rights Issue
- Conditions precedent : The Rights Issue is conditional upon, among other things:
- (a) the Independent Shareholders having approved the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Consideration CB, the allotment and issue of the Conversion Shares and the granting of the Specific Mandate);
 - (b) the Independent Shareholders having approved the Rights Issue and the Underwriting Agreement by way of poll at the SGM in accordance with the Listing Rules; and
 - (c) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms (and such approval not being subsequently revoked or withdrawn).

6. Other alternative methods of financing

The Consideration of approximately HK\$2,378.7 million shall be satisfied as to (i) approximately HK\$154.5 million by fund to be raised from the Rights Issue; and (ii) approximately HK\$2,224.2 million by the issue of the Consideration CB. Relative to the Group's unaudited consolidated cash and cash equivalents of approximately HK\$90.2 million as at 30 June 2020, it is not possible, or in our view prudent, to satisfy the Consideration significantly in cash. We consider the issue of the Consideration CB and the conducting of the Rights Issue to satisfy the Consideration shall prevent a significant cash outlay for the Acquisition and allow the Group to maintain a certain level of cash which is within its financial capability.

The Company has considered alternative financing methods other than the issue of the Consideration CB which forms the bulk of the Consideration. Taking into account (i) the potential lengthy negotiations with banks for any debt financing given the size of the Acquisition and the Group's financial position, which are relatively uncertain and time consuming; and (ii) the requirement of substantial interest payments given the size of the Acquisition which may significantly reduce the Group's liquidity, we concur with the Directors that financing the Acquisition substantially by bank borrowings is not in the interests of the Shareholders. In contrast, the issue of the Consideration CB, which is interest-free with a maturity term of nine years, can minimise the Group's finance costs and repayment pressure.

As regards equity financing, given (i) the large size of the fund-raising exercise that would be required; and (ii) the thin trading liquidity of the Shares as illustrated in the section headed "9. Assessment of the principal terms of the Rights Issue – (i) The Rights Issue Subscription Price – Average daily trading volume of the Shares" below, the Directors consider that it is difficult to find independent third parties who are willing to act as placing agents or underwriters without any favorable terms. On this basis, the Directors consider it is not possible to finance the Consideration entirely by an equity placement or a rights issue. While a rights issue is pre-emptive in nature, allowing all qualifying shareholders to maintain their respective pro-rata shareholdings through participation in the rights issue, financing the Acquisition substantially by an equity placement will result in an immediate and material dilution effect on the shareholding of the existing Shareholders.

In summary, we regard the appropriate 94:6 split between debt financing through the issue of the Consideration CB and cash financing by way of the Rights Issue to be an appropriate and prudent method of financing, after considering that (i) the issue of the Consideration CB with zero coupon and a maturity term of nine years will allow the Group to save substantial finance costs and minimise repayment pressure without resulting in an immediate and material dilution effect on the shareholding of the existing Shareholders; and (ii) the Rights Issue will provide an equal opportunity for all Qualifying Shareholders to participate in the enlargement of the capital base of the Company and enable them to maintain their proportionate interests in the Company and continue to participate in the future development of the Group.

7. Assessment of the Consideration

The Target Group is a finance leasing company headquartered in Qingdao, providing (i) sale and leaseback and direct finance leasing services; and (ii) factoring services.

Price-to-earnings (“**P/E(s)**”), price-to-book (“**P/B(s)**”) and price-to-sale (“**P/S(s)**”) multiples are the three most commonly used benchmarks in valuing a company. P/E is usually adopted for judging valuations for companies which are profit making. On the other hand, P/B is typically applied for valuing companies which hold relatively liquid assets on their balance sheets and their book values approximate their fair market values such as real estate companies and financial institutions whereas P/S is appropriate for valuing companies which have volatile earnings or loss but with relatively stable revenue such as retailers offering general merchandise.

Given (i) loans and receivables, finance lease receivables and cash and cash equivalents, which are considered as relatively liquid assets, accounted for approximately 98.0% of the Target Group’s total assets as at 31 October 2020; and (ii) the Target Group was profit making for the three years ended 31 December 2019 and the ten months ended 31 October 2020, we consider the valuation methodologies using P/B and P/E more appropriate in valuing the Target Group as compared with that using P/S.

Based on (i) the Consideration of approximately HK\$2,378.7 million for 81.91% equity interest in the Target Company; (ii) total equity of the Target Group of approximately RMB2,736.5 million as at 31 October 2020; and (iii) the exchange rate of RMB1:HK\$1.1588 as at 31 October 2020 extracted from Bloomberg, the P/B implied by the Acquisition is approximately 0.92 time (the “**Implied P/B**”).

Based on (i) the Consideration of approximately HK\$2,378.7 million for 81.91% equity interest in the Target Company; (ii) the net profit of the Target Group of approximately RMB437.8 million for the twelve months ended 31 October 2020; and (iii) the average exchange rate of RMB1:HK\$1.1138 for the twelve months ended 31 October 2020 extracted from Bloomberg, the P/E implied by the Acquisition is approximately 5.96 times (the “**Implied P/E**”).

(i) Analysis on comparable companies

In evaluating the fairness and reasonableness of the Consideration, we have, on a best effort basis, searched on Bloomberg and the website of the Stock Exchange and identified an exhaustive list of companies (the “**Comparable Companies**”) which (a) are principally engaged in, and have over 50% of their revenue derived from, the business of finance leasing in the PRC in their latest financial year; and (b) have their shares listed on the Main Board of the Stock Exchange. Based on these criteria, we have identified 9 Comparable Companies.

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Given that the Comparable Companies are engaged in the same business sector as the Target Group does, we consider that they represent a fair and representative sample for comparison purpose. Although the Comparable Companies have different size, business mix, customer profile, profitability and financial position as compared to those of the Target Group, we consider that the Comparable Companies represent a sufficient sample size based on our selection criteria and can provide a general reference to the valuation of the companies engaged in the finance leasing industry in the PRC.

Details of the Comparable Companies are set out below:

| Company name (stock code) | Principal activities | P/B (Note 1) (times) | P/E (Note 1) (times) | Gearing ratio (Note 3) | Market capitalisation as at the Latest Practicable Date |
|--|--|----------------------------|----------------------------|------------------------------|--|
| | | | | | (HK\$ million) |
| Far East Horizon Limited ("Far East") (3360) | Far East specialises in providing financing solutions through equipment-based financial leasing. It currently targets industries that include healthcare, education, infrastructure construction, shipping, printing and machinery industries. | 0.95 | 6.80 | 84.2% | 36,935.44 |
| China Development Bank Financial Leasing Company Limited ("China Development Bank") (1606) | China Development Bank leases aircrafts, ships, commercial vehicles, construction machines, and other equipment. | 0.50 | 4.36 | 91.3% | 14,791.58 |
| Yixin Group Limited ("Yixin") (2858) | Yixin offers an online automobile finance transaction platform. It provides loan facilitation, car rental, and other services including financing lease services. | 1.06 | Loss making | 53.7% | 18,619.67 |
| Haitong UniTrust International Leasing Company Limited ("UniTrust") (1905) | UniTrust offers financial leasing services. It provides industrial equipment leasing, commercial equipment leasing, medical equipment leasing, and other services. | 0.61 | 7.54 | 85.6% | 10,294.13 |

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| Company name (stock code) | Principal activities | Market capitalisation as at the Latest Practicable Date | | | |
|---|--|---|----------------------------|------------------------------|----------------|
| | | P/B (Note 1) (times) | P/E (Note 1) (times) | Gearing ratio (Note 3) | (HK\$ million) |
| Genertec Universal Medical Group Company Limited ("Genertec") (2666) | Genertec provides hospital customers with healthcare financial services, hospital investment and management services, healthcare technology services, healthcare digitalization, healthcare resource platforms and clinical department upgrade services. | 0.79 | 5.81 | 76.4% | 11,992.36 |
| Zhongguancun Science-Tech Leasing Company Limited ("Zhongguancun") (1601) | Zhongguancun offers financial leasing services. It provides direct leasing, leaseback, and other related services. It focuses on big data, big environment, great health, and big consumption areas. | 0.52 | 5.94 | 75.3% | 1,173.33 |
| International Alliance Financial Leasing Company Limited ("Alliance") (1563) | Alliance provides finance leasing and advisory services. It offers sale-leaseback and direct finance leasing services for customers in healthcare and public infrastructure industries. | 1.03 | Loss making | 66.8% | 1,410.00 |

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| Company name (stock code) | Principal activities | Market capitalisation as at the Latest Practicable Date | | | |
|---|---|---|----------------------------|------------------------------|----------------|
| | | P/B (Note 1) (times) | P/E (Note 1) (times) | Gearing ratio (Note 3) | (HK\$ million) |
| China Ever Grand Financial Leasing Group Company Limited ("Ever Grand") (379) | Ever Grand manufactures polishing compounds and accessories under its own brand name. It also trades different types of industrial abrasive products in Hong Kong and China. It additionally offers loading and discharging services, storage services, leasing of terminal facilities and equipment. | 2.44 (outlier) | Loss making | 43.7% | 246.35 |
| China Rongzhong Financial Holdings Company Limited ("Rongzhong") (3963) | Rongzhong is a finance leasing company. It serves the laser processing, plastics, industrial processing, textile and garments, and hotel industries, as well as others. | 1.94 (outlier) | Loss making | 96.3% | 68.06 |
| | Maximum | 1.06 | 7.54 | 96.3% | |
| | Minimum | 0.50 | 4.36 | 43.7% | |
| | Average | 0.78 | 6.09 | 74.8% | |
| | Median | 0.79 | 5.94 | 76.4% | |
| | The Acquisition (Note 2) | 0.92 | 5.96 | 83.3% (Note 4) | |

Source: Bloomberg, the website of the Stock Exchange and the annual reports of the respective Comparable Companies

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Notes:

1. Being the P/Bs and P/Es of the Comparable Companies as at the Latest Practicable Date as extracted from Bloomberg. The outliers were not included in the calculations of the maximum, minimum, average and median of the P/Bs and P/Es of the Comparable Companies.
2. Being the Implied P/B and the Implied P/E of the Acquisition.
3. Being total liabilities divided by total assets as shown in the latest financial results of the Comparable Companies.
4. Being gearing ratio of the Target Group as at 31 October 2020.

As shown above, the P/Bs of the Comparable Companies ranged from approximately 0.50 time to approximately 1.06 times with an average and median of approximately 0.78 time and 0.79 time, respectively, as at the Latest Practicable Date. The Implied P/B of approximately 0.92 time is within the range of those of the Comparable Companies.

On the other hand, the P/Es of the Comparable Companies ranged from approximately 4.36 times to approximately 7.54 times with an average and median of approximately 6.09 times and 5.94 times, respectively, as at the Latest Practicable Date. The Implied P/E of approximately 5.96 times is lower than the average of those of Comparable Companies.

For information only, the gearing ratios of the Comparable Companies ranged from approximately 43.7% to approximately 96.3%. For the impact of the Acquisition on the gearing ratio of the Group, please refer to the section headed “10. Financial effects of the Acquisition and the Rights Issue” below.

(ii) Analysis on comparable transactions

In addition to the Comparable Companies above, we have, on a best effort basis, identified an exhaustive list of comparable transactions (the “**Comparable Transactions**”) involving acquisitions of finance leasing companies in the PRC, with available financial information of the relevant target companies, announced during the period from 1 January 2019 to the Latest Practicable Date. Based on these criteria, we have identified 17 Comparable Transactions. We consider that the aforesaid criteria allow us to identify a sufficient number of comparable transactions for comparison purpose.

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Details of the Comparable Transactions are set out below:

| Target companies (Date of announcement) | Principal activities of target companies | Percentage of equity interest acquired | Consideration (RMB million) (approximate) | P/B implied by the transaction (times) (Note) | P/E implied by the transaction (times) (Note) |
|---|---|---|---|---|---|
| Huaxu International Financial Leasing Company Limited ("Huaxu") (27 January 2021) | Huaxu is principally engaged in financial leasing and provision of consulting and guarantee services for lease transaction. | 97.94% | 743.27 | 1.03 | loss making |
| Shanghai Shang Gong Shen Bei Financing & Leasing Company Limited ("SGSB") (16 January 2021) | SGSB is principally engaged in financial leasing and provision of consulting and guarantee services for lease transaction. | 20% | 100.00 | 2.86 (outlier) | 338.39 (outlier) |
| Chongqing Zongshen Financing and Leasing Company Limited ("Zongshen") (30 December 2020) | Zongshen is principally engaged in financial leasing and provision of consulting and guarantee services for lease transaction. | 70% | 158.93 | 1.00 | 11.32 |
| Taizhong Tianjin International Financing and Leasing Company Limited ("Taizhong") (8 December 2020) | Taizhong is principally engaged in financial leasing service. | 49% | 103.94 | 1.00 | 39.80 |
| Xiamen YLZ Financing and Leasing Company Limited ("YLZ") (7 December 2020) | YLZ is principally engaged in financial leasing service. | 100% | 174.00 | 1.00 | loss making |
| Optimus Financial Group Limited ("Optimus") (26 June 2020) | Optimus is principally engaged in financial leasing, property and automobile finance lease services and car trading. | 51% | 38.18 | 0.67 | Loss making |
| Jiangsu Hanrui Jingang Financing and Leasing Company Limited ("Jingang") (23 June 2020) | Jingang is principally engaged in financial leasing and provision of consulting and guarantee services for lease transaction. | 30% | 766.93 | 1.08 | 22.24 |
| Jiangsu Hanrui Jinkong Financing and Leasing Company Limited ("Jinkong") (23 June 2020) | Jinkong is principally engaged in financial leasing and provision of consulting and guarantee services for lease transaction. | 30% | 535.59 | 1.08 | 19.84 |

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| Target companies (Date of announcement) | Principal activities of target companies | Percentage of equity interest acquired | Consideration (RMB million) (approximate) | P/B implied by the transaction (times) (Note) | P/E implied by the transaction (times) (Note) |
|--|--|---|---|---|---|
| Hubei Camel Financing and Leasing Company Limited (“ Camel ”) (13 June 2020) | Camel is principally engaged in financial leasing, provision of consulting and guarantee services for lease transaction and commercial factoring services. | 30% | 57.00 | 0.99 | 59.78 |
| Shanghai Guohou Finance Leasing Company Limited (“ Shanghai Guohou ”) (28 April 2020) | Shanghai Guohou is principally engaged in financial leasing, consulting and commercial factoring services. | 75% | 183.17 | 1.34 | 25.41 |
| Shanying (Shanghai) Financing and Leasing Company Limited (“ Shanying ”) (4 April 2020) | Shanying is principally engaged in financial leasing, consulting and commercial factoring services. | 100% | 560.00 | 1.08 | 11.30 |
| Shenzhen International Financing Leasing Company Limited (“ Shenzhen Financing ”) (17 March 2020) | Shenzhen Financing is principally engaged in financial leasing and commercial factoring services. | 48% | 151.69 | 1.03 | 26.88 |
| Boshen Financing Lease (Shanghai) Company Limited (“ Boshen Financing ”) (14 December 2019) | Boshen Financing is principally engaged in financial leasing, consulting and commercial factoring services. | 75% | 419.95 | 1.33 | 50.22 |
| Nanjing Huahong Financial Leasing Company Limited (“ Nanjing Huahong ”) (22 October 2019) | Nanjing Huahong is principally engaged in financial leasing, consulting and commercial factoring services. | 100% | 321.00 | 1.03 | 17.91 |
| Shanghai Dongsong Financing and Leasing Company Limited (“ Dongsong ”) (21 September 2019) | Dongsong is principally engaged in rental and leasing business. | 75% | 64.70 | 1.01 | 36.21 |

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| Target companies (Date of announcement) | Principal activities of target companies | Percentage of equity interest acquired | Consideration (RMB million) (approximate) | P/B implied by the transaction (times) (Note) | P/E implied by the transaction (times) (Note) |
|--|---|---|---|---|---|
| Ningxia Sanshi Financing and Leasing Company Limited ("Ningxia Sanshi") (2 April 2019) | Ningxia Sanshi is principally engaged in industrial equipment leasing business. | 51% | 92.77 | 1.01 | Loss making |
| AB Leasing Company Limited ("AB Leasing") (19 February 2019) | AB Leasing is principally engaged in financial leasing business, transfer and absorption of assets through financial leasing, fixed income securities investment business. | 100% | 4,735.00 | 1.24 | 17.00 |
| | | | Maximum | 1.34 | 59.78 |
| | | | Minimum | 0.67 | 11.30 |
| | | | Average | 1.06 | 28.16 |
| | | | Median | 1.03 | 23.83 |
| The Target Company | The Target Group is principally engaged in provision of finance leasing and factoring services. | 81.91% | | 0.92 | 5.96 |

Source: Bloomberg and relevant announcements in relation to the respective Comparable Transactions

Note: Calculated by dividing the consideration for the respective Comparable Transactions (on a 100% basis) by the latest available net asset value or profit attributable to shareholders of the target companies in their latest financial year as at the date of the respective announcements. The outliers were not included in the calculations of the maximum, minimum, average and median of the P/Bs and P/Es of the Comparable Transactions.

We noted that the target companies in the Comparable Transactions are all unlisted companies. As shown above, the P/Bs implied by the Comparable Transactions ranged from approximately 0.67 time to approximately 1.34 times with an average and median of approximately 1.06 times and 1.03 times, respectively. The Implied P/B of approximately 0.92 time is lower than the average and median of those implied by the Comparable Transactions.

On the other hand, the P/Es implied by the Comparable Transactions ranged from approximately 11.30 times to approximately 59.78 times with an average and median of approximately 28.16 times and 23.83 times, respectively. The Implied P/E of approximately 5.96 times is lower than all the P/Es implied by the Comparable Transactions.

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(iii) Previous acquisitions of equity interests in the Target Company by the Vendor

On 20 August 2020, the Vendor entered into a sale and purchase agreement with each of Vasari Investment and Chinese Capital, pursuant to which the Vendor has conditionally agreed to acquire 25.58% and 13.18% equity interest in the Target Company from Vasari Investment and Chinese Capital at a consideration of US\$97.5 million (equivalent to approximately HK\$755.6 million) and US\$51.5 million (equivalent to approximately HK\$399.1 million), respectively (the “**Previous Acquisitions**”). Upon completion of the Previous Acquisitions in December 2020, the Vendor held an aggregate of 81.91% equity interest in the Target Company.

Based on the total consideration for the Previous Acquisitions of US\$149.0 million (equivalent to approximately HK\$1,154.8 million) for an aggregate of 38.76% equity interest in the Target Company, the implied valuation of 100% equity interest in the Target Company is approximately HK\$2,979.4 million (the “**Implied Valuation**”).

Based on the Consideration of approximately HK\$2,378.7 million for 81.91% equity interest in the Target Company, the implied valuation of 100% equity interest in the Target Company is approximately HK\$2,904.0 million which represents a discount of approximately 2.5% to the Implied Valuation.

(iv) Conclusion

The Implied P/B is within the range of those of the Comparable Companies and the Implied P/E is lower than the average of those of Comparable Companies. To supplement our analysis on the Comparable Companies, we have further considered the Comparable Transactions and the Previous Acquisitions. The Implied P/B is lower than the average and median of those implied by the Comparable Transactions whereas the Implied P/E is lower than all the P/Es implied by the Comparable Transactions. Furthermore, the valuation of 100% equity in the Target Company implied by the Consideration represents a discount of approximately 2.5% to that implied by the Previous Acquisitions. Taking into account that the valuation implied by the Acquisition is within the range of, or compares favorably to, those of the Comparable Companies, the Comparable Transactions and the Previous Acquisitions, we consider the Consideration to be fair and reasonable.

8. Assessment of the principal terms of the Consideration CB

A majority (i.e. approximately 93.5%) of the Consideration shall be settled by way of issue of the Consideration CB in the principal amount of approximately HK\$2,224.2 million upon Completion.

In assessing the fairness and reasonableness of the principal terms of the Consideration CB, we have, on a best effort basis, researched and identified an exhaustive list of convertible bonds (the “**Comparable CBs**”) issued or to be issued by companies listed on the Stock Exchange as consideration for acquisitions conducted by the respective listed companies which were announced during the period from 2 January 2020 to the Latest Practicable Date. Details of the Comparable CBs are set out below:

| No. | Date of initial announcement | Name of company | Stock code | Connected transaction (Yes/No) | Maturity (Approximate in years) | Maximum aggregate principal amount (HK\$) | Coupon rate per annum | Premium/ (discount) of the initial conversion price over/(to) the average closing price of the shares for the last five consecutive trading days immediately prior to/up to the date of and including the respective date of agreements | | Major conversion price adjustment events |
|-----|------------------------------|-----------------------------|------------|--------------------------------|---------------------------------|---|-----------------------|---|---|---|
| | | | | | | | | Premium/ (discount) of the initial conversion price over/(to) the average closing price of the shares for the last five consecutive trading days immediately prior to/up to the date of and including the respective date of agreements | Premium/ (discount) of the initial conversion price over/(to) the average closing price of the shares for the last five consecutive trading days immediately prior to/up to the date of and including the respective date of agreements | |
| 1. | 19 January 2020 | TL Natural Gas Holdings Ltd | 8536 | Yes | 3 | 29,129,880 | Nil | 6.12% | 6.85% | Alternation of the nominal amount of shares, issue of shares credited as fully-paid, and capital distribution |

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| No. | Date of initial announcement | Name of company | Stock code | Connected transaction (Yes/No) | Maturity (Approximate in years) | Maximum aggregate principal amount (HK\$) | Coupon rate per annum | Premium/ (discount) of the initial conversion price over/(to) the closing price of the shares for the last five consecutive trading days immediately prior to/up to the date of and including the respective agreements | Premium/ (discount) of the initial conversion price over/(to) the average closing price of the shares for the last five consecutive trading days immediately prior to/up to the date of and including the respective agreements | Major conversion price adjustments |
|-----|------------------------------|--|------------|--------------------------------|---------------------------------|---|-----------------------|---|---|--|
| 2. | 24 January 2020 | Star Properties Group (Cayman Islands) Limited | 1560 | Yes | Perpetual | 378,000,000 | 3% | (7.14%) | (7.67%) | Alteration of the number of shares, issue (other than in lieu of a cash dividend) of shares credited as fully paid, and capital distribution |
| 3. | 27 March 2020 | Peace Map Holding Limited (delisted in July 2020) | 402 | No | 5 (10 if extended) | 2,300,000,000 | Nil | (73.33%) | (72.41%) | Share consolidation or sub-division, and reclassification of shares with which the shares become of a different nominal amount |
| 4. | 3 April 2020 | TL Natural Gas Holdings Limited | 8536 | No | 3 | 7,465,600 | Nil | 6.67% | 3.23% | Alteration of the nominal amount of shares, issue of shares credited as fully-paid, and capital distribution |

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| No. | Date of initial announcement | Name of company | Stock code | Connected transaction (Yes/No) | Maturity (Approximate in years) | Maximum aggregate principal amount (HK\$) | Coupon rate per annum | Premium/ (discount) of the initial conversion price over/(to) the closing price of the shares for the last five consecutive trading days immediately prior to/up to the date of respective agreements | Premium/ (discount) of the initial conversion price over/(to) the average closing price of the shares for the last five consecutive trading days immediately prior to/up to the date of respective agreements | Major conversion price adjustment events |
|-----|------------------------------|--|------------|--------------------------------|---------------------------------|---|---|---|---|---|
| 5. | 6 April 2020 | Hong Kong Finance Investment Holding Group Limited | 7 | Yes | 3 | 1,199,000,000 | Nil | 31.58% | 30.21% | Share consolidation or sub-division, capitalisation of profits or reserves, and capital distribution |
| 6. | 5 June 2020 | Huajun International Group Limited | 377 | Yes | 5 | 107,692,000 | Nil | 222.58% | 222.14% | Share consolidation or sub-division, and capitalisation of profits or reserves |
| 7. | 29 June 2020 | Greater China Financial Holdings Limited | 431 | No | 5 | 200,000,000 | 1st year: nil 2nd year: 1% 3rd year: 4% 4th and 5th year: 6% | 410.20% | 405.05% | Share consolidation or sub-division, and issue (other than in lieu of a cash dividend) of shares credited as fully paid |
| 8. | 30 June 2020 | Huajun International Group Limited | 377 | Yes | 5 | 391,010,250 | Nil | 245.45% | 242.03% | Share consolidation or sub-division, and capitalisation of profits or reserves |

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| No. | Date of initial announcement | Name of company | Stock code | Connected transaction (Yes/No) | Maturity (Approximate in years) | Maximum aggregate principal amount (HK\$) | Coupon rate per annum | Premium/ (discount) of the initial conversion price over/(to) the closing price of the shares for the last five consecutive trading days immediately prior to/up to the date of and including the respective agreements | Premium/ (discount) of the initial conversion price over/(to) the average closing price of the shares for the last five consecutive trading days immediately prior to/up to the date of and including the respective agreements | Major conversion price adjustment events |
|-----|------------------------------|--|------------|--------------------------------|---------------------------------|---|-----------------------|---|---|--|
| 9. | 21 July 2020 | Star Properties Group (Cayman Islands) Limited | 1560 | Yes | Perpetual | 418,000,000 | 3% | 25.00% | 23.76% | Alteration of the number of shares, issue (other than in lieu of a cash dividend) of shares credited as fully paid, and capital distribution |
| 10. | 4 September 2020 | Hao Tian International Construction Investment Group Limited | 1341 | No | 3 | 150,000,000 | 5% | (6.25%) | (7.12%) | Alteration of the nominal amount of shares, issue (other than in lieu of a cash dividend) of shares credited as fully paid, and capital distribution |
| 11. | 27 November 2020 | Elife Holdings Limited | 223 | Yes | 3 | 20,000,000 | Nil | 29.9% | 37.0% | None |
| 12. | 21 December 2020 | Kinetix Systems Holdings Limited | 8606 | No | 5 | 48,000,000 | Nil | (14.29%) | 1.49% | Alteration of the nominal amount of shares, issue (other than in lieu of a cash dividend) of shares credited as fully paid, and capital distribution |

| No. | Date of initial announcement | Name of company | Stock code | Connected transaction (Yes/No) | Maturity (Approximate in years) | Maximum aggregate principal amount (HK\$) | Coupon rate per annum | Premium/ (discount) of the initial conversion price over/(to) the closing price of the shares for the last five consecutive trading days immediately prior to/up to the date of and including the respective agreements | Premium/ (discount) of the initial conversion price over/(to) the average closing price of the shares for the last five consecutive trading days immediately prior to/up to the date of and including the respective agreements | Major conversion price adjustment events |
|-----|------------------------------|-------------------------------------|------------|--------------------------------|---------------------------------|---|-----------------------|---|---|--|
| 13. | 13 January 2021 | Jiayuan International Group Limited | 2768 | Yes | 5 | 3,420,640,000 | Nil | 5.10% | 6.45% | Adjustment for dilutive events |
| | | | | | | | Maximum | 410.20% | 405.05% | |
| | | | | | | | Minimum | (73.33%) | (72.41%) | |
| | | | | | | | Average | 67.81% | 68.54% | |
| | | | | | | | Median | 6.67% | 6.85% | |
| | 17 March 2021 | The Company | 499 | Yes | 9 | Approximately HK\$2,224.2 million | Nil | 289.58% (Note 1) | 336.92% (Note 1) | Share consolidation or sub-division, capitalisation of profits or reserves, and capital distribution |
| | | | | | | | | 211.67% (Note 2) | 249.53% (Note 2) | |

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Source: the website of the Stock Exchange

Notes:

1. Based on the Initial Conversion Price
2. Based on the Base Conversion Price

(i) Maturity and coupon rate

As shown in the table above, the Comparable CBs have maturity terms ranging from three years to perpetual with coupon rates between zero and 6% per annum, whereas the Consideration CB has a maturity term of nine years with zero coupon rate.

The Group had cash and cash equivalent of approximately HK\$90.2 million as at 30 June 2020 whereas the Target Group had cash and cash equivalents of approximately RMB616.3 million as at 31 October 2020. Given the substantial size of the Acquisition (i.e. approximately HK\$2,378.7 million) and the existing financial capability of the Group, the setting of a maturity term of nine years with zero coupon rate for the Consideration CB will allow the Company to save potential refinancing costs in the future and have a longer period of time to make the necessary arrangement for the repayment of the Consideration CB, minimising the Group's finance costs and repayment pressure. On this basis, we consider the maturity term and coupon rate of the Consideration CB to be fair and reasonable.

(ii) Conversion price

The Initial Conversion Price of HK\$1.87 per Conversion Share represents:

- (a) a premium of approximately 289.58% over the closing price of HK\$0.48 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a premium of approximately 336.92% over the average closing price of HK\$0.428 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (c) a premium of approximately 352.78% over the average closing price of HK\$0.413 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
- (d) a premium of approximately 364.02% over the average closing price of HK\$0.403 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day;

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- (e) a premium of approximately 340.00% over the average closing price of HK\$0.425 per Share as quoted on the Stock Exchange for the last 60 consecutive trading days up to and including the Last Trading Day;
- (f) a premium of approximately 329.89% over the average closing price of HK\$0.435 per Share as quoted on the Stock Exchange for the last 90 consecutive trading days up to and including the Last Trading Day;
- (g) a premium of approximately 334.88% over the average closing price of HK\$0.430 per Share as quoted on the Stock Exchange for the last 180 consecutive trading days up to and including the Last Trading Day;
- (h) a premium of approximately 262.40% over the unaudited net asset value per Share of approximately HK\$0.516 as at 30 June 2020 which is calculated based the equity attributable to the Shareholders as at 30 June 2020 and 499,276,680 Shares in issue as at the Latest Practicable Date; and
- (i) a premium of approximately 289.58% over the closing price of HK\$0.48 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

As shown in the table above, the initial conversion prices of the Comparable CBs ranged from:

- (a) a discount of approximately 73.33% to a premium of approximately 410.20% to/over the closing prices of the shares on the date of the respective agreements; and
- (b) a discount of approximately 72.41% to a premium of approximately 405.05% to/over the average closing prices of the shares for the last five consecutive trading days immediately prior to or up to and including the date of the respective agreements.

Given the premiums as represented by the Initial Conversion Price over the closing price of the Shares on the Last Trading Day and the average closing price of the Shares for the last five consecutive trading days up to and including the Last Trading Day of approximately 289.58% and 336.92%, respectively, are in the high end of the respective ranges of the Comparable CBs. We therefore consider the Initial Conversion Price to be fair and reasonable.

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For illustrative purpose only, the Base Conversion Price represents premiums of approximately 211.67% and 249.53% over the closing price of the Shares on the Last Trading Day and the average closing price of the Shares for the last five consecutive trading days up to and including the Last Trading Day, respectively, which are also in the high end of the respective ranges of the Comparable CBs. In other words, if the Initial Conversion Price is hypothetically set at the Base Conversion Price, such setting of the initial conversion price of the Consideration CB would also be in line with those of the Comparable CBs.

(iii) Adjustments to conversion price

Pursuant to the terms of Consideration CB, the Initial Conversion Price may be subject to a downward adjustment upon the occurrence of, among other things, share consolidation or sub-division, capitalisation of profits or reserves, capital distribution, other distribution by assets or other properties, rights issue or any other offers made to the Shareholders in which they may acquire securities of the Company, provided that the conversion price shall not in any event be lower than the Base Conversion Price.

In assessing the fairness and reasonableness of the adjustment terms of the Consideration CB as regards the Initial Conversion Price, we have reviewed the relevant adjustment terms of the Comparable CBs and noted that the initial conversion prices of the Comparable CBs are generally subject to adjustments upon occurrence of similar adjustment events as the Consideration CB including, among other things, share consolidation or sub-division, capitalisation of profits or reserves and capital distribution. Therefore, we consider that the relevant adjustment terms of the Consideration CB are usual and normal adjustment terms which are comparable to those of other convertible bonds in the market.

(iv) Reset on initial conversion price

Pursuant to the terms of the Consideration CB, the conversion price of the Consideration CB shall be adjusted on the Reset Date with reference to the average of the volume weighted average prices of the Shares for the period of 10 consecutive trading days immediately prior to and excluding the Reset Date provided that the adjusted conversion price in no event shall be less than the Base Conversion Price which represents 80% of the Initial Conversion Price.

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To evaluate the fairness and reasonableness of the above reset mechanism, we have, on a best effort basis, researched and identified an exhaustive list of convertible bonds with reset mechanism on conversion prices (the “**Conversion Price Reset Comparables**”) announced by companies listed on the Stock Exchange during the period from 2 January 2019 to the Latest Practicable Date. Based on the aforesaid criteria, six Conversion Price Reset Comparables were identified, details of which are set out below:

| Date of announcement | Name of company (Stock code) | Maturity/Reset date/Conversion price reset mechanism | Adjustment floor of the initial conversion price (Note) |
|----------------------|--|---|---|
| 24 January 2021 | China Mengniu Dairy Company Limited (2319) | <p>Maturity 5 years from closing date</p> <p>Reset date The date falling on the third trading day immediately prior to the closing date</p> <p>Conversion price reset mechanism If the average of the closing prices of shares for the 60 consecutive trading days immediately preceding the reset date (the “Average Market Price”) is less than HK\$43.41, the initial conversion price will be reset downwards to 80% of the Average Market Price of the shares on the reset date, subject to the floor of HK\$32.80.</p> | 94.4% |
| 29 June 2020 | China Logistics Property Holdings Company limited (1589) | <p>Maturity 5 years from closing which is expected to be on 23 November 2020</p> <p>Reset dates 26 June 2021 or 26 June 2022</p> <p>Conversion price reset mechanism If the arithmetic average of the daily volume weighted average price (the “Reset Reference Share Price”) of the shares on each of the 20 consecutive trading days immediately prior to the relevant reset date is at least 10% lower than the prevailing conversion price, the conversion price shall be reset to the relevant Reset Reference Share Price on each of the reset dates, subject to an 80.0% adjustment floor of the initial conversion price.</p> | 80.0% |

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| Date of announcement | Name of company (Stock code) | Maturity/Reset date/Conversion price reset mechanism | Adjustment floor of the initial conversion price (Note) |
|----------------------|------------------------------|---|---|
| 23 January 2020 | Viva Biotech Holdings (1873) | <p>Maturity 5 years until 11 February 2025</p> <p>Reset dates 11 February 2021 and 11 February 2022</p> <p>Conversion price reset mechanism If the adjusted conversion price (the “Adjusted Conversion Price”) is less than the then prevailing conversion price, on each reset date, the conversion price shall be adjusted in accordance with the following formula:</p> <p>Adjusted Conversion Price = arithmetic average of the volume weighted average prices of the shares on each trading day for the period of 20 consecutive trading days ending on (and including) the trading day immediately prior to the relevant reset date x (1 + 26.0%)</p> <p>Any such adjustment to the conversion price shall be limited such that the adjusted conversion price in no event shall be less than HK\$4.56.</p> | 79.4% |
| 1 August 2019 | Dafy Holdings Limited (1826) | <p>Maturity Six months after the completion date</p> <p>Reset date 20th day before the maturity date</p> <p>Conversion price reset mechanism Conversion price shall be reset on the reset date, if the arithmetic average of the closing price per share for each day during the period of 30 consecutive trading days immediately prior to the reset date is 15% less than the conversion price in effect on the reset date.</p> | Not disclosed |

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| Date of announcement | Name of company (Stock code) | Maturity/Reset date/Conversion price reset mechanism | Adjustment floor of the initial conversion price (Note) |
|----------------------|--|---|---|
| 23 May 2019 | China Logistics Property Holdings Company limited (1589) | <p>Maturity On or about 25 June 2024 (5 years from the closing date which is expected to be on 25 June 2019)</p> <p>Reset dates First and second anniversary after the closing date</p> <p>Conversion price reset mechanism Conversion price shall be reset on each of the reset dates, in the event that the 20-day average volume weighted average price prior to the reset date is at least 10% lower than the conversion price, subject to an 80% adjustment floor of the initial conversion price.</p> | 80.0% |
| 10 January 2019 | China YuHua Education Corporation Limited (6169) | <p>Maturity 16 January 2020 (363 days from the closing date, being 18 January 2019)</p> <p>Reset date 18 September 2019</p> <p>Conversion price reset mechanism If the average of the volume weighted average prices of the shares for the period of 10 consecutive trading days immediately prior to and excluding the reset date (the “Market Price”) is less than the conversion price on the reset date, the conversion price shall be adjusted on the reset date such that the adjusted conversion price will be equal to the Market Price.</p> <p>Any such adjustment to the conversion price shall be limited such that the adjusted conversion price in no event shall be less than HK\$3.09.</p> | 92.6% |

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| Date of announcement | Name of company (Stock code) | Maturity/Reset date/Conversion price reset mechanism | Adjustment floor of the initial conversion price (Note) |
|----------------------|------------------------------|---|---|
| 17 March 2020 | The Company | <p>Maturity Nine years after the issue of the Consideration CB</p> <p>Reset date Each anniversary date after the date of issue of the Consideration CB</p> <p>Conversion price reset mechanism If the average of the volume weighted average price of the Shares for the period of 10 consecutive trading days immediately prior to and excluding the Reset Date (i.e. the Average Market Price) is less than the conversion price on the Reset Date, the conversion price shall be adjusted on the Reset Date such that the adjusted conversion price will be equal to the Average Market Price, provided that, among other things, the adjusted conversion price in no event shall be less than the Base Conversion Price.</p> | 80.0% |

Source: website of the Stock Exchange

Note: being the theoretical lowest conversion price divided by the initial conversion price

As shown in the table above, it is not uncommon for convertible bonds issued by companies listed on the Stock Exchange to have a conversion price reset mechanism, subject to a floor. We noted that in the Conversion Price Reset Comparables, the adjusted conversion prices are generally determined based on the average of the volume weighted average prices or closing prices of the relevant shares for various periods prior to the reset date with an adjustment floor (if any) ranging from 79.4% to 94.4%. The conversion price of the Consideration CB shall be reset annually based on the average of the volume weighted average price of the Shares for the period of 10 consecutive trading days immediately prior to and excluding the Reset Date, subject to an 80.0% adjustment floor. We consider the conversion price reset mechanism (including the adjustment floor) of the Consideration CB are generally in line with those of the Conversion Price Reset Comparables.

Taking into account that (a) the basis for determining the adjusted conversion price of the Consideration CB on each Reset Date is generally consistent with those of

the Conversion Price Reset Comparables; and (b) the premiums as represented by the Base Conversion Price (being the lowest conversion price of the Consideration CB) over the closing price of the Shares on the Last Trading Day and the average closing price of the Shares for the last five consecutive trading days up to and including the Last Trading Day are in the high end of the respective ranges of the Comparable CBs, we consider the conversion price reset mechanism of the Consideration CB to be fair and reasonable.

9. Assessment of the principal terms of the Rights Issue

(i) The Rights Issue Subscription Price

The subscription price is HK\$0.39 per Rights Share is payable in full when a Qualifying Shareholder accepts his/her/its provisional allotment under the Rights Issue or when a transferee of nil-paid Rights Shares subscribes for the Rights Shares. As disclosed in the Letter from the Board, the Rights Issue Subscription Price and the Rights Issue ratio were determined with reference to the funding need of the Group.

The subscription price is HK\$0.39 per Rights Share represents:

- (a) a discount of approximately 18.75% to the closing price of HK\$0.48 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 8.88% to the average closing price of HK\$0.428 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (c) a discount of approximately 5.57% to the average closing price of HK\$0.413 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
- (d) a discount of approximately 3.23% to the average closing price of HK\$0.403 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day;
- (e) a discount of approximately 8.24% to the average closing price of HK\$0.425 per Share as quoted on the Stock Exchange for the last 60 consecutive trading days up to and including the Last Trading Day;
- (f) a discount of approximately 10.34% to the average closing price of HK\$0.435 per Share as quoted on the Stock Exchange for the last 90 consecutive trading days up to and including the Last Trading Day;

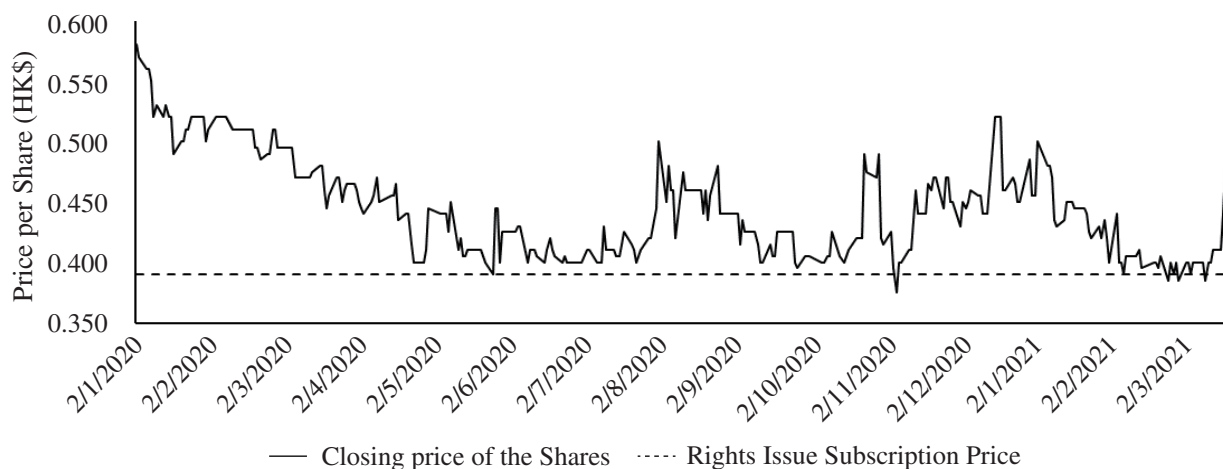
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- (g) a discount of approximately 9.30% to the average closing price of HK\$0.430 per Share as quoted on the Stock Exchange for the last 180 consecutive trading days up to and including the Last Trading Day;
- (h) a discount of approximately 10.34% to the theoretical ex-rights price of HK\$0.435 per Share based on the closing price of HK\$0.48 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (i) a discount of approximately 24.42% to the unaudited net asset value per Share of approximately HK\$0.516 as at 30 June 2020 which is calculated based the equity attributable to the Shareholders as at 30 June 2020 and 499,276,680 Shares in issue as at the Latest Practicable Date; and
- (j) a discount of approximately 18.75% to the closing price of HK\$0.48 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

Comparison with historical closing prices of the Shares

In assessing the fairness and reasonableness of the Rights Issue Subscription Price, we have performed a review on the daily closing prices of the Shares from 1 January 2020 to the Last Trading Day (the “**Review Period**”) (being a period of approximately one year prior to and including the Last Trading Day) and up to the Latest Practicable Date and compared them with the Rights Issue Subscription Price. We consider the Review Period is adequate to reflect the prevailing market sentiment and illustrates the general trend and level of movement of the daily closing prices of the Shares.

Historical daily closing prices of the Shares



Source: Bloomberg

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During the Review Period, the average closing price of the Shares was approximately HK\$0.443 per Share (the “**Average Closing Price**”). The daily closing price ranged from HK\$0.375 per Share (the “**Lowest Closing Price**”) recorded on 4 November 2020 to HK\$0.58 per Share (the “**Highest Closing Price**”) recorded on 2 January 2020 during the Review Period.

Since the beginning of the Review Period, the daily closing price has been in a downward trend from HK\$0.58 per Share on 2 January 2020 to HK\$0.39 per Share on 25 May 2020. It then surged to a high of HK\$0.5 per Share on 31 July 2020 before retreating to HK\$0.395 per Share on 25 September 2020. The Share price rebounded to a high of HK\$0.49 on 22 October 2020 and 28 October 2020. The Shares closed at HK\$0.48 per Share on the Last Trading Day and the Latest Practicable Date.

As shown in the chart above, the closing prices of the Shares were above the Rights Issue Subscription Price for a majority of time during the Review Period. The Rights Issue Subscription Price of HK\$0.39 per Rights Share represents (a) a premium of approximately 4.0% over the Lowest Closing Price of HK\$0.375 per Share; (b) a discount of approximately 32.76% to the Highest Closing Price of HK\$0.58 per Share; and (c) a discount of approximately 11.96% to the Average Closing Price of approximately HK\$0.443 per Share.

As discussed in the sub-paragraph headed “Comparison with recent rights issue exercises” below, we note that it is a common market practice to set the subscription price at a discount to the prevailing market prices of the relevant share in order to increase the attractiveness and encourage shareholders to participate in the rights issue so as to meet the company’s need for additional funding.

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Average daily trading volume of the Shares

Apart from historical daily closing prices of the Shares, we have reviewed the average daily trading volume of the Shares for each month or period during the Review Period, details of which are set out below:

| | Approximate average daily trading volume of the Shares (No. of Shares) | Number of trading days | Approximate percentage of average daily trading volume to total number of issued Shares (Note 1) | Approximate percentage of average daily trading volume to total number of issued Shares held by public Shareholders (Note 2) |
|---------------------------------------|--|---------------------------|---|---|
| 2020 | | | | |
| January | 49,685 | 20 | 0.0100% | 0.0321% |
| February | 49,580 | 20 | 0.0099% | 0.0321% |
| March | 273,041 | 22 | 0.0547% | 0.1765% |
| April | 281,411 | 19 | 0.0564% | 0.1820% |
| May | 39,514 | 20 | 0.0079% | 0.0255% |
| June | 26,039 | 21 | 0.0052% | 0.0168% |
| July | 128,045 | 22 | 0.0256% | 0.0828% |
| August | 40,053 | 21 | 0.0080% | 0.0259% |
| September | 145,909 | 22 | 0.0292% | 0.0943% |
| October | 60,097 | 18 | 0.0120% | 0.0389% |
| November | 129,055 | 21 | 0.0258% | 0.0834% |
| December | 262,551 | 22 | 0.0526% | 0.1698% |
| 2021 | | | | |
| January | 147,449 | 20 | 0.0295% | 0.0953% |
| February | 269,957 | 18 | 0.0541% | 0.1746% |
| 1 March to Latest Practicable Date | 310,531 | 13 | 0.0622% | 0.2008% |

Source: website of the Stock Exchange

Notes:

1. Based on the number of total issued Shares as at each month end as disclosed in the monthly returns of the Company.
2. Based on the number of Shares held by public Shareholders as calculated by deducting the Shares held by CQIH from the number of total issued Shares as at each month or period end.

As shown in the table above, the average daily trading volume of the Shares in each month ranged from 26,039 Shares in June 2020 to 310,531 Shares during the period from 1 March 2021 to the Latest Practicable Date, representing approximately 0.0052% and 0.0622% of the total number of issued Shares as at the end of the relevant months and approximately 0.0168% to 0.2008% of the

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total number of issued Shares held by public Shareholders as at the end of the relevant months, respectively, indicating a relatively thin trading liquidity during the Review Period.

Given the relatively thin trading liquidity of the Shares during the Review Period, it would be difficult for the Shareholders to acquire a substantial block of the Shares in the open market, without exerting a significant impact on the Share price. Accordingly, we consider that it is reasonable for the Rights Issue Subscription Price to be set at a discount to the prevailing historical closing prices of the Shares in order to attract the Qualifying Shareholders to participate in the Rights Issue and to maintain their respective shareholdings in the Company.

Comparison with recent rights issue exercises

In order to further assess the fairness and reasonableness of the terms of the Rights Issue, we have further reviewed the rights issue exercises initially announced by the companies listed on the Stock Exchange for the period from 1 January 2020 up to the Latest Practicable Date (being approximately one year) which had subscription ratios of above 1-for-2 and are therefore subject to shareholders' approval and were underwritten. Based on the aforesaid criteria, we have identified an exhaustive list of 17 rights issue transactions (the "**Comparable Rights Transactions**"). We consider that the aforesaid review period is adequate and appropriate to (a) capture the recent market practice in relation to rights issue exercises under the prevailing market conditions, in particular the effect of the recent novel coronavirus outbreak which has significantly affected the economic sentiment; and (b) provide a sufficient sample for comparison with the Rights Issue.

The Comparable Rights Transactions include rights issue transactions with different basis of entitlement and arrangements to dispose of any unsubscribed rights shares either through excess applications or share placements to independent places under Rule 7.21(1) of the Listing Rules. Taking into account that the Comparable Rights Transactions were underwritten and are objectively selected with the basis of entitlement requiring shareholders' approval, as in the case of the Rights Issue, we consider that the Comparable Rights Transactions represent a fair and representative sample for comparison purpose.

Although the listed issuers involved in the Comparable Rights Transactions have different principal activities, market capitalisations, profitability and financial positions as compared to those of the Company and the Comparable Rights Transactions involve rights issue transactions with different size of fundraising, we consider that the Comparable Rights Transactions can provide a general reference to the pricing trend of recent rights issue transactions under the current economic atmosphere as well as a sufficient sample size for comparison purpose, so as to determine whether the Rights Issue Subscription Price is in line with those of recent rights issue transactions in the market.

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Details of the Comparable Rights Transactions are set out below:

| Date of Announcement | Company name (stock code) | Basis of entitlement | Premium/ (discount) | Premium/ (discount) | Premium/ (discount) | Premium/ (discount) of the subscription price over/to the consolidated net asset value per share | Maximum dilution on shareholding (Note 1) |
|----------------------|--|----------------------|--|---|--|--|---|
| | | | of the subscription price over/to the average closing price for the 5 consecutive trading days up to and including the last trading day prior to/on the date of the relevant announcements | of the subscription price over/to the average closing price for the 10 consecutive trading days up to and including the last trading day prior to/on the date of the relevant announcements | of the subscription price over/to the theoretical ex-right price based on the closing price on the last trading day prior to/on the date of the relevant announcements | | |
| 10 January 2020 | Merdeka Financial Group Limited (8163) | 4 for 1 | (8.33%) | 0.00% | 2.80% | NA (Note 2) | 80.00% |
| 10 January 2020 | Neway Group Holdings Limited (55) | 2 for 1 | (20.00%) | (21.57%) | (21.57%) | (8.68%) (94.27%) | 66.67% |
| 11 May 2020 | Victory City Int'l Holdings Limited (539) | 2 for 1 | (30.35%) | (29.29%) | (29.29%) | (12.50%) (98.40%) | 66.67% |
| 19 May 2020 | hmvod Limited (8103) | 5 for 1 | (63.98%) | (77.22%) | (73.61%) | (22.90%) NA (Note 2) (33.63%) | 83.33% |
| 1 June 2020 | Summit Ascent Holdings Limited (102) | 3 for 2 | 0.00% | 0.67% | (1.48%) | 0.00% | 60.00% |
| 9 June 2020 | Cathay Pacific Airways Limited (293) | 7 for 11 | (46.90%) | (45.00%) | (43.40%) | (35.00%) (70.70%) | 38.89% |
| 7 July 2020 | National Investments Fund Limited (1227) | 5 for 1 | (28.57%) | (27.69%) | (27.39%) | (6.25%) NA (Note 2) | 83.33% |
| 30 July 2020 | Larry Jewelry International Company Limited (8351) | 5 for 1 | (29.17%) | (29.17%) | (28.57%) | (6.59%) (60.47%) | 83.33% |
| 24 August 2020 | Wealth Glory Holdings Limited (8269) | 5 for 2 | (11.10%) | (12.10%) | (12.10%) | (3.60%) (82.50%) | 71.43% |
| 28 August 2020 | Milan Station Holdings Limited (1150) | 5 for 2 | (10.57%) | (12.00%) | (14.06%) | (3.51%) (63.33%) | 71.43% |
| 28 August 2020 | Royal Century Resources Holdings Limited (8125) | 2 for 1 | (25.00%) | (28.57%) | (30.88%) | (9.91%) (81.13%) | 66.67% |
| 25 September 2020 | Green International Holdings Limited (2700) | 1 for 1 | (15.49%) | (23.66%) | (24.34%) | (9.77%) 77.30% | 50.00% |
| 27 October 2020 | Longhui International Holdings Limited (1007) | 1 for 1 | (29.00%) | (29.00%) | (29.70%) | (16.96%) NA (Note 2) | 50.00% |
| 20 November 2020 | Global Strategic Group Limited (8007) | 4 for 1 | (20.79%) | (21.95%) | (21.95%) | (4.76%) NA (Note 2) | 80.00% |
| 14 December 2020 | Chinlink International Holdings Limited (997) | 3 for 1 | (13.64%) | (15.74%) | (16.21%) | (4.58%) (93.79%) | 75.00% |
| 20 January 2021 | Roma Group Limited (8072) | 3 for 1 | (31.32%) | (28.98%) | (19.87%) | (10.07%) (94.13%) | 75.00% |
| 27 January 2021 | Cornerstone Financial Holdings Limited (8112) | 4 for 1 | (21.11%) | (25.26%) | (27.55%) | (5.33%) (96.44%) | 80.00% |
| | | Maximum | 0.00% | 0.67% | 2.80% | 0.00% | 83.33% |
| | | Minimum | (63.98%) | (77.22%) | (73.61%) | (35.00%) | 38.89% |
| | | Average | (23.84%) | (25.09%) | (24.66%) | (9.54%) | 69.51% |
| | | Median | (21.11%) | (25.26%) | (24.34%) | (6.59%) | 71.43% |
| 17 March 2021 | The Company | 1 for 1 | (18.75%) | (8.88%) | (5.57%) | (10.34%) (24.42%) (Note 3) | 50.00% |

Source: website of the Stock Exchange

Notes:

- Maximum dilution effect of each of the Comparable Rights Transactions is calculated as: (number of new shares to be issued under the basis of entitlement) / (number of existing shares held for the entitlement for the new shares under the basis of entitlement + number of new shares to be issued under the basis of entitlement) x 100%.
- The subject companies were in net liabilities position as shown in their respective latest financial results.

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3. The subscription price of HK\$0.390 per Rights Share represents a discount of approximately 24.42% to the unaudited net asset value per Share of approximately HK\$0.516 as at 30 June 2020 which is calculated based on the equity attributable to the Shareholders as at 30 June 2020 and 499,276,680 Shares in issue as at the Latest Practicable Date.

As illustrated in the table above, it is a common market practice that the pricing of a rights issue represents a discount to the prevailing closing share prices prior to the announcement of the rights issue and to the theoretical ex-rights price of the shares. The subscription prices of the Comparable Transactions:

- (a) ranged from a discount of approximately 63.98% to 0%, with an average of a discount of approximately 23.84% and a median of a discount of approximately 21.11%, to their respective closing prices on the last trading day prior to/on the dates of the relevant announcements;
- (b) ranged from a discount of approximately 77.22% to a premium of approximately 0.67%, with an average of a discount of approximately 25.09% and a median of a discount of approximately 25.26%, over/to their respective average closing prices for the five consecutive trading days up to and including the last trading day prior to/on the dates of the relevant announcements;
- (c) ranged from a discount of approximately 73.61% to a premium of approximately 2.80%, with an average of a discount of approximately 24.66% and a median of a discount of approximately 24.34%, over/to their respective average closing prices for the ten consecutive trading days up to and including the last trading day prior to/on the dates of the relevant announcements;
- (d) ranged from a discount of approximately 35.00% to 0%, with an average of a discount of approximately 9.54% and a median of a discount of approximately 6.59%, to their respective theoretical ex-rights prices based on the closing prices on the last trading day prior to/on the dates of the relevant announcements; and
- (e) ranged from a discount of approximately 98.40% to a premium of approximately 77.30%, with an average of a discount of approximately 65.96% and a median of a discount of approximately 81.82%, over/to their respective consolidated net asset value per share.

When comparing the Rights Issue to the Comparable Rights Transactions as shown in the table above, it is noted that the discounts of the Rights Issue Subscription Price to the closing price per Share on the Last Trading Day, the average closing prices per Share for the five and ten consecutive trading days up to and including the Last Trading Day and the unaudited net asset value per

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Share as at 30 June 2020 are approximately 18.75%, 8.88%, 5.57% and 24.42%, respectively, which are lower than the average and median of those of the Comparable Rights Transactions. The discount of the Rights Issue Subscription Price to the theoretical ex-rights price per Share on the Last Trading Day is within the range of and close to the average of those of the Comparable Rights Transactions.

To conclude, given that (a) it is a common market practice that the pricing of a rights issue represents a discount to the prevailing closing share prices prior to the announcement of the rights issue and to the theoretical ex-rights price of the shares; (b) the discounts of the Rights Issue Subscription Price could enhance the attractiveness of the Rights Issue and encourage the Qualifying Shareholders to participate in the Rights Issue; (c) the interests of the Qualifying Shareholders will not be prejudiced by the discounts of the Rights Issue Subscription Price as long as they are offered with an equal opportunity to participate in the Rights Issue and subscribe for the Rights Shares; (d) those Qualifying Shareholders who do not wish to subscribe for their pro-rata entitlement of the Rights Shares can receive economic benefits from selling their nil-paid Rights Shares in the market; and (e) the discounts of the Rights Issue Subscription Price to the closing price per Share on the Last Trading Day, the average closing prices per Share for the five and ten consecutive trading days up to and including the Last Trading Day and the unaudited net asset value per Share as at 30 June 2020 are lower than the average and median of those of the Comparable Rights Transactions, we are of the view that the Rights Issue Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

(ii) The CQIH Undertakings

As of the Latest Practicable Date, CQIH held 344,621,633 Shares (representing approximately 69.02% of the issued share capital of the Company). Pursuant to the CQIH Undertakings, CQIH has irrevocably and unconditionally undertaken to the Company and the Underwriter that it (a) will apply and pay for the CQIH Committed Shares, being all of the 344,621,633 Rights Shares provisionally allotted to CQIH pursuant to the Rights Issue, by lodging the duly completed and signed PAL before the latest time for acceptance of and payment for the Rights Shares; (b) will not sell, dispose of or transfer the Shares beneficially held by it, including the 344,621,633 Shares currently held by it, during the period from the date of execution of the CQIH Undertakings to the Rights Issue Record Date (both dates inclusive); and (c) save for the Rights Shares provisionally allotted to it, will not apply for any excess Rights Shares.

Having considered that (a) the CQIH Undertaking was given by CQIH in favour of the Company which solely represents the intention of CQIH in respect of its interests in the Shares under the Rights Issue; (b) the CQIH Undertaking indicates CQIH's support for the Rights Issue as it has undertaken to take up its own pro-rata entitlement under the Rights Issue; and (c) the CQIH Undertaking, coupled with the

arrangement under the Underwriting Agreement, ensures a minimum amount of fund to be raised under the Rights Issue, we consider that the terms of the CQIH Undertaking are fair and reasonable.

10. Financial effects of the Acquisition and the Rights Issue

Upon Completion, the Target Company will become a non-wholly owned subsidiary of the Company and the financial results, assets and liabilities of the Target Group will be consolidated into the consolidated financial statements of the Company. The unaudited pro forma financial information of the Enlarged Group (the “**Unaudited Pro Forma Financial Information**”) is set out in Appendix V to the Circular. It should be noted that the analyses below are for illustrative purpose only and do not purport to represent how the financial performance and position of the Group will be upon Completion.

(i) Earnings and operating cash flows

As described in the section headed “4. Reasons for and benefits of the Acquisition” above, the Acquisition will broaden the Group’s revenue base, enhance its profitability and complement its existing loan financing business, allowing the Group to tap into the fast-growing finance leasing industry in the PRC.

As set out in the Unaudited Pro Forma Financial Information, assuming the Acquisition and the Rights Issue had been completed on 1 January 2020, the pro forma consolidated profit attributable to the Shareholders would be approximately HK\$104.7 million as compared to the profit attributable to the Shareholders of approximately HK\$1.6 million for the six months ended 30 June 2020 (the “**6M2020**”).

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We set out below the profit and pro forma profit attributable to the Shareholders, on a per Share basis, of the Group and the Enlarged Group respectively based on the Unaudited Pro Forma Financial Information:

| | | The Enlarged Group immediately upon Completion and full conversion of the Consideration CB at the Initial Conversion Price |
|---|------------------|---|
| | The Group | The Enlarged Group immediately upon Completion |
| Profit attributable to the Shareholders for 6M2020 (HK\$'000) (A) | 1,626 | 104,695 |
| Total number of Shares in issue (B) | 499,276,680 | 998,553,360 |
| Earnings per Share ("EPS") (HK cents) (A/B) | 0.33 | 10.5 |
| | | 2,187,939,722 |
| | | 4.8 |

As shown in the table above, the pro forma EPS of the Enlarged Group upon Completion, being the pro forma earnings divided by the total number of Shares in issue upon Completion (assuming no conversion of the Consideration CB), would be approximately 10.5 HK cents per Share, representing a significant increase from the EPS of the Group of approximately 0.33 HK cents for 6M2020, due to the substantial profit made by the Target Group for 6M2020.

For illustrative purpose only, immediately upon Completion and full conversion of the Consideration CB at the Initial Conversion Price, the pro form EPS of the Enlarged Group would be approximately 4.8 HK cents per Share for 6M2020.

According to the Unaudited Pro Forma Financial Information, assuming the Acquisition and the Rights Issue had been completed on 1 January 2020, the pro forma net cash inflow generated from operating activities would be approximately HK\$112.8 million, representing a significant increase as compared to the net cash inflow generated from operating activities of the Group of approximately HK\$15.0 million for 6M2020, due to the contribution from the Target Group.

(ii) Equity attributable to the Shareholders

As set out in the Unaudited Pro Forma Financial Information, assuming the Acquisition and the Rights Issue had been completed on 31 October 2020, the pro forma consolidated equity attributable to the Shareholders (the "NAV") would be

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approximately HK\$635.1 million as at 31 October 2020, representing an increase of approximately 146.6% from approximately HK\$257.5 million of the Group as at 30 June 2020. The pro forma NAV has taken into account, among other things, the issue of the Consideration CB and the Rights Shares to finance the Acquisition.

The pro forma NAV per Share, being the pro forma NAV divided by 998,553,360 Shares in issue upon Completion (assuming no conversion of the Consideration CB), would be approximately HK\$0.636, representing an increase of approximately 23.3% from approximately HK\$0.516 as at 30 June 2020.

(iii) Gearing

Based on the Unaudited Pro Forma Financial Information, the gearing ratio of the Group, defined as total liabilities divided by total assets, has increased from approximately 60.5% as at 30 June 2020 to approximately 93.7% immediately after Completion, due to the issue of the Consideration CB to finance the bulk of the Consideration. The pro forma gearing ratio of the Enlarged Group is within the range of those of the Comparable Companies (i.e. from approximately 43.7% to approximately 96.3%) as shown in the section headed “7. Assessment of the Consideration – (i) Analysis on comparable companies” above.

(iv) Working capital

The Consideration shall be satisfied by the issue of the Consideration CB and cash to be raised from the Rights Issue. Given the bulk of the Consideration is to be satisfied by the issue of the Consideration CB which bears zero coupon with a maturity term of nine years, we consider the Acquisition would not have a material impact on the working capital of the Group.

As at 30 June 2020, the Group had net current assets, being current assets less current liabilities, of approximately HK\$72.8 million. According to the Unaudited Pro Forma Financial Information, assuming the Acquisition and the Rights Issue had been completed on 31 October 2020, the Enlarged Group would have net current assets of approximately HK\$1,972.3 million as at 31 October 2020, representing an increase of approximately 2,609.2%.

As disclosed in Appendix IV to the Circular, the Directors are of the view that, after taking into account of the Enlarged Group’s presently available financial resources, including but not limited to the funds internally generated from operations, the available banking facilities and the existing borrowings, the Enlarged Group will have sufficient working capital for its business for at least 12 months from the date of the Circular in the absence of unforeseen circumstances.

(v) Overall comment

Despite the increase in gearing ratio as mentioned above, taking into account (a) the profitable track record of the Target Group; (b) the positive impact of the Acquisition on the EPS, operating cash flows and working capital of the Enlarged

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Group upon Completion as described above; (c) the benefits brought by the Acquisition to the Group as detailed in the section headed “4. Reasons for and benefits of the Acquisition” above; and (d) the positive outlook of the PRC finance leasing industry in the long run as detailed in the section headed “3. Market overview” above, we concur with the Directors that the Acquisition is in the interests of the Company and the Shareholders as a whole.

11. Potential dilution effect on the shareholding interests of the Independent Shareholders

As shown in the Letter from the Board under the section headed “Effect of the issue of the Consideration CB and the Rights Issue on the shareholding structure of the Company”, assuming there is no change in the issued share capital of the Company other than the issue of the Rights Shares since the Latest Practicable Date and up to Completion, the shareholding in the Company held by existing public Shareholders would be diluted from approximately 30.98% as at the Latest Practicable Date to:

- (i) approximately 15.49% upon Completion, assuming no Qualifying Shareholder takes up any of the Rights Shares (other than CQIH taking up the CQIH Committed Shares) and all Underwritten Shares are taken up by the Underwriter; and
- (ii) approximately 14.14% assuming all Qualifying Shareholders (including CQIH) take up their respective entitlements and upon full conversion of the Consideration CB at the Initial Conversion Price.

However, taking into account (i) the benefits brought by the Acquisition as discussed in the section headed “4. Reasons for and benefits of the Acquisition” above; (ii) that it would be less optimal for the Group to raise the fund for the Acquisition through other means of financing such as an equity placement or external financings, as discussed in the section headed “6. Other alternative methods of financing” above; (iii) that the Acquisition will enhance the Group’s EPS, operating cash flows and working capital, as discussed in the section headed “10. Financial effects of the Acquisition and the Rights Issue” above; and (iv) that the terms of the Sale and Purchase Agreement (including the Consideration CB) and the Rights Issue are fair and reasonable so far as the Independent Shareholders are concerned, we are of the view that the dilution effect on the shareholding of existing public Shareholders in the Company is acceptable so far as they are concerned. Under the terms of the Consideration CB, the holder(s) may not convert the Consideration CB if it would result in the Company failing to comply with the minimum public float requirement under the Listing Rules.

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OPINION AND RECOMMENDATION

In arriving at our opinion and recommendation, we have considered the principal factors and reasons as discussed above and in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

- **Strategic move for the Group**

The Group is principally engaged in production and sale of digital Chinese calligraphy education equipment, leasing of investment properties and provision of loan financing services. In May 2020, the Group expanded its loan financing business in the PRC by providing an entrusted loan to a PRC property developer. During the period under review, the Group generated minimal profit and even incurred losses after excluding the fair value change of investment properties and net foreign exchange gain. We consider there is an imminent need for the Group to diversify its income and earnings stream to improve its profitability.

The Acquisition represents an opportunity for the Group to tap into the PRC finance leasing market that is closely related to its existing loan financing business and with growth potential with a view to broadening the Group's revenue base and improving its profitability, allowing the Group to offer a wider range of financial services to its customers and capture the business opportunities in the fast-growing finance leasing industry in the PRC. This is strategically aligned with the Group's stated strategy to expand its loan financing business.

- **Industry outlook**

According to the Industry Report, despite the competitive environment surrounded by the large number of market participants, the finance leasing industry in the PRC has experienced tremendous growth in the past few years and is expected to sustain high growth in the next few years.

CIC projected that the finance leasing market in the PRC will grow at a CAGR of approximately 7.3% between 2019 and 2024 in terms of outstanding balance of finance lease receivables with the penetration rate reaching approximately 10.0% in 2024 from approximately 7.8% in 2019. This is driven by, among other things, the rapid growth of downstream industries.

The three downstream industries, from which the Target Group mainly derived its revenue, namely healthcare, public infrastructure and water supplies, are expected to grow at CAGRs of approximately 3.7%, 6.0% and 11.5% from 2019 to 2024, respectively, in terms of fixed assets investment.

All the above suggest that the outlook for the finance leasing industry in the PRC will be positive in the long run.

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- **Consideration**

The P/B and P/E implied by the Acquisition are approximately 0.92 time and 5.96 times, respectively.

In evaluating the fairness and reasonableness of the Consideration, we have considered comprehensively the valuations implied by (i) the Comparable Companies which are engaged in the same sector as the Target Group does; (ii) the Comparable Transactions involving acquisitions of finance leasing companies in the PRC; and (iii) the Previous Acquisitions involving acquisitions of equity interest in the Target Company in August 2020.

The valuation implied by the Acquisition is within the range of, or compares favorably to, those of the Comparable Companies, the Comparable Transactions and the Previous Acquisitions.

The Consideration shall be satisfied as to (i) approximately HK\$2,224.2 million by the issue of the Consideration CB which is zero coupon and with a maturity term of nine years; and (ii) approximately HK\$154.5 million by fund to be raised from the Rights Issue. This is approximately 94:6 split between debt and equity financings. Bearing in mind the size of the Acquisition, the Group's existing financial resources, the potential lengthy negotiations with banks for any debt financing, the requirement of substantial interest payments for any external borrowing and the thin trading liquidity of the Shares, we consider this split to be an appropriate and prudent method of financing which allows the Group to save substantial finance costs and minimise repayment pressure without resulting in an immediate and material dilution effect on the shareholding of the existing Shareholders.

- **Terms of the Consideration CB**

The principal terms of the Consideration CB are fair and reasonable after considering the following:

- (i) the setting of the Consideration CB with zero coupon and a maturity term of nine years minimise the Group's finance costs and repayment pressure given the size of the Acquisition and the Group's existing financial capability;
- (ii) the premiums of the Initial Conversion Price over historical closing Share prices for various periods in the 180 consecutive trading days up to and including the Last Trading Day are significant, in the range of 289.58% to 364.02%;
- (iii) the premiums of the Base Conversion Price over historical closing Share prices for various periods in the 180 consecutive trading days up to and including the Last Trading Day are significant, in the range of 211.67% to 271.22%;
- (iv) the premiums as represented by the Initial Conversion Price and the Base Conversion Price over the closing price of the Shares on the Last Trading Day and the average closing price of the Shares for the last five consecutive trading days up to and including the Last Trading Day are in the high end of the respective ranges of the Comparable CBs;

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- (v) the adjustment terms of the Consideration CB on the Initial Conversion Price represent usual and normal adjustment terms which are comparable to those of the Comparable CBs; and
- (vi) the conversion price reset mechanism (including the adjustment floor) of the Consideration CB is generally in line with those of the Conversion Price Reset Comparables;

- **Term of the Rights Issue**

The principal terms of the Rights Issue are fair and reasonable after considering the following:

- (i) it is a common market practice that the pricing of a rights issue represents a discount to the prevailing closing share prices prior to the announcement of the rights issue and to the theoretical ex-rights price of the shares;
- (ii) the discount of the Rights Issue Subscription Price could enhance the attractiveness of the Rights Issue and encourage the Qualifying Shareholders to participate in the Rights Issue;
- (iii) the interests of the Qualifying Shareholders will not be prejudiced by the discount of the Rights Issue Subscription Price as long as they are offered with an equal opportunity to participate in the Rights Issue and subscribe for the Rights Shares;
- (iv) those Qualifying Shareholders who do not wish to subscribe for their pro-rata entitlement of the Rights Shares can receive economic benefits from selling their nil-paid Rights Shares in the market;
- (v) the discounts of the Rights Issue Subscription Price to the closing price per Share on the Last Trading Day, the average closing prices per Share for the five and ten consecutive trading days up to and including the Last Trading Day and the unaudited net asset value per Share as at 30 June 2020 are lower than the averages and medians of those of the Comparable Rights Transactions. The discount of the Rights Issue Subscription Price to the theoretical ex-rights price per Share on the Last Trading Day is within the range of and close to the average of those of the Comparable Rights Transactions; and
- (vi) the CQIH Undertaking, being the intention of CQIH in respect of its interests in the Shares under the Rights Issue, was given by CQIH in favour of the Company, indicating its support for the Rights Issue and coupled with the arrangement under the Underwriting Agreement, ensuring a minimum amount of fund to be raised under the Rights Issue;

- **Enhancement in EPS, operating cash flows and working capital**

The unaudited pro forma EPS on Completion for 6M2020 would be approximately 10.5 HK cents (assuming no conversion of the Consideration CB) and approximately 4.8 HK cents (assuming full conversion of the Consideration CB at the Initial Conversion

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Price), as compared to the EPS of the Group of approximately 0.33 HK cents for 6M2020, due to the substantial profit made by the Target Group for 6M2020.

The unaudited pro forma net cash inflow generated from operating activities upon Completion for 6M2020 would be approximately HK\$112.8 million, representing a significant increase as compared to the net cash inflow generated from operating activities of the Group of approximately HK\$15.0 million for 6M2020, due to the contribution from the Target Group.

Assuming the Acquisition and the Rights Issue had been completed on 31 October 2020, the Enlarged Group would have net current assets of approximately HK\$1,972.3 million as at 31 October 2020, representing an increase of approximately 2,609.2% from that as at 30 June 2020; and

- **Increase in gearing ratio and potential dilution of the shareholding interests of the Independent Shareholders**

The gearing ratio of the Group would increase from approximately 60.5% as at 30 June 2020 to approximately 93.7% immediately after Completion, due to the issue of the Consideration CB to finance the bulk of the Consideration. This is, however, within the range of those of the Comparable Companies (i.e. from approximately 43.7% to approximately 96.3%).

Independent Shareholders' holdings would be diluted from approximately 30.98% as at the Latest Practicable Date to approximately 14.14% assuming all Qualifying Shareholders (including CQIH) take up their respective entitlements under the Rights Issue and upon full conversion of the Consideration CB at the Initial Conversion Price. We consider this potential dilution is significant but a considerable degree of dilution was inevitable once it was decided to finance the Acquisition mostly in convertible securities, which we agree is prudent, unless a rights issue was made to finance the entire Consideration which is not possible given the large size of the fund-raising exercise that would be required and the thin trading liquidity of the Shares.

The increase in gearing ratio and the potential dilution are unattractive features, but in our view should be viewed in the context of the Acquisition as a whole, which we consider fair on the grounds summarised above.

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Based on the above, we consider that the terms of the Acquisition (including the issue of the Consideration CB) and the Rights Issue are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the Acquisition (including the issue of the Consideration CB) and the Rights Issue, while not in the ordinary and usual course of business of the Group, are nevertheless in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Acquisition (including the issue of the Consideration CB) and the Rights Issue.

Yours faithfully,
For and on behalf of
Rainbow Capital (HK) Limited
Larry Choi
Managing Director

Mr. Larry Choi is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 6 (advising on corporate finance) regulated activity under the SFO. He has over ten years of experience in the corporate finance industry.

FORWARD-LOOKING STATEMENTS

This circular contains forward-looking statements that are not historical facts, but relate to the Group's plans, intentions, beliefs, expectations and predictions for the future. By their nature, these forward-looking statements are subject to risks and uncertainties. In some cases, the Company uses words such as "aim", "continue", "predict", "propose", "believe", "seek", "intend", "anticipate", "estimate", "project", "forecast", "target", "plan", "potential", "will", "would", "may", "could", "should" and "expect", and the negatives of these words and other similar expressions, to identify forward-looking statements.

These forward-looking statements reflect the Company's current views on future events but are not assurance of future performance, and will be affected by certain risks, uncertainties and assumptions, including the risk factors mentioned in this circular. Under no circumstances should the inclusion of such information in this circular be regarded as a representation, warranty or prediction with respect to the accuracy of the assumptions by the Company or the Vendor or any of their respective directors, officers, employees, agents, advisers or representatives or that these results will be achieved or are likely to be achieved. The possible occurrence of one or more relevant risk factors or uncertainties, or the potential inaccuracy of the relevant assumptions, may cause actual results, performance or effects or industry results to differ materially from any future results, performance or presentation indicated expressly or implicitly in the forward-looking statements.

These forward-looking statements are based on current plans and estimates, and speak only as at the date they are made. The Company undertakes no obligation to publicly update or revise any forward-looking statements contained in this circular, whether as a result of new information, future events or otherwise, except as required by law and the Listing Rules. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond the Company's control. The Company cautions you that a number of important factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statements.

Due to these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this circular may not occur in the way the Company expects, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this circular are qualified by reference to these cautionary statements.

RISK FACTORS RELATING TO THE TARGET GROUP

When considering the Acquisition, you should carefully consider the risk factors set out below and the other data and information set forth in this circular. The business, financial condition, results of operations and prospects of the Company could be adversely affected by any of the following events. The risks and uncertainties described below are not exhaustive of all the risks faced by the Company or the Enlarged Group. Any other risks and uncertainties which the Company is not aware of or deems to be immaterial currently may also have an adverse impact on the business, financial condition, results of operations and prospects of the Company and the Enlarged Group.

The Acquisition involves various risks, many of which are beyond the control of the Company. Such risks may be categorised into: (i) risks relating to the Acquisition; (ii) risks relating to the business and operations of the Target Group; (iii) risks relating to the industry that the Target Group operates in; and (iv) risks relating to this circular.

RISKS RELATING TO THE ACQUISITION

The Acquisition is subject to the fulfilment or waiver (as applicable) of the Conditions, and the Acquisition may or may not proceed.

The Acquisition is subject to the fulfilment or waiver (as applicable) of the Conditions. For further details, please refer to section headed “Letter from the Board – Sale and Purchase Agreement – Conditions Precedent” in this circular. Certain Conditions involve the actions and decisions of third parties, including but not limited to approvals by the Stock Exchange approval of the Acquisition, the specific mandate to be granted to the Directors by the Independent Shareholders at the SGM, and the fulfilment of these Conditions are beyond the control of the Company. Whether and when the approvals can be obtained for the Acquisition is uncertain. Hence, the Acquisition is exposed to the risk of approvals not being obtained. There is no guarantee that all or part of the Conditions can be fulfilled, or the Acquisition will proceed. If any of the Conditions is not fulfilled or waived (as applicable) on or before the Long-Stop Date, the Acquisition may not proceed.

The Company is exposed to the risk of integration.

Upon Completion, members of the Target Group will become non-wholly-owned subsidiaries of the Company. The Target Group offers a wide spectrum of financial leasing products in the PRC. In order for the Group’s existing financial services business and the Target Group’s businesses to complement and create synergies for each other, a certain degree of optimisation and integration will be required on the customer resources management, marketing, financial accounting and human resources management of the Group and the Target Group. However, it is uncertain whether the integration can be successfully implemented. Such integration may not be able to achieve the expected results, and may even have an adverse impact on the existing operation of the Target Group or the Group.

The industries in which the Company operates are not entirely identical from those of the Target Group. To successfully integrate the operations of the Target Group into those of the

RISK FACTORS RELATING TO THE TARGET GROUP

Group, the Company may need to, among others, hire, train or retain competent staff members and develop, adopt and maintain the standards, control measures, procedures and policies appropriate to the operations of the Target Group. To ensure a smooth integration of the businesses of the Target Group, the Company plans to continue the employment of the Target Group's employees and retain its workforce. It is expected that the senior management team of the Target Group will remain intact after Completion. However, there is no guarantee that the operations of the Target Group will be successfully integrated into those of the Group. Moreover, there is no guarantee that the Company will be able to implement the business strategies of the Target Group in an accurate and effective manner. The Company may not be able to integrate or run the operations of the Target Group successfully or make the best judgement when running those operations. If the expected benefits of the Acquisition fail to materialise or the relevant risks of integration are not properly managed, the Enlarged Group may risk losing its employees, senior management team, customers relationship and/or connections, which may have a material and adverse effect on the financial conditions and results of operations of the Enlarged Group.

RISKS RELATING TO THE BUSINESS AND OPERATIONS OF THE TARGET GROUP

The Target Group has a relatively short track record in its business operation and its historical financial results may not be indicative of its future performance.

The Target Group's history can be traced back to June 2014 when the Target Company established and was entered into its first finance lease agreement. The Target Group's revenue increased from approximately RMB594.5 million for FY2017 to approximately RMB866.5 million for FY2018, representing a year-to-year growth of 45.8%. For FY2019, its revenue further increased to approximately RMB1,157.3 million, representing a year-to-year growth of 33.6%. The Target Group's net profit increased by 17.8% from approximately RMB221.2 million for FY2017 to approximately RMB260.6 million for FY2018, and further increased by 29.3% to approximately RMB336.9 million for FY2019.

For 10M2020, the Target Group has a revenue of approximately RMB1,182.6 million and net profit of approximately RMB373.3 million.

Due to the limited operating history and therefore the limited available financial data of its business, the Target Group cannot assure that it will be able to successfully grow its business or generate the same level of profit or revenue as before.

The Target Group had non-performing asset⁽¹⁾ of approximately RMB77.8 million, RMB38.8 million, RMB50.8 million and RMB163.7 million as at 31 December 2017, 2018, 2019 and 31 October 2020. Further, the Target Group's provision coverage ratio as at 31 December 2017, 2018, 2019 and 31 October 2020 was 140.5%, 345.6%, 363.4% and 175.0%. Given that the Target Company was only established in 2014, we did not have any history or experience in enforcing its security rights over the collateral or guarantee and/or foreclosing the leased assets. However, the trend of its historical records is a mere analysis or indication of its

Note:

⁽¹⁾ Non-performing assets are defined as those finance lease receivables and loans and receivables having objective evidence of impairment as a result of one or more events that occur after initial recognition and that event has an impact on the estimated future cash flows of finance lease receivables and loans and receivables that can be reliably estimated. For further information, please refer to the sub-section headed "Asset Quality – Asset Quality Classification" in the section headed "Business of the Target Group" to this circular.

RISK FACTORS RELATING TO THE TARGET GROUP

past performance and does not have any positive implication on and may not necessarily reflect its future financial performance.

Following the development of the Target Group's business with existing and new customers in industries with growth potential, the Target Group has no guarantee that the Target Group will be able to (i) avoid any default if its customers fail to comply with their contractual obligations toward the Target Group due to a downturn in their industries and negative economic conditions or (ii) enforce its security rights over the collaterals timely. Should the Target Group fail to enforce its security rights or foreclose leased assets in a timely manner, the amount which the Target Group may recover could be significantly reduced.

The Target Group's business focuses on the public utilities sector since FY2017. Any volatility of the public utilities sector may materially and adversely affect its business, financial condition and results of operations.

The Target Group's business strategically focuses on four industries, namely (i) public infrastructure; (ii) medical and healthcare; (iii) water supplies; and (iv) energy industries. During FY2017, FY2018 and FY2019, the medical and healthcare industry was the top contributor to its revenue.

- The Target Group's revenue from the medical and healthcare industry contributed approximately 29.2%, 40.0%, 28.9% and 17.8% of its total revenue for FY2017, FY2018, FY2019 and 10M2020, respectively.
- The Target Group's revenue from the public infrastructure industry contributed approximately 16.1%, 14.7%, 16.7% and 20.5% of its total revenue for FY2017, FY2018, FY2019 and 10M2020, respectively.
- The Target Group's revenue from the water supplies industry contributed approximately 11.3%, 17.1%, 24.3% and 25.5% of its total revenue for FY2017, FY2018, FY2019 and 10M2020, respectively.
- The Target Group's revenue from the energy industry contributed approximately 19.8%, 1.9%, 2.1% and 1.9% of its total revenue for FY2017, FY2018, FY2019 and 10M2020, respectively.

The Target Group's business could be affected, to various extents, by the economic cycle of the relevant industries and in particular the medical and healthcare industry. The nature, timing and extent of changes in industry's conditions are highly unpredictable. In the event of an industry downturn, unfavourable economic and market conditions and material adverse changes in the regulatory environment, there may lead to a decline in the demand for its finance leasing services, and an increase in its customers' default, as well as the deterioration in quality of its leased assets, which may, in turn, materially and adversely affect its business, financial condition and results of operations.

RISK FACTORS RELATING TO THE TARGET GROUP

Any inability to maintain the Target Group's leased asset quality may have a material adverse impact on its business, financial condition and results of operations.

The sustainability of the Target Group's business and future growth depends largely on its ability to effectively maintain its leased asset quality. As such, any deterioration in its leased asset quality could materially and adversely affect its business, prospects, financial condition and results of operations. The Target Group may have non-performing assets in the future due to a substantial increase in the value of its finance lease agreement, or deterioration of its leased asset portfolio. The Target Group may fail to effectively control the non-performing assets in its leased asset portfolio.

The Target Group's leased asset portfolio may deteriorate due to various reasons, including factors beyond its control, such as a slowdown in the PRC or global economic growth, the occurrence of a global credit crisis or other adverse macroeconomic trends that may cause operational, financial and liquidity problems for its customers. In the event that the quality of any of its leased assets deteriorates, its profitability will be materially and adversely affected.

Inability to match the maturity profile of the Target Group's assets and liabilities will impact its liquidity and its ability to repay its borrowings and settle its outstanding liabilities.

The Target Group manages its liquidity risk by regularly monitoring the relative maturities between its assets and liabilities and by taking steps to maintain a balance of long-term and short-term funding sources. If the Target Group fails to match the relative maturities of its assets and liabilities, or fails to manage its interest rate exposures between its borrowings and finance lease receivables, net liquidity shortfalls may result, and the Target Group may not be able to meet its financial liabilities as they fall due.

In addition, such liquidity shortfalls may also impair the Target Group's ability to obtain sufficient additional financing. As a result, its liquidity may be impaired, which would have a material adverse effect on its business operation, financial condition, and growth prospects.

The Target Group is exposed to liquidity risk due to high level of gearing/The Target Group is facing an increasing level of gearing.

The Target Group's business operations are significantly funded by borrowings from financial institutions (such as banks) and other institutions, related companies as well as via bonds payable, the Target Group expects that the Target Group will maintain the same sources as its business operation funding in the future. As at 31 December 2017, 2018, 2019 and 31 October 2020, its total indebtedness amounted to approximately RMB7,804.9 million, RMB9,077.2 million, RMB12,089.7 million and RMB12,094.0 million, respectively, while its gearing ratio was 73.9%, 73.3%, 75.2% and 73.7% as at the same dates, respectively. For details of the Target Group's gearing, please refer to the section headed "Financial information – Capital resources" in this circular. The Target Group's high level of gearing could materially and adversely affect the Target Group's liquidity.

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The Target Group cannot assure you that it will not have a high level of gearing in the future. The high level of gearing would expose the Target Group to liquidity risk which could restrict its ability to make necessary capital expenditure or develop business opportunities, and its financial condition, results of operations and growth prospects could be materially and adversely affected.

The Target Group is subject to the credit risks of its customers and may not receive full and/or timely payment of its finance lease receivables.

The Target Group's business provides finance leasing services to customers on the condition that the finance lease receivables will be fully and timely paid. The Target Group's business is therefore subject to risks that its customers may default on their payment obligations. If the Target Group's customers delay or default on their payments, the Target Group may have to make additional provision for impairment, write off the relevant finance lease receivables, and/or incur additional legal costs in order to enforce its collaterals, which in turn may adversely affect its financial condition, results of operations and growth prospects. As at 31 December 2017, 2018, 2019 and 31 October 2020, the Target Group's allowances for impairment losses of finance lease receivables and loans and receivables amounted to approximately RMB109.3 million, RMB134.1 million, RMB184.6 million and RMB286.4 million, respectively, representing 1.2%, 1.2%, 1.2% and 1.8% of its finance lease receivables and loans and receivables before allowances for impairment losses as at the same dates, respectively.

The Target Group's leased assets, collateral or guarantees securing the Target Group's leases, may not be sufficient to cover the relevant finance lease receivables.

The Target Group obtains ownership of the leased assets as security for its finance leases, and require additional security for certain leases. For purposes of reducing the credit risk of its leases, under its finance lease agreement, in some occasions, we require some of its lessees (and their legal representatives, shareholders and/or associated companies) to provide guarantees and/or pledges. In the case of a material breach of lease payment terms, the Target Group is entitled to enforce its security rights against such collateral and/or recover and dispose of the leased assets. The value of such collateral may decrease significantly and may be materially and adversely affected by factors including damage, losses, excess supply, devaluation or a decrease in market demand.

Similarly, material deterioration of the guarantors' financial condition or creditworthiness may significantly affect the amount the Target Group could recover under the respective guarantees. There can be no assurance that sudden deterioration of financial condition, bankruptcy or liquidation would not happen to such guarantors during the lease period.

If the value of the leased assets, or the collateral or guarantees securing the Target Group's finance leases, proves to be insufficient to compensate its losses from the relevant overdue lease payments, the Target Group may need to obtain additional security from the lessees or other sources which, however, the Target Group cannot assure you that the Target Group could achieve. Any decline in the value of the leased assets, collateral or guarantees securing its

RISK FACTORS RELATING TO THE TARGET GROUP

leases, or its failure to obtain additional security, may cause the Target Group to make additional allowance for, or write off, its non-performing assets, which may, in turn, materially and adversely affect its business, financial condition and results of operations.

The Target Group may not be able to liquidate or otherwise realise the value of the leased assets upon a lessee's default in a timely manner so as to cover any shortfall of the relevant finance lease receivables.

The Target Group's risk management systems and internal control policies may not be effective in mitigating its risk exposures.

While the Target Group strives to conduct regular reviews on the Target Group's risk management system and internal control policies, they may not be effective in mitigating its exposures to all types of risks. Some risk management and control methods are based upon industry practice, historic market behaviour and past events. As such, the Target Group may not be able to adequately identify or estimate future risk exposures, which could be significantly greater than those indicated by measures based on historical data. Other risk management methods depend on evaluation of information regarding markets, customers or other relevant matters, which may be inaccurate, incomplete, obsolete or improperly evaluated. Furthermore, if the Target Group commences business in new industry sectors, approach other customer segments or develop additional product and service offerings, the Target Group may not be in a position to adequately identify and predict future risk exposures. In addition, the Target Group's management of operational, legal or regulatory risks requires various sets of policies and procedures. Such policies and procedures may not be fully effective. Any failure of the Target Group's risk management procedures or any failure to identify applicable risks may have a material adverse effect on its financial condition, results of operations and growth prospects.

The Target Group may not be able to retain its senior management team and other key personnel, or attract qualified and experienced personnel to join the Target Group.

The Target Group's senior management team is experienced in the finance leasing industry. The senior management members are critical to the success of the Target Group's business as their business relationships with the customers and other parties including equipment manufacturers, financial institutions (such as banks) are important to the Target Group. However, the Target Group cannot assure you that any of its senior management members will not voluntarily terminate his or her employment with the Target Group or leave his or her position due to reasons beyond its control. The loss of service of any of the Target Group's senior management members, in particular its executive directors, could impair its ability to operate and make it difficult to implement its business and growth strategies. The Target Group may not be able to replace such persons within a reasonable period of time or with another person of equivalent expertise and experience, which may severely disrupt its business operations.

The Target Group's continued success also depends on its ability to attract and retain qualified personnel to manage its existing operations and future growth. The Target Group may not be able to successfully attract, assimilate or retain all the personnel with the required

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industry expertise whom the Target Group needs. The Target Group may also need to offer higher compensation and other benefits to attract and retain key personnel and therefore cannot assure you that its compensation and benefits payments will not increase unpredictably or at a greater rate than its revenue. The Target Group's failure to attract and retain qualified personnel and any increase in staffing costs to retain such personnel could have a negative impact on its ability to maintain its competitive position and grow its business, and may also have a material adverse effect on its financial condition, results of operations and growth prospects.

The Target Group are subject to risks related to changes in tax law, preferential tax treatment and other government incentives.

The Target Group has obtained certain government grants for its subsidiaries. For FY2017, FY2018, FY2019 and 10M2020, the Target Group recognised government grants of approximately RMB24.2 million, RMB4.0 million, RMB28.6 million and RMB5.3 million, respectively. For details, please refer to the section headed "Financial information – Principal components of the consolidated statements of profit or loss – Other income, gains or losses" in this circular. However, there can be no assurance that such government grants will not be reduced or ceased in the future. An occurrence of the foregoing could materially and adversely affect the Target Group's financial condition and results of operations.

The fair value measurements of certain financial assets and liabilities require the use of estimates that are based on unobservable inputs, which inherently involves a certain degree of uncertainty.

Some of the Target Group's financial assets are measured at fair value. For financial reporting purposes, fair value measurements of these financial assets are categorised into level 1, 2 or 3, based on, among other things, the degree to which the inputs to the fair value measurements are "observable." The fair value of financial assets classified in levels 1 and 2 is determined based on observable prices and inputs, while the determination of the fair value of level 3 financial assets is based on valuation techniques and various assumptions of inputs that are unobservable which inherently involve a certain degree of uncertainty. See "Fair value estimation" in Note 4.3 to the Accountant's Report as included in Appendix III to this circular for more information.

During the Track Record Period, the Target Group's level 3 financial assets consisted of equity investments. The Target Group's management determines the fair value of the Target Group's level 3 equity investments using income approach that incorporated unobservable inputs of expected rate of return. See Note 4.3 to the Accountant's Report as included in Appendix III to this circular for more information about the fair value measurement of its level 3 equity investments. Changes in these unobservable inputs will affect the estimated fair value of its level 3 financial assets, which leads to uncertainty in accounting estimation. A range of factors, many of which are beyond the Target Group's control, may influence and cause adverse changes to the estimates the Target Group uses and thereby affects the fair value of these assets and liabilities. These factors include, but are not limited to, general economic condition, changes in market interest rates and stability of the capital markets. Any of these factors, as well as others, could

RISK FACTORS RELATING TO THE TARGET GROUP

cause its estimates to vary from actual results and cause the fair value of its financial assets to fluctuate substantially. A substantial decrease in the fair value of its financial assets may have an adverse effect on its financial position and may cause the Target Group to recognise a significant fair value change in financial assets at fair value through profit or loss which may in turn adversely affect its results of operations.

The Target Group may not be able to detect and prevent fraud or other misconduct committed by the Target Group's employees or third parties.

Fraud or other misconduct committed by the Target Group's employees (such as unauthorised business transactions and breaches of the Target Group's internal policies and procedures) or by third parties (such as breach of law) may be difficult to detect and prevent, and the Target Group could be subject to financial loss, sanctions imposed by government authorities, which could seriously harm its reputation. The Target Group's risk management systems, information technology system and internal control procedures are designed to monitor its operations and overall compliance. However, the Target Group may not be able to identify non-compliance or suspicious transactions in a timely manner or at all. Furthermore, it is not always possible to detect and prevent fraud or other misconduct and the precautions the Target Group takes to prevent and detect such activities may not be effective. Hence, there exists the risk that fraud or other misconduct may have previously occurred but was undetected, or may occur in the future. This may have a material adverse effect on its financial condition and results of operations.

The Target Group may face legal proceedings and arbitration, and the Target Group may not successfully defend such lawsuit.

The Target Group may be involved in legal proceedings and arbitration claims during the ordinary course of the Target Group's business. Legal proceedings or arbitration against the Target Group is mainly in relation to contract disputes between the Target Group and its financial leasing customers. The Target Group may incur enormous legal costs in defending ourselves in such legal proceedings and arbitration. If the ruling of court or arbitration award is unfavorable to the Target Group, the Target Group may be confronted with significant legal liability, which may have a material adverse effect on the Target Group's business, financial condition, results of operations and reputation.

Disruptions to the Target Group's IT system may adversely affect the Target Group's financial condition and results of operations.

The Target Group relies on its IT system in many aspects of its operations, such as transaction processing, risk management, asset management and financial management. There can be no assurance that its operations will not be materially disrupted if any of its IT system fails due to, among other things, fire, natural disasters, power loss, software faults, computer virus attacks, conversion errors due to system upgrades, or security breaches. Any disruption to any of its IT system could materially and adversely affect its financial condition, results of operations and growth prospects.

RISK FACTORS RELATING TO THE TARGET GROUP

The Target Group operates in a highly competitive industry and failure to maintain its competitive position may adversely affect the Target Group's business.

The competition in the finance leasing industry is keen. There can be no assurance that the Target Group will be able to sustain its competitive advantage or effectively implement its business strategies. According to the Industry Report, (i) the number of the finance leasing companies in the PRC increased from 4,508 in 2015 to 12,130 in 2019; and (ii) as one of the future trends of China's finance leasing market, there will be more capital investment from various market participants, in particular (a) listed companies starting to establish subsidiaries for finance leasing operation by using "Overseas Loan under Domestic Guarantee" to lower their financial cost, (b) equipment manufacturers establishing their subsidiary finance leasing companies to indirectly sell their products through finance leasing operations in order to overcome manufacturing overcapacity problems in the PRC, and (c) companies in financial sectors expanding their finance leasing businesses. Competition from such market players may result in certain developments in its industry, business and operating environment, such as downward competitive pressure on lease rates charged to customers, expansion by existing competitors, adoption by its competitors of flexible financial services or comparatively effective branding efforts, any of which may have a material adverse impact on its business, financial condition and results of operations.

Changes in interest rates may have a significant impact on the Target Group's financial condition and the Target Group may not be able to transfer the Target Group's costs effectively to the Target Group's customers.

Since both the Target Group's finance lease income and finance cost are affected by interest rates, high volatility in interest rates will directly affect its finance cost, finance lease income and the resulting net interest margin, and, in turn, affect its profit margin and financial condition. Fluctuations in interest rates are subject to various factors beyond its control, such as the regulatory framework of the PRC banking and financial sectors and the economic and political environment in the PRC and abroad. The Target Group cannot assure you that it is able to increase interest rates charged to its customers by the same percentage. As a result, this could have an adverse effect on its business, financial condition, results of operations and growth prospect.

Fluctuations in the prices of leased equipment may adversely affect the Target Group's financial leasing business.

The Target Group's portfolio of financial leasing assets comprises various types of equipment. Fluctuations in the prices of such leased equipment may adversely affect its leasing business. If there is a significant increase in the prices of leased equipment, lessees' demands for such equipment may drop, which could in turn lead to lower demands for its leasing services. In addition, if the lessee defaults on its payment obligations, the Target Group may have to dispose

RISK FACTORS RELATING TO THE TARGET GROUP

of the leased equipment at a price significantly lower than the purchase price, which could have a material adverse impact on the Target Group's business, results of operations and financial condition.

The Target Group's allowance for impairment losses may not be adequate to cover future credit losses.

The Target Group makes allowance for impairment losses on finance lease receivables and loans and receivables in accordance with HKFRS 9. As at 31 December 2017, 2018, 2019 and 31 October 2020, the aggregate amount of its allowance for impairment losses on the above types of assets was RMB109.3 million, RMB134.1 million, RMB184.6 million and RMB286.4 million, respectively, representing 1.2%, 1.2%, 1.2% and 1.8%, respectively, of its total finance lease receivables and loans and receivables before allowances for impairment losses.

The Target Group determines the amount of allowance for impairment losses based on the Target Group's internal procedures and guidelines, which take into account of a number of factors, such as the nature and creditworthiness of its lessees and specific characteristics of industries where the Target Group's lessees operate, economic condition and trend, delinquencies, and the value of the underlying collateral and guarantees. As the accounting standards require significant judgment and estimation on the future credit risks at certain points of time, the Target Group may underestimate future risks and thus its allowance may not be adequate to cover the actual credit losses. The Target Group's allowance may prove to be inadequate if unforeseen or adverse changes occur in the PRC economy, or if other events adversely affect specific lessees and the industries or markets where they operate. Under such circumstances, the Target Group may need to make additional allowance, which could significantly reduce its profit and may materially and adversely affect its business, financial condition and results of operations.

RISKS RELATING TO THE INDUSTRY THAT THE TARGET GROUP OPERATES IN

New regulatory regime for foreign-invested finance leasing companies may have a material impact on the Target Group's business, financial condition and results of operations.

On 8 May 2018, the MOFCOM promulgated a Circular of the General Office of the Ministry of Commerce on Adjustment of Regulatory Responsibilities in respect of Financial Leasing Companies, Commercial Factoring Companies and Pawnbrokers (Shang Ban Liu Tong Han [2018] No. 165) 《商務部辦公廳關於融資租賃公司、商業保理公司和典當行管理職責調整有關事宜的通知》(商辦流通函[2018]165號) (the “**165 Notice**”). Pursuant to the 165 Notice, with effect from 20 April 2018, the CBIRC shall be responsible for formulating rules in relation to the business operations and regulation of finance leasing companies. On 26 May 2020, the CBIRC promulgated the Interim Measures for the Supervision and Administration of Finance Leasing Companies (《融資租賃公司監督管理暫行辦法》). Pursuant to the above Measures, the CBIRC shall be responsible for the formulation of business operation and supervision and administration rules for finance leasing companies and the local financial regulatory authorities at the provincial level are in charge of the supervision and administration of financial leasing

RISK FACTORS RELATING TO THE TARGET GROUP

companies. See “Regulatory Overview” and “Industry Overview.” The CBIRC may enforce stricter regulatory requirements on financial leasing companies, and applicable laws, regulations (including judicial interpretations) and regulatory requirements may change from time to time. As such the Target Group may be required to adjust the Target Group’s business accordingly, assume additional responsibility and incur additional costs in order to comply with the applicable laws, regulations, and regulatory requirements. The Target Group’s inability to meet any such stricter regulatory requirements or adapt to the aforesaid changes may cause the Target Group suffers economic loss and/or administrative penalty, and may have an adverse impact on its business operation and prospects.

Failure to obtain, renew, or retain licences, permits or approvals may affect the Target Group’s ability to conduct its business.

The Target Group is subject to a series of licensing and regulatory requirements within the PRC finance leasing industry. For instance, pursuant to the Interim Measures for the Supervision and Administration of Finance Leasing Companies (《融資租賃公司監督管理暫行辦法》) (the “**Interim Measures for Financial Leasing Companies**”), finance leasing companies shall establish a reporting system for major matters. Any of the following matters shall be reported to the local financial regulatory authorities within five working days of occurrence: (i) major affiliated transactions; (ii) major pending litigations, arbitrations; and (iii) other major matters required to be reported by the local financial regulatory authorities. In addition, the medical device finance leasing enterprises shall obtain the medical devices operation licence for operating the category three medical devices.

For more details, please refer to the section headed “Regulatory Overview” in this circular. These licensing and regulatory requirements are subject to changes in the political or economic policies in the PRC. The Target Group cannot assure you that it will be able to satisfy all relevant regulatory requirements. As a result, the Target Group may be unable to retain, obtain or renew any existing or additional licences, permits or approvals in the future, or the Target Group may be unable to fully comply with applicable laws and regulations. Failure to do so may materially and adversely affect the Target Group’s business, financial condition, results of operations and growth prospects.

The economic, political and social conditions in the PRC may have a material adverse effect on the Target Group’s business, financial conditions and results of operations.

During the Track Record Period, all of the Target Group’s revenue was derived from customers in the PRC. The Target Group’s directors expect the PRC will continue to be the dominant geographical presence of the Target Group in the foreseeable future. The Target Group’s results of operations are, to a material extent, subject to the economic, political, social conditions, government policies and legal development in the PRC. Unforeseen circumstances such as economic downturn, natural disaster and deterioration of the political environment, which are beyond its control may affect its business. The PRC economy has been transitioning from a centrally-planned economy to a more market-oriented economy for more than three decades, the PRC government exercises significant control over the economic growth of the PRC

RISK FACTORS RELATING TO THE TARGET GROUP

through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. The PRC government has implemented economic reform measures emphasising responsiveness to market forces in the development of the PRC economy. Some of these measures benefit the overall PRC economy, but may adversely affect the Target Group. For example, the Target Group's financial condition and results of operations may be adversely affected by government policies concerning the finance leasing industry in the PRC, or changes in tax regulations applicable to the Target Group in the future. If the business environment in the PRC deteriorates, its business may also be materially and adversely affected.

Uncertainties with respect to the PRC legal system could have a material adverse effect on the Target Group.

The Target Group's business and operations are conducted in the PRC and are governed by the PRC laws, regulations and rules. The PRC legal system is a civil law system based on written statutes. Prior court decisions may be cited for reference, but have limited precedential value. The PRC has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC, or may be unclear or inconsistent. As many of these laws, regulations and rules are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws, regulations and rules may involve uncertainties and may not be as consistent or predictable as in other more developed jurisdictions. Furthermore, the legal protections available to the Target Group under these laws, regulations and rules may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and could result in substantial costs and diversion of resources and the management's attention. In addition, there can be no assurance that the PRC government will not amend or revise existing laws, regulations or rules, or promulgate new laws, regulations or rules, which may have a material and adverse effect on its business, results of operations and growth prospects.

You may experience difficulties in effecting service of legal process and enforcing judgments against the Target Group and/or members of its core management team.

Since all of the Target Group's non-current assets of the operations are located in the PRC and all members of the Target Group's core management team reside within the PRC, you may encounter difficulties in effecting service of process from outside the PRC upon the Target Group and/or members of its core management team. Moreover, it is understood that the enforcement of foreign judgments in the PRC is subject to uncertainties. A judgment of a court from a foreign jurisdiction can be reciprocally recognised or enforced if the jurisdiction has a treaty with the PRC or if the judgments of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of other requisite requirements.

The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the Cayman Islands and many other countries and regions. Therefore, recognition and enforcement in the PRC of judgments of a court in any of these non-PRC

RISK FACTORS RELATING TO THE TARGET GROUP

jurisdictions in relation to any matter not subject to a binding arbitration provision could be difficult or impossible.

RISKS RELATING TO THIS CIRCULAR

Certain statistics, industry data and other information relating to general economy and industry environment contained in this circular are derived from various publications by official governmental authorities, industry associations and other entities, and the Company and/or its Directors, agents and advisers cannot assure the accuracy and completeness of such statistics, data and information.

Certain statistics, industry data and other information relating to the general economy and industry environment contained in this circular were derived from various publications by official governmental authorities, industry associations and other entities. The statistics, data and information contained in these publications are provided through channels such as governmental authorities and industry associations.

As such, the Company or its Directors, agents and advisers cannot assure or make any representation as to the accuracy or completeness of such statistics, data and information. None of the Company or the Target Group, their respective legal advisers or any of their respective associates, directors, employees, agents or advisers has prepared or independently verified the accuracy or completeness of such statistics, data and information directly or indirectly derived from sources and channels such as official governmental authorities and industry associations. Due to the possibility of flawed collection methods, discrepancies in published information, different market practices or other problems, the statistics, industry data and other information relating to the general economy and industry environment derived from sources such as official governmental authorities and industry associations may be inaccurate or may not be comparable to statistics produced from other sources, and thus should not be unduly relied upon.

Shareholders should give careful consideration as to how much weight or importance to attach or place on such statistics, industry data and other information relating to the general economy and the industries.

This circular contains forward looking statements.

This circular contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- the business strategies and plans to execute these strategies;
- the operations and business prospects, including development plans for the existing and new businesses;
- the financial conditions;

RISK FACTORS RELATING TO THE TARGET GROUP

- availability of bank loans and other forms of financing;
- the ability to reduce costs;
- the future developments trends, conditions and competitive environment in the industry;
- the effect of the global financial markets and economic crisis;
- changes or volatility in interest rates, foreign exchange rates and overall market changes;
- the regulatory environment for the industry in general; and
- the general economic trend of the PRC and general economic conditions.

The words “anticipate”, “believe”, “consider”, “could”, “estimate”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “potential”, “project”, “seek”, “will”, “would”, and similar expressions and the negative of these words, as they relate to the Company or the Target Group, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect the current views of the Directors with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this circular. Investors are cautioned that reliance on any forward-looking statements involves risks and uncertainties. The uncertainties in this regard include, but are not limited to, those identified in “Risk Factors relating to the Subject Companies” of this circular, many of which are beyond the Company’s control. In light of these and other uncertainties, the inclusion of forward-looking statements in this circular should not be regarded as representations by the Company or the Directors that its plans or objectives will be achieved. If any or all of these risks or uncertainties materialise, or the underlying assumptions prove to be incorrect, the financial condition of the Company or the Subject Companies may be materially and adversely affected and actual outcomes may differ materially from those described in this circular as anticipated, believed or expected. Subject to the requirements of the Listing Rules, the Company do not intend to publicly update or otherwise revise the forward-looking statements in this circular, whether as a result of new information, future events or otherwise.

As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this circular might not occur in the way the Company expects, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this circular are qualified by reference to this cautionary statement.

HISTORY AND DEVELOPMENT OF THE TARGET GROUP

HISTORY

The Target Group was established in the PRC as a limited liability company on 11 June 2014 with the approval of Qingdao City Bureau of Commerce* (青島市商務局). Since its incorporation, the Target Company has commenced its business of provision of (i) finance leasing, which includes direct finance leasing (直租) and sale and leaseback (回租); and (ii) factoring services (保理業務) in connection with finance leasing in the PRC, and has continuously expanded its customer base and leased asset portfolio over time.

As at the Latest Practicable Date, the Target Group is a finance leasing company headquartered in Qingdao, the PRC, providing finance leasing and factoring business. With an aim to achieve sustainable business growth and create long-term shareholders' value, the Target Company strategically targets customers in four industries, including (i) public infrastructure (基礎建設), (ii) medical and healthcare (醫療), (iii) water supplies (水務) and (iv) energy industries, as the directors of the Target Group believes that these industries have sustainable growth potential. During the Track Record Period, the Target Group had customers across 21 provinces, four autonomous regions and three municipalities in the PRC.

BUSINESS DEVELOPMENT MILESTONES

The Target Group has achieved the following key milestones:

| Year | Events |
|------|--|
| 2015 | In January, the Target Group became the vice chairman member (副會長單位) of Qingdao Financial Leasing Industry Association (青島市融資租賃業協會) |
| 2016 | The Target Group successfully issued its first batch of asset-backed securities in the PRC |
| 2017 | The Target Group established a subsidiary in the China (Shanghai) Pilot Free Trade Zone (“ Shanghai FTZ ”) |
| | The Target Group's total assets exceeded the RMB10 billion mark |
| | The Target Group was awarded the “2016 Outstanding Contribution Award” by Qingdao Financial Leasing Industry Association* (青島市融資租賃業協會) |

HISTORY AND DEVELOPMENT OF THE TARGET GROUP

| Year | Events |
|------|--|
| 2018 | <p>The Target Group was awarded as “2016–2017 Qingdao Labor and Social Security Demonstration Employer with Integrity and Integrity” by Qingdao Human Resources and Social Security Bureau</p> <p>The Target Group was awarded the “2017–2018 Securitisation of Assets Jiafu Award” (2017–2018年度資產證券化介甫獎) by The 4th China Annual Conference on Asset Securitisation Organizing Committee* (第四屆資產證券化中國年會組委會)</p> |
| 2019 | <p>The Target Group began to provide factoring services in connection with finance leasing in the PRC</p> <p>The Target Group successfully issued its corporate bonds (phase one) by way of both private placement and public offering in the PRC</p> |

THE TARGET GROUP

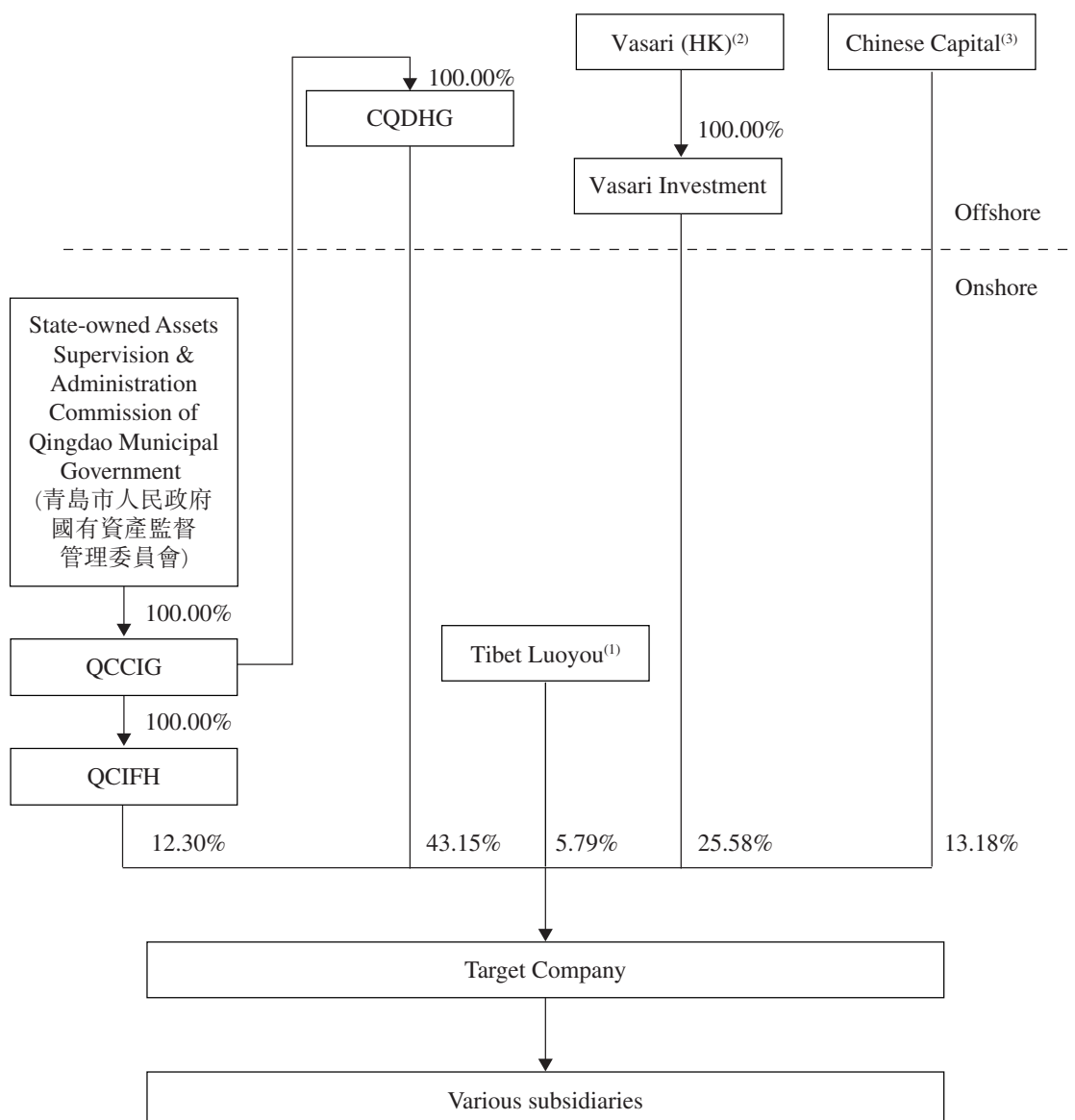
The Target Group was established in the PRC as a limited liability company on 11 June 2014 with an initial registered capital of USD49.98 million. At the time of incorporation, the Target Group was held as to 51% by QCCIG, 25% by NUR, 12% by Longyuan Taifu Investment and 12% by Shanghai Luoyou Investment Management Company Limited* (上海絡優投資管理有限公司) (as Tibet Luoyou then was).

In December 2015, the then shareholders of the Target Group duly transferred their equity interests in the Target Group as follows:

1. NUR transferred its 11% equity interests in the Target Company to CQDHG;
2. NUR transferred its other 11% equity interests in the Target Company to Tibet Luoyou;
3. NUR transferred its remaining 3% equity interests in the Target Company to Vasari Investment;
4. QCCIG transferred its entire 51% equity interests in the Target Company to QCIFH; and
5. Longyuan Taifu Investment transferred its entire 12% equity interests in the Target Company to Chinese Capital.

HISTORY AND DEVELOPMENT OF THE TARGET GROUP

As a result of the abovementioned equity interests transfers and subsequent capital injections, the Target Company was held as to approximately 43.15% by CQDHG, 25.58% by Vasari Investment, 13.18% by Chinese Capital, 12.30% by QCIFH and 5.79% by Tibet Luoyou. The shareholding chart of the Target Group before the transfer of equity interest in the Target Group by Vasari Investment and Chinese Capital to CQDHG is set out below:



Notes:

- (1) 97.9%, 1.5%, 0.3% and 0.3% equity interest in Tibet Luoyou was owned by Ms. Wang, Mr. Zhu, Mr. Xu and Mr. Hou, respectively.
- (2) 76.0% and 24.0% equity interest in Vasari (HK) was owned by Mr. Zhu Mingliang (朱明亮) and Mr. Zhang Chong (張沖), respectively.
- (3) 50.0% and 50.0% equity interest in Chinese Capital was owned by Mr. Jigang (紀綱) and Ms. Wang Lu (王璐), respectively.

HISTORY AND DEVELOPMENT OF THE TARGET GROUP

On 20 August 2020, pursuant to the sale and purchase agreement between CQDHG and Vasari Investment (the “**First SPA**”); and the sale and purchase agreements between CQDHG and Chinese Capital (the “**Second SPA**”), CQDHG has conditionally agreed to acquire, and Vasari Investment and Chinese Capital have conditionally agreed to sell, its respective 25.58% and 13.18% of the equity interest in the Target Group to CQDHG.

The principal terms of the First SPA are set out below:

Date:

20 August 2020

Parties

- (i) The purchaser: CQDHG
- (ii) The vendor: Vasari Investment

Subject Matter

Pursuant to the First SPA, CQDHG has conditionally agreed to acquire, and Vasari Investment has conditionally agreed to sell 25.58% of the equity interest in the Target Group.

Consideration

The Consideration is approximately US\$97.5 million, and was determined after arm’s length negotiations between Vasari Investment and CQDHG on normal commercial terms and with reference to (i) the reassessed net asset value of the Target Group based on the asset approach valuation methodology with reference to the audited consolidated net asset value of the Target Group as at 31 December 2019 under PRC GAAP; (ii) the historical financial performance of the Target Group; and (iii) the market position, industry outlook, business development and growth prospects of the Target Group.

Completion

Pursuant to the First SPA, completion shall take place on a date within three (3) Business Days after fulfillment or waiver (as the case may be) of all of the conditions precedent as set out therein or such other date as CQDHG and Vasari Investment may agree in writing. All such conditions precedent have been fulfilled and completion of the First SPA took place in December 2020.

HISTORY AND DEVELOPMENT OF THE TARGET GROUP

The principal terms of the Second SPA are set out below:

Date:

20 August 2020

Parties

- (i) The purchaser: CQDHG
- (ii) The vendor: Chinese Capital

Subject Matter

Pursuant to the Second SPA, CQDHG has conditionally agreed to acquire, and Chinese Capital has conditionally agreed to sell 13.18% of the equity interest in the Target Group.

Consideration

The Consideration is approximately US\$51.5 million, and was determined after arm's length negotiations between Chinese Capital and CQDHG on normal commercial terms and with reference to (i) the reassessed net asset value of the Target Group based on the asset approach valuation methodology with reference to the audited consolidated net asset value of the Target Group as at 31 December 2019 under PRC GAAP; (ii) the historical financial performance of the Target Group; and (iii) the market position, industry outlook, business development and growth prospects of the Target Group.

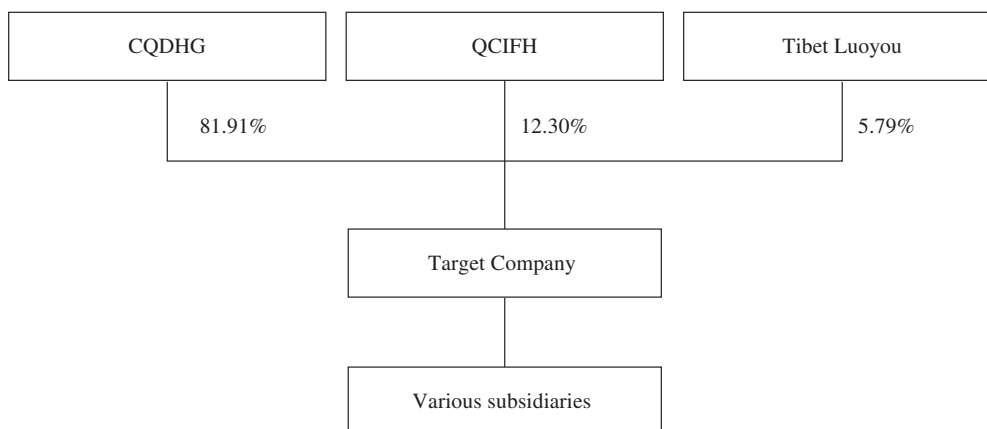
Completion

Pursuant to the Second SPA, completion shall take place on a date within three (3) Business Days after fulfillment or waiver (as the case may be) of all of the conditions precedent as set out therein or such other date as CQDHG and Chinese Capital may agree in writing. All such conditions precedent have been fulfilled and completion of the Second SPA took place in December 2020.

Upon the completion of the respective equity transfers pursuant to the First SPA and the Second SPA, the Target Group is held as to approximately 81.91% by CQDHG, 12.30% by QCIFH and 5.79% by Tibet Luoyou.

HISTORY AND DEVELOPMENT OF THE TARGET GROUP

The shareholding chart of the Target Group upon completion of the First SPA and Second SPA and as of the Latest Practicable Date is set out below:



MEMBERS OF THE TARGET GROUP

As at the Latest Practicable Date, the Target Group comprised of three material operating subsidiaries with details as set forth below:

| No. | Name | Date of incorporation | Place of incorporation | Principal business activities | Interest held by the Target Group as at the Latest Practicable Date |
|-----|--|-----------------------|------------------------|--|---|
| 1. | Qingdao Rongsheng New Energy Company Limited* (青島融晟新能源有限公司) | 24 September 2019 | The PRC | Development of new energy projects | 100% |
| 2. | Qingdao Yulinyuan Investment Company Limited* (青島玉麟源投資有限公司) | 16 September 2013 | The PRC | Management of assets invested with own funds; undertaking investment activities with own funds | 100% |
| 3. | Shanghai Qingtou Finance Leasing Company Limited* (上海青投融資租賃有限公司) | 12 January 2017 | The PRC | Provision of finance leasing services | 100% |

HISTORY AND DEVELOPMENT OF THE TARGET GROUP

Qingdao Rongsheng New Energy Company Limited* (青島融晟新能源有限公司) (“Qingdao Rongsheng”)

Qingdao Rongsheng was established in the PRC as a limited liability company on 24 September 2019 with an initial registered capital of RMB29,980,000. At the time of incorporation, Qingdao Rongsheng was wholly owned by the Target Company.

As at the Latest Practicable Date, Qingdao Rongsheng is a wholly-owned subsidiary of the Target Company and is principally engaged in the business of investment in new energy projects.

Qingdao Yulinyuan Investment Company Limited* (青島玉麟源投資有限公司) (“Qingdao Yulinyuan”)

Qingdao Yulinyuan was established in the PRC as a limited liability company on 16 September 2013 with an initial registered capital of RMB500,000. At the time of incorporation, Qingdao Yulinyuan was held as to 90% by Zhou Ni (周妮) and 10% by Sun Shengnan (孫勝男). In December 2015, the then shareholders of Qingdao Yulinyuan transferred the equity interests in the Qingdao Yulinyuan as follows:

1. On 11 December 2015, Zhou Ni transferred 90% equity interests in Qingdao Yulinyuan to the Target Group at a consideration of RMB2,865,041.71.
2. On 11 December 2015, Sun Shengnan transferred 10% equity interests in Qingdao Yulinyuan to the Target Group at a consideration of RMB318,337.95.

As at the Latest Practicable Date, Qingdao Yulinyuan is a wholly-owned subsidiary of the Target Company and is principally engaged in the business of asset management and investment activities.

Shanghai Qingtou Finance Leasing Company Limited* (上海青投融資租賃有限公司) (“Shanghai Qingtou”)

Shanghai Qingtou was established in the PRC as a limited liability company on 12 January 2017 with an initial registered capital of USD170,000,000. At the time of incorporation, Shanghai Qingtou was held as to 75% by the Target Company and 25% by the China Golden Harbour (Holding) Group Company Limited* (中國金港(控股)集團有限公司) (“**Golden Harbour**”).

As at the Latest Practicable Date, Shanghai Qingtou is owned as to 100% by the Target Company and is principally engaged in the business of provision of (i) finance leasing and (ii) factoring services (保理業務) in connection with finance leasing.

OVERVIEW

The Target Group is a finance leasing company headquartered in Qingdao, providing (i) finance leasing service, which includes direct finance leasing (直租) and sale and leaseback (回租) and (ii) factoring service (保理業務) in connection with finance leasing service in the PRC. The Target Group is established with the approval of Qingdao City Bureau of Commerce* (青島市商務局). The Target Group is one of the leading foreign-funded financial leasing companies in the PRC focusing on the medical and healthcare, public infrastructure, travelling and tourism sectors. According to the Industry Report, the Target Group ranked: (i) fourth in terms of revenue in medical device financial leasing among the foreign-funded medical device financial leasing companies in the PRC; and (ii) fifth in terms of the medical device finance lease receivables among the foreign-funded medical device financial leasing companies in the PRC.

The Target Group currently operates its business by targeting customers in four targeted industries in the PRC, including (i) public infrastructure (基礎建設), (ii) medical and healthcare (醫療), (iii) water supplies (水務) and (iv) energy industries (能源). The Target Group strategically focuses its business on these industries as the Target Group believes that they have sustainable growth potential. As a result of the Target Group's risk appetite on industry and the quality of customers, the Target Group had a diverse customer base across 21 provinces, four autonomous regions and three municipalities in the PRC during the Track Record Period. During the Track Record Period, all of the Target Group's revenue is generated in the PRC.

Since the commencement of the Target Group's business in 2014, the Target Group has continuously expanded its customer base and leased asset portfolio. In particular, the Target Group's revenue experienced growth from FY2017 to FY2019 with CAGR of 39.5%, and increased by 26.0% from 10M2019 to 10M2020.

The Target Group's finance leasing offerings include sale and leaseback and direct finance leasing. During the Track Record Period, the Target Group's sale and leaseback was mainly used by the customers in (i) public infrastructure (基礎建設), (ii) medical and healthcare (醫療), (iii) water supplies (水務) and (iv) energy industries, and over 90% of the Target Group's revenue were derived from the sale and leaseback transactions. The Target Group's direct finance leasing transactions were mainly entered into with customers in the energy industries.

According to the Industry Report, in 2019, foreign-funded medical device finance leasing companies accounted for approximately 75.0% in terms of finance lease receivables, and 76.9% in terms of revenue, of the overall medical device finance leasing market in the PRC. With medical device finance lease receivables with carrying amount of approximately RMB3.3 billion as at 31 December 2019, accounting for a market share of 1.0% among overall medical device finance leasing market in the PRC in 2019, the Target Group ranked fifth among foreign-funded medical device finance leasing companies in the PRC by medical device finance lease receivables in 2019. With a revenue of approximately RMB334.4 million for FY2019 in medical device finance leasing, accounting for a market share of 1.2% among overall medical device finance leasing market in the PRC in 2019, the Target Group ranked fourth among foreign-funded medical device finance leasing companies in the PRC by revenue in medical device finance leasing in 2019.

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Despite the Target Group's relatively short operating history, the Target Group has been able to achieve considerable growth during the Track Record Period mainly due to the following reasons:

- (i) the favourable PRC government policies which encouraged non-bank finance organisations, including finance leasing companies, to provide high quality, efficient trust and finance leasing services for China's manufacturing and service industry have surged the finance leasing market. For further details regarding the PRC government policies, please refer to the sections headed "Appendix I – Industry Overview" and "Appendix II – Regulatory Overview" in this circular;
- (ii) the Target Group strategically focused on four targeted industries, namely (i) public infrastructure, (ii) medical and healthcare, (iii) water supplies and (iv) energy industries, which are fast growing industries with increasing demand for finance leasing services; and
- (iii) the members of the Target Group's core management team have extensive experience in providing finance leasing service to customers in the targeted industries, which enable the Target Group to better understand each targeted industry and its customers' financing needs. For further details regarding the experience of the members of the Target Group's core management team, please refer to the section headed "Core Management Team of the Target Group" in this circular.

During the Track Record Period, the Target Group funded its business operations through a combination of internal capital and external funding channels, including borrowings from banks and other financial institutions, related companies, as well as via asset-backed securities and bond issuances. The Target Group believes that a diversified source of funds would help lower the Target Group's cost of capital and provide flexibility to the Target Group.

As at 31 December 2017, 2018, 2019 and 31 October 2020, the balances of the Target Group's financial institution borrowings amounted to approximately RMB6,792.5 million, RMB7,287.5 million, RMB6,809.5 million and RMB3,730.9 million, respectively. As at 31 December 2017, 2018, 2019 and 31 October 2020, the bonds payable amounted to RMB512.4 million, RMB1,489.7 million, RMB5,170.3 million and RMB8,363.1 million, respectively. For FY2017, FY2018, FY2019 and 10M2020, the Target Group's interest expenses on (i) borrowings from bank and other financial institutions; (ii) bonds payable; (iii) borrowings from related parties; and (iv) sale and leaseback services amounted to approximately RMB344.3 million, RMB477.8 million, RMB607.8 million and RMB551.3 million, respectively.

The Target Group's revenue experienced growth from FY2017 to FY2019 with CAGR of 39.5%. The Target Group's revenue increased by 45.8% from approximately RMB594.5 million for FY2017 to approximately RMB866.5 million for FY2018, and further increased by 33.6% to approximately RMB1,157.3 million for FY2019. The Target Group's revenue also increased by 26.0% from approximately RMB938.8 million for 10M2019 to approximately RMB1,182.6 million for 10M2020. The Target Group's net profit increased by 17.8% from approximately

BUSINESS OF THE TARGET GROUP

RMB221.2 million for FY2017 to approximately RMB260.6 million for FY2018, and further increased by 29.3% to approximately RMB336.9 million for FY2019. The Target Group's net profit also increased by 37.0% from approximately RMB272.3 million for 10M2019 to approximately RMB373.3 million for 10M2020.

The following table sets forth a breakdown of the Target Group's revenue by service type during the Track Record Period:

| | FY2017 (RMB million) | FY2018 (RMB million) | FY2019 (RMB million) | 10M2019 (RMB million) (unaudited) | 10M2020 (RMB million) |
|-----------------------------------|--------------------------------|--------------------------------|--------------------------------|--|---------------------------------|
| Interest income | | | | | |
| – Sale and leaseback transactions | 588.6 | 860.8 | 1,147.1 | 933.9 | 1,111.0 |
| – Factoring | – | – | 6.4 | 2.4 | 56.3 |
| Finance lease income | | | | | |
| – Direct finance leasing | 3.4 | 3.3 | 3.5 | 2.6 | 7.4 |
| Subtotal | 592.0 | 864.1 | 1,156.9 | 938.8 | 1,174.6 |
| Rental income | 2.5 | 2.5 | – | – | – |
| Others | – | – | 0.4 | – | 8.0 |
| Total | <u>594.5</u> | <u>866.5</u> | <u>1,157.3</u> | <u>938.8</u> | <u>1,182.6</u> |

During the Track Record Period, the Target Group primarily generated its revenue from sales and leaseback finance lease income and direct finance lease income. Generally, the Target Group derived over 90% of its revenue from sale and leaseback transactions.

Below table sets forth the components of the Target Group's interest income during the Track Record Period.

| | FY2017 (RMB million) | FY2018 (RMB million) | FY2019 (RMB million) | 10M2019 (RMB million) (unaudited) | 10M2020 (RMB million) |
|-----------------------------------|--------------------------------|--------------------------------|--------------------------------|--|---------------------------------|
| Interest income | | | | | |
| – Sale and leaseback transactions | 588.6 | 860.8 | 1,147.1 | 933.9 | 1,111.0 |
| – Factoring | – | – | 6.4 | 2.4 | 56.3 |
| Finance lease income | | | | | |
| – Direct finance leasing | 3.4 | 3.3 | 3.5 | 2.6 | 7.4 |
| Total | <u>592.0</u> | <u>864.1</u> | <u>1,156.9</u> | <u>938.8</u> | <u>1,174.6</u> |

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Sale and leaseback

The following table sets forth the percentage of receivables (net value) arising from sale and leaseback transactions by industry as at the date indicated:

| Industry | 31 December 2017 | | 31 December 2018 | | 31 December 2019 | | 31 October 2019 | | 31 October 2020 | |
|--|------------------|---------------|------------------|---------------|------------------|---------------|------------------|---------------|------------------|---------------|
| | (RMB million) | % | (RMB million) | % | (RMB million) | % | (RMB million) | % | (RMB million) | % |
| Medical and healthcare | 3,130.2 | 33.8% | 4,183.1 | 36.1% | 3,345.9 | 22.3% | 3,575.8 | 24.1% | 2,564.9 | 17.0% |
| Public infrastructure | 1,785.8 | 19.3% | 1,850.1 | 15.9% | 2,554.8 | 17.0% | 2,672.4 | 18.0% | 2,405.7 | 16.0% |
| Water supplies | 1,441.0 | 15.6% | 2,119.0 | 18.3% | 3,794.4 | 25.2% | 3,642.9 | 24.5% | 4,173.8 | 27.7% |
| Transportation | 928.6 | 10.0% | 1,267.6 | 10.9% | 1,199.2 | 8.0% | 1,224.8 | 8.2% | 788.3 | 5.2% |
| Heating | 470.0 | 5.1% | 485.2 | 4.2% | 937.2 | 6.2% | 966.3 | 6.5% | 1,179.6 | 7.8% |
| Travelling and tourism | 385.8 | 4.2% | 744.3 | 6.4% | 2,413.3 | 16.1% | 1,959.6 | 13.2% | 2,867.7 | 19.0% |
| Energy | 189.7 | 2.1% | 223.6 | 1.9% | 243.8 | 1.6% | 246.1 | 1.7% | 179.9 | 1.2% |
| Aviation | 92.4 | 1.0% | 91.9 | 0.8% | 84.3 | 0.6% | 87.2 | 0.6% | 90.4 | 0.6% |
| Education | 73.9 | 0.8% | 17.3 | 0.1% | 5.9 | 0.0% | 6.0 | 0.0% | – | 0.0% |
| Gas | 43.6 | 0.5% | 84.9 | 0.7% | 73.3 | 0.5% | 72.3 | 0.5% | 60.0 | 0.4% |
| Others* | 706.6 | 7.6% | 540.6 | 4.7% | 383.1 | 2.5% | 400.1 | 2.7% | 755.2 | 5.0% |
| Total gross value of sale and leaseback receivables | 9,247.4 | 100.0% | 11,607.6 | 100.0% | 15,035.2 | 100.0% | 14,853.5 | 100.0% | 15,065.5 | 100.0% |
| Less: Loss allowance | (108.8) | | (133.7) | | (180.5) | | (218.4) | | (279.5) | |
| Total net value of sale and leaseback receivables | 9,138.6 | | 11,474.0 | | 14,854.7 | | 14,635.1 | | 14,786.0 | |

* During the Track Record Period, the Target Group also generated revenue from other industries including the broadcasting, building materials manufacturing, metallurgy, mining, logistics, retail and real estate industries.

The Target Group's loans and receivables (net value) relating to sale and leaseback transactions increased by 25.6% from approximately RMB9,138.6 million as at 31 December 2017 to approximately RMB11,474.0 million as at 31 December 2018, which then further increased by 29.5% to approximately RMB14,854.7 million as at 31 December 2019. It then slightly decreased by 0.5% to approximately RMB14,786.0 million as at 31 October 2020.

As at 31 December 2017, 2018, 2019 and 31 October 2020, the Target Group had 155, 239, 322 and 376 finance lease agreements under sale and leaseback service, respectively.

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Direct finance leasing

The following table sets forth the percentage of finance lease receivable (net value) in connection with direct finance leasing by customer industry as at the dates indicated:

| Industry | 31 December 2017 | | 31 December 2018 | | 31 December 2019 | | 31 October 2019 | | 31 October 2020 | |
|--|------------------|---------------|------------------|---------------|------------------|---------------|---------------------------------|---------------|------------------|---------------|
| | (RMB million) | % | (RMB million) | % | (RMB million) | % | (RMB million) (unaudited) | % | (RMB million) | % |
| Energy | 40.3 | 100.0% | 30.0 | 90.8% | 53.2 | 97.1% | 52.6 | 96.7% | 152.9 | 100.0% |
| Others* | – | 0.0% | 3.1 | 9.2% | 1.6 | 2.9% | 1.8 | 3.3% | – | 0.0% |
| Total gross value of finance lease receivable | 40.3 | 100.0% | 33.1 | 100.0% | 54.7 | 100.0% | 54.4 | 100.0% | 152.9 | 100.0% |
| Less: Provision for impairment losses | (0.6) | | (0.4) | | (1.2) | | (0.3) | | (1.1) | |
| Total net value of finance lease receivable | 39.7 | | 32.6 | | 53.5 | | 54.1 | | 151.8 | |

* During the Track Record Period, the Target Group also generated revenue from other industries, including the retail industry.

During the Track Record Period, customers from the energy industry accounted for approximately 100.0%, 90.8%, 97.1% and 100.0% of the Target Group's finance lease receivables in FY2017, FY2018, FY2019 and 10M2020, respectively.

The Target Group's finance lease receivables (net value) relating to connection with direct finance leasing decreased by 17.9% from approximately RMB39.7 million as at 31 December 2017 to approximately RMB32.6 million as at 31 December 2018, which then increased by 64.1% to approximately RMB53.5 million as at 31 December 2019. It then further increased by 183.7% to approximately RMB151.8 million as at 31 October 2020.

The Target Group implements stringent procedures to minimise its risk exposure and strive to continue improving and enhancing the risk management of its business, as the Target Group believes it.

For details of the risk management and control, please refer to the section headed "Risk Management and Operation of the Target Group" in this circular.

THE TARGET GROUP'S COMPETITIVE STRENGTHS

The Target Group's directors believe that its competitive strengths set out below have driven growth in the Target Group's business and financial performance.

The Target Group strategically focuses on fast growing industries which have increasing demand for finance leasing and related services

The Target Group's business strategically focuses on the (i) public infrastructure, (ii) medical and healthcare, (iii) water supplies and (iv) energy industries in the PRC, as these are fast growing industries with increasing demand for finance leasing and related services. In addition, through maintaining a mix of customers from these different targeted industries, the Target Group can diversify its risks from over reliance on any single industry. The Target Group believes that such strategy has enabled the Target Group to achieve substantial growth despite the Target Group's relatively short operating history since the commencement of its business in 2014.

The PRC finance leasing industry is in a stage of rapid development. In September 2015, the State Council promulgated the Guiding Opinions on Accelerating the Development of the Finance Leasing Industry (國務院辦公廳關於加快融資租賃業發展的指導意見), which sets out the national strategy to encourage the development of the finance leasing businesses in areas such as (i) public infrastructure, (ii) medical and healthcare, (iii) water supplies and (iv) energy supplies industries.

With the development of urbanisation, upgrade and expansion of public infrastructure, the improvement of health awareness and the rise of ageing population problem in the PRC, it is expected that a lot of business opportunities will arise from the financing needs of (i) public infrastructure and (ii) medical and healthcare equipment and assets.

According to the Industry Report, the (i) fixed assets investment of public infrastructure industry in the PRC is expected to increase from approximately RMB15,273.7 billion in 2019 to approximately RMB20,469.0 billion in 2024, with CAGR of approximately 6.0%; and (ii) the fixed assets investment of medical and healthcare industry in the PRC is expected to increase from approximately RMB772.6 billion in 2019 to approximately RMB927.4 billion in 2024, with CAGR of approximately 3.7%.

According to the Industry Report, the (i) fixed assets investment of water suppliers in the PRC is expected to increase from approximately RMB663.2 billion in 2019 to approximately RMB1,141.1 billion in 2024, with CAGR of approximately 11.5%. Further, according to the same report, the (ii) total installed capacity of renewable energy in the PRC is also expected to increase from 794.0 million kilowatt in 2019 to 967.4 million kilowatt in 2024, with CAGR of approximately 4.0%.

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Leveraging on the connections, knowledge and experience that the Target Group has accumulated in the (i) public infrastructure, (ii) medical and healthcare, (iii) water supplies and (iv) energy industries, the Target Group believes these paved a solid foundation and have provided significant expansion opportunities to the Target Group's business in the foreseeable future.

The Target Group has strong capabilities in providing efficient and customised finance leasing services to the target customers by leveraging the Target Group's established industry expertise

The Target Group strives to provide efficient and customised finance leasing services to its customers. Through finance leasing business, the Target Group has established its diversified customer base and strong customer relationships as the Target Group possesses deep knowledge of the industries where our targeted customers are in. These enable the Target Group to be more attentive to its customers' needs and tailor-make its finance leasing services to better serve its customers.

Established regional footprint in Shanghai and strong customer base

The Target Group has established a subsidiary in the Shanghai FTZ which is well supported by various departments responsible for district tasks. The Target Group considered this has provided a solid foundation for the Target Group to establish strong foothold and reputation in the market.

According to the Industry Report, many of the foreign-funded leasing markets are located in, among others, the Shanghai FTZ due to favourable policies and convenient locations for imports.

In addition, the Target Group believes that having a subsidiary, supported by various departments in Shanghai will allow its customers to recognise its market reputation and consolidate customers' confidence in its services. Furthermore, Shanghai's relatively higher level of business diversity across the PRC is also attractive for the Target Group to source new customers, identify appropriate partners to collaborate with and promote its products and services in Huadong (華東) regions.

The Target Group has implemented prudent risk management and internal control processes

The Target Group strives to balance business development, risk management and operation efficiency. The Target Group has established comprehensive risk management and internal control processes to deal with various risks relating to the Target Group's business. The Target Group's risk management process is 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. The Target Group's risk management process also includes a continuous review process after the finance leasing project is approved.

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The Target Group's 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 Target Group to identify any potential default of its customer and take remedial actions to enhance the security of the Target Group's assets at an early stage. For further details, please refer to the section headed "Risk Management and Operation of the Target Group" in this circular.

As at 31 October 2020 and the Latest Practicable Date, the Target Group had 399 and 356 customers, respectively. The Target Group believes such customer base allows the Target Group to diversify its risks from over reliance and general adverse trends in any particular industry or any particular key customers.

The Target Group has an experienced and dedicated management team

The Target Group's management team includes a group of experienced and dedicated professionals in the finance leasing and finance industry:

- Mr. Shang – Mr. Shang has around 19 years of experience in the finance industry. His extensive experience in the finance industry enables him to better identify business opportunities and potential risks arising from constant market changes.
- Mr. Wan – Mr. Wan has over 24 years of experience in finance industry. His experience in finance industry enables him to better understand the inherent risks involved in different types of transactions, especially those finance leasing projects in the public infrastructure industry with larger transaction amounts.
- Ms. Zhang – Ms. Zhang has over 22 years of experience in accounting and finance, which includes over 6 years of experience working in the finance leasing industry in the PRC. Her experience in accounting and finance helps strengthen the Target Group's credit risk management by providing analysis on the financial condition and capability of its customers and potential lessees.

For more details of the experience of the members of the Target Group's core management team, please refer to the section headed "Core Management Team of the Target Group" in this circular. The Target Group's core management team has generally remained stable during the Track Record Period. The Target Group believes that its core management team possesses in-depth knowledge in the finance leasing industry, which is critical to the Target Group in order to provide the Target Group's finance leasing services to its customers, to seize market opportunities, formulate sound business strategies, manage risks, and as a result, to maximise the Target Group's shareholders' value.

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THE TARGET GROUP'S BUSINESS STRATEGIES

The Target Group's objective is to achieve a sustainable growth in its business and create long-term Shareholders' value. The Target Group intends to achieve this by implementing the following corporate strategies:

Continue to develop business with existing or new customers in industries with growth potential and optimise the asset portfolio structure of the Target Group's finance leasing business

The Target Group strives to expand the Target Group's finance leasing business and increase the Target Group's market share as a non-bank financial service provider.

According to the Industry Report, the PRC finance leasing market, in terms of finance lease receivables, is expected to grow from approximately RMB6.7 trillion in 2019 to approximately RMB9.5 trillion in 2024, with CAGR of approximately 7.3%. Meanwhile, new contract volume is expected to grow from approximately RMB4.4 trillion in 2019 to approximately RMB6.9 trillion in 2024, with CAGR of approximately 9.6%. The Target Group believes there is substantial growth potential in market demand for finance leasing services in the PRC.

Under the current economic environment in the PRC, the Target Group considers that the (i) public infrastructure, (ii) medical and healthcare, (iii) water supplies and (iv) energy industries have sustainable growth potential and the Target Group intends to continue to strategically focus on these industries. The Target Group shall monitor the market condition closely and make necessary adjustments on the portfolio mix of the Target Group.

Public infrastructure

As at the Latest Practicable Date, the Target Group had approved 5 projects which have yet to be executed, with the total principal amounting to approximately RMB446 million. As at the Latest Practicable Date, the Target Group had received 7 applications for finance leasing services (which are pending for approval), with the principal amounting to approximately RMB693 million.

Medical and healthcare

As at the Latest Practicable Date, the Target Group had no outstanding project which has yet to be executed and had not received any applications for finance leasing services (which are pending for approval).

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Water supplies

As at the Latest Practicable Date, the Target Group had approved 8 projects which have yet to be executed, with the total principal amounting to approximately RMB792 million. As at the Latest Practicable Date, the Target Group had received 3 applications for finance leasing services (which are pending for approval), with the principal amounting to approximately RMB297 million.

Energy

As at the Latest Practicable Date, the Target Group had approved 5 projects which has yet to be executed, with the principal amounting to approximately RMB153 million. As at the Latest Practicable Date, the Target Group had received 1 application for finance leasing services (which are pending for approval), with the principal amounting to approximately RMB7 million.

During the Track Record Period, the Target Group had over 302 finance lease customers from both direct finance leasing (直租) and sale and leaseback (回租).

The Target Group primarily rely on its business development staff members to expand its business network and to reach out to its potential customers. They are required to participate in related industry fairs to exchange market intelligence with industry peers and to expand the Target Group's market presence to the Target Group's potential customers. In addition, the Target Group endeavours to establish long-term business relationships with them by continuously communicating with existing and potential customers to understand their needs and proactively offering appropriate and prompt solutions to their needs, with an aim to build a good reputation to retain existing customers, attract new customers and obtain referrals from existing leads.

Continue to enhance the Target Group's risk management capabilities

The Target Group intends to continue to improve its risk management capabilities. The Target Group also intends to proactively streamline its procedures to enhance its customer selection process, credit assessment and approval procedures. In particular, the Target Group shall prioritise risk management in developing new products and business in new industries, place more attention on implementing effective criteria for customer selection and strictly control the exposure to losses incurred by a single investment. The Target Group also intends to enhance its risk conversion capabilities to deal with illiquid assets and defaulted principal and interest. Finally, the Target Group shall continue to expand its risk management team by recruiting more professionals such as PRC registered valuers, accountants, lawyers and experienced risk review officers in order to effectively manage the risks associated with the Target Group's expanded business operations.

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Diversifying the Target Group's financing source, lowering the Target Group finance costs, and exploring financing alternatives to improve the Target Group's investment returns

The Target Group intends to maintain diversified funding channels through various banks and non-bank financial institutions and use a combination of borrowings of different terms to further control the Target Group's finance costs and strengthen the Target Group's funding capacities as and when appropriate. Specifically, the Target Group intends to further its cooperation with a wide range of banks and financial institutions and utilise more diversified financial instruments.

Continue to select, develop, motivate and retain a talented and professional workforce

To build a first-tier team of professionals and ensure the sustainable development of the Target Group's business, the Target Group plans to further strengthen its workforce in order to meet its strategic goals. The Target Group will continue to focus on recruiting professionals and cultivating the technical expertise and industrial knowledge of its workforce, provide training and development programmes to enhance their professional knowledge and capability, and encourage personal and professional development of its employees. The Target Group will improve its appraisal and performance review, ensure its remuneration system in line with the market, and improve its human resources policies for recruiting and retaining professionals who have experience in the industries where our targeted customers are in.

BUSINESS OPERATIONS

The Target Group operates in the PRC through its headquarters in Qingdao. The Target Group offers (i) finance leasing service, which includes direct finance leasing and sale and leaseback and (ii) factoring service in connection with finance leasing service.

(A) Finance leasing

The Target Group categorises its finance leasing operations into two types: (i) sale and leaseback and (ii) direct finance leasing. During the Track Record Period, the Target Group funded its business operations through a combination of internal capital and external funding channels, including borrowings from banks and other financial institutions, related companies, as well as via asset-backed securities and bond issuances.

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The following table sets forth the number and value of leasing contracts^(Note) that the Target Group provided finance leasing services during the Track Record Period:

| Type | 31 December 2017 | | | 31 December 2018 | | | 31 December 2019 | | | 31 October 2020 | | |
|------------------------|------------------|-----------------|---------------|------------------|-----------------|---------------|------------------|-----------------|---------------|------------------|-----------------|---------------|
| | No. of contracts | Value | | No. of contracts | Value | | No. of contracts | Value | | No. of contracts | Value | |
| | | (RMB million) | % | | (RMB million) | % | | (RMB million) | % | | (RMB million) | % |
| Sale and leaseback | 155 | 11,093.7 | 99.6% | 239 | 15,974.7 | 99.7% | 322 | 22,695.6 | 99.5% | 349 | 24,929.1 | 99.4% |
| Direct finance leasing | 2 | 42.6 | 0.4% | 2 | 44.5 | 0.3% | 6 | 111.7 | 0.5% | 16 | 156.4 | 0.6% |
| Total | 157 | 11,136.3 | 100.0% | 241 | 16,019.2 | 100.0% | 328 | 22,807.3 | 100.0% | 365 | 25,085.5 | 100.0% |

Note: Refers to the gross value of the leasing contract as at the time of entering into the leasing contract.

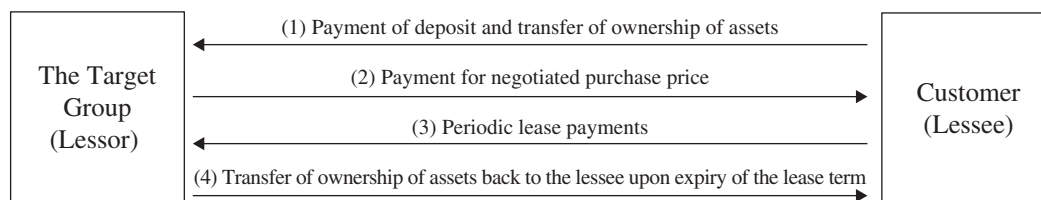
(i) Sale and leaseback

In a sale and leaseback transaction, the Target Group's customer (as lessee) sells its existing assets to the Target Group (as lessor) at a negotiated purchase price, and the lessor then leases such assets back to the lessee for its use in return for periodic lease payments (generally quarterly payment) in the Target Group's case.

The lessee may also be required to pay a security deposit, which is typically approximately 5% of the negotiated purchase price of the subject leased asset at the time of purchase. Usually in the period from 3 to 5 years, or in some cases on shorter or longer terms, the lessee repays the purchase price of the assets, interests and other fees to the lessor.

During the lease term, the lessee remains in possession of the underlying assets. At the end of the lease term, the ownership of the assets will be transferred to the lessee at a nominal consideration or for nil consideration. The Target Group believes sale and leaseback is primarily used to improve customer's working capital. During the Track Record Period, the Target Group derived over 90% of its revenue through sale and leaseback services.

A typical sale and leaseback usually involves two parties, namely lessor and lessee. The relationship between the Target Group and the customer is illustrated in the following diagram:



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The following table sets forth the breakdown of interest income from sale and leaseback transactions by industry for the years/periods indicated:

| Industry | FY2017 | | FY2018 | | FY2019 | | 10M2019 | | 10M2020 | |
|-----------------------------|-----------------------------|--------|-----------------------------|--------|-----------------------------|--------|--|--------|-----------------------------|--------|
| | Revenue (RMB million) | % | Revenue (RMB million) | % | Revenue (RMB million) | % | Revenue (RMB million) (unaudited) | % | Revenue (RMB million) | % |
| Medical and healthcare | 173.8 | 29.6% | 346.7 | 40.3% | 334.4 | 29.1% | 284.1 | 30.5% | 210.1 | 18.9% |
| Energy | 114.3 | 19.4% | 13.0 | 1.5% | 20.6 | 1.8% | 17.2 | 1.8% | 15.0 | 1.3% |
| Public infrastructure | 96.0 | 16.3% | 127.1 | 14.8% | 187.6 | 16.4% | 152.3 | 16.3% | 188.7 | 17.0% |
| Water supplies | 67.2 | 11.4% | 147.8 | 17.2% | 280.8 | 24.5% | 226.3 | 24.2% | 301.3 | 27.1% |
| Transportation | 41.1 | 7.0% | 79.0 | 9.2% | 101.7 | 8.9% | 85.3 | 9.1% | 76.2 | 6.9% |
| Heating | 27.1 | 4.6% | 36.3 | 4.2% | 65.7 | 5.7% | 51.4 | 5.5% | 83 | 7.5% |
| Travelling and tourism | 12.8 | 2.2% | 48.2 | 5.6% | 108.8 | 9.5% | 76.9 | 8.2% | 197.4 | 17.8% |
| Education | 8.4 | 1.4% | 7.3 | 0.8% | 0.7 | 0.1% | 0.8 | 0.1% | 0.1 | 0.0% |
| Gas | 2.8 | 0.5% | 4.1 | 0.5% | 6.9 | 0.6% | 5.8 | 0.6% | 4.8 | 0.4% |
| Aviation | 1.9 | 0.3% | 6.1 | 0.7% | 6.2 | 0.5% | 5.3 | 0.6% | 6.6 | 0.6% |
| Others* | 43.2 | 7.3% | 45.2 | 5.2% | 33.7 | 2.9% | 28.5 | 3.1% | 27.8 | 2.5% |
| Total of sale and leaseback | 588.6 | 100.0% | 860.8 | 100.0% | 1,147.1 | 100.0% | 933.9 | 100.0% | 1,111.0 | 100.0% |

* During the Track Record Period, the Target Group also generated revenue from customers from other industries including the broadcasting, building materials manufacturing, metallurgy, mining, logistics, retail and real estate industries.

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The following table sets forth the breakdown of interest income from sale and leaseback transactions by geographic coverage for the years/periods indicated:

| Region | FY2017 | | FY2018 | | FY2019 | | 10M2019 | | 10M2020 | |
|--|-----------------------------|---------------|-----------------------------|---------------|-----------------------------|---------------|--|---------------|-----------------------------|---------------|
| | Revenue (RMB million) | % | Revenue (RMB million) | % | Revenue (RMB million) | % | Revenue (RMB million) (unaudited) | % | Revenue (RMB million) | % |
| Shanxi Province | 121.0 | 20.6% | 38.1 | 4.4% | 42.1 | 3.7% | 35.8 | 3.8% | 28.5 | 2.6% |
| Sichuan Province | 63.6 | 10.8% | 96.1 | 11.2% | 125.0 | 10.9% | 106.2 | 11.4% | 79.6 | 7.2% |
| Guizhou Province | 60.3 | 10.2% | 166.6 | 19.4% | 150.9 | 13.2% | 130.2 | 13.9% | 97.6 | 8.8% |
| Shandong Province | 48.9 | 8.3% | 60.8 | 7.1% | 108.1 | 9.4% | 83.5 | 8.9% | 158.2 | 14.2% |
| Yunnan Province | 38.2 | 6.5% | 68.1 | 7.9% | 63.0 | 5.5% | 53.3 | 5.7% | 40.0 | 3.6% |
| Jilin Province | 36.5 | 6.2% | 40.9 | 4.8% | 31.7 | 2.8% | 27.1 | 2.9% | 20.1 | 1.8% |
| Hunan Province | 34.4 | 5.8% | 45.3 | 5.3% | 26.1 | 2.3% | 22.5 | 2.4% | 13.9 | 1.3% |
| Liaoning Province | 31.8 | 5.4% | 53.8 | 6.3% | 47.1 | 4.1% | 40.8 | 4.4% | 23.6 | 2.1% |
| Heilongjiang Province | 23.7 | 4.0% | 26.8 | 3.1% | 20.0 | 1.7% | 17.1 | 1.8% | 11.4 | 1.0% |
| Inner Mongolia Autonomous Region | 21.0 | 3.6% | 24.9 | 2.9% | 18.3 | 1.6% | 16.5 | 1.8% | 7.3 | 0.7% |
| Henan Province | 19.3 | 3.3% | 39.7 | 4.6% | 36.7 | 3.2% | 31.2 | 3.3% | 26.9 | 2.4% |
| Hebei Province | 14.5 | 2.5% | 13.6 | 1.6% | 24.6 | 2.1% | 20.6 | 2.2% | 18.1 | 1.6% |
| Jiangsu Province | 13.0 | 2.2% | 20.0 | 2.3% | 200.9 | 17.5% | 143.6 | 15.4% | 335.1 | 30.2% |
| Hubei Province | 12.9 | 2.2% | 43.4 | 5.0% | 71.4 | 6.2% | 58.3 | 6.2% | 65.7 | 5.9% |
| Jiangxi Province | 10.0 | 1.7% | 21.0 | 2.4% | 45.8 | 4.0% | 34.7 | 3.7% | 72.6 | 6.5% |
| Guangxi Autonomous Region | 8.3 | 1.4% | 49.2 | 5.7% | 36.9 | 3.2% | 31.4 | 3.4% | 24.1 | 2.2% |
| Shaanxi Province | 8.0 | 1.4% | 19.3 | 2.2% | 11.1 | 1.0% | 10.4 | 1.1% | 3.8 | 0.3% |
| Xinjiang Autonomous Region | 7.4 | 1.3% | 6.0 | 0.7% | 3.9 | 0.3% | 3.4 | 0.4% | 2.0 | 0.2% |
| Anhui Province | 5.9 | 1.0% | 8.0 | 0.9% | 13.6 | 1.2% | 11.2 | 1.2% | 14.1 | 1.3% |
| Ningxia Autonomous Region | 3.7 | 0.6% | 2.9 | 0.3% | 2.1 | 0.2% | 1.8 | 0.2% | 1.1 | 0.1% |
| Gansu Province | 2.3 | 0.4% | 2.3 | 0.3% | 1.7 | 0.1% | 1.5 | 0.2% | 0.8 | 0.1% |
| Chongqing Municipality | 2.0 | 0.3% | 6.5 | 0.8% | 5.2 | 0.5% | 4.3 | 0.5% | 3.2 | 0.3% |
| Hainan Province | 1.9 | 0.3% | 6.1 | 0.7% | 6.2 | 0.5% | 5.3 | 0.6% | 6.6 | 0.6% |
| Fujian Province | – | – | – | – | – | – | – | 0.0% | 6.9 | 0.6% |
| Guangdong Province | – | – | – | – | 0.1 | 0.0%* | – | 0.0% | – | 0.0% |
| Shanghai Municipality | – | – | – | – | – | – | – | 0.0% | 0.1 | 0.0% |
| Tianjin Municipality | – | – | – | – | 0.0* | 0.0%* | – | 0.0% | 0.1 | 0.0% |
| Zhejiang Province | – | – | 1.4 | 0.2% | 54.6 | 4.8% | 43.2 | 4.6% | 49.6 | 4.5% |
| Total of Sale and leaseback | 588.6 | 100.0% | 860.8 | 100.0% | 1,147.1 | 100.0% | 933.9 | 100.0% | 1,111.0 | 100.0% |

* represents negligible amount

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Throughout the Track Record Period, the Target Group's interest income from sale and leaseback transactions were mainly generated from customers from Jiangsu Province, Guizhou Province, Sichuan Province, Shandong Province, Yunnan Province and Shanxi Province, representing approximately 51.9% to 62.7% of the Target Group's total revenue in each year.

Customers from Shanxi Province, Sichuan Province, Guizhou Province and Shandong Province contributed to approximately 20.6%, 10.8%, 10.2% and 8.3% of the Target Group's interest income from sale and leaseback transactions in FY2017.

Customers from Guizhou Province, Sichuan Province, Yunnan Province and Shandong Province contributed to approximately 19.4%, 11.2%, 7.9% and 7.1% of the Target Group's interest income from sale and leaseback transactions in FY2018.

Customers from Jiangsu Province, Guizhou Province, Sichuan Province and Shandong Province contributed to approximately 17.5%, 13.2%, 10.9% and 9.4% of the Target Group's interest income from sale and leaseback transactions in FY2019.

Customers from Jiangsu Province, Guizhou Province, Sichuan Province and Shandong Province contributed to approximately 15.4%, 13.9%, 11.4% and 8.9% of the Target Group's interest income from sale and leaseback transactions in 10M2019.

Customers from Jiangsu Province, Shandong Province, Guizhou Province and Sichuan Province contributed to approximately 30.2%, 14.2%, 8.8% and 7.2% of the Target Group's interest income from sale and leaseback transactions in 10M2020.

(ii) Direct finance leasing

In direct finance leasing, the Target Group (as lessor) will purchase the assets from the equipment supplier, pursuant to the instructions given by the Target Group's customer (as lessee), and terms under the equipment purchase agreement and finance lease agreement, and the lessor then leases the assets to the lessee for its use in return for periodic lease payments^(Note).

The Target Group typically pays approximately 70% to 100% of the purchase prices directly to the equipment supplier and the lessee is responsible for the balance. In some occasions, the lessee may also be required to pay the Target Group a security deposit at the time of the purchase, which typically ranges from no security deposit is required to no more than 20% of the purchase price, and/or guarantee from third party(ies) at the time of the purchase.

Usually in 1 to 7 years, or in some cases on shorter terms or on longer terms, the lessee repays the portion of purchase amount of the assets provided by the lessor, interest and other fees to the lessor.

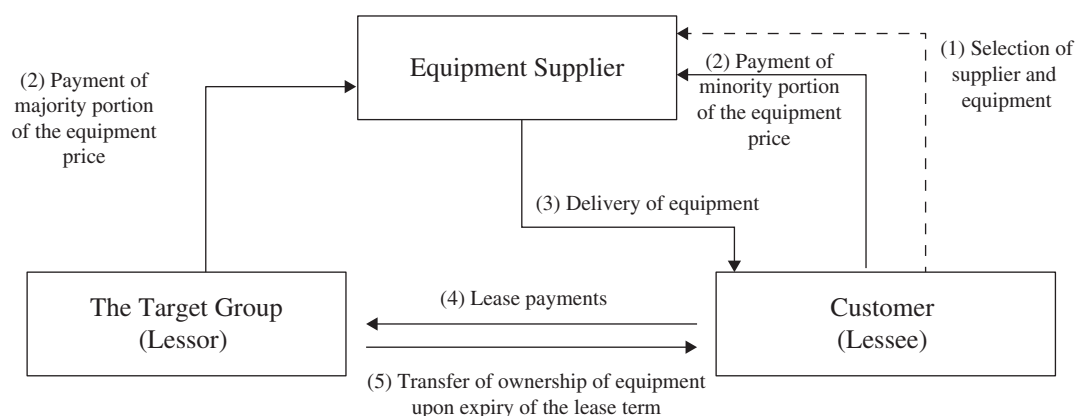
Note: In view of the recent development trend of the leasing and investment model of the finance leasing industry, in respect of certain direct finance leasing transactions, the Target Group also adopts an arrangement, where it offers equity financing solutions to its customers (being lessees) to increase the profitability of the lease projects of the Target Group. Under such arrangement, the Target Group (as lessor) will lease the assets to the lessee for its use in return for periodic lease payments with an additional purchase option, and the Target Group will have the right to acquire the equity interests of the lessee and to exert direct control of the leased assets subsequently. During the Track Record Period, the Target Group exercised the purchase option for four direct finance lease agreements adopting the aforesaid arrangement.

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At the end of the lease term, the lessee is usually given an option to decide whether the ownership of the assets will be transferred to the lessee at a nominal consideration or for nil consideration.

During the Track Record Period, for direct finance services, the Target Group mainly focused customers in the energy industry.

A typical direct finance leasing usually involves three parties, namely lessor, lessee and equipment supplier. The relationship among the three parties is illustrated in the following diagram:



As at 31 December 2017, 2018, 2019 and 31 October 2020, the Target Group had two, two, six and 18 finance lease agreements under direct finance leasing, respectively.

The following table sets forth a breakdown of the Target Group's finance lease income derived from direct finance leasing by industry during the Track Record Period:

| Industry | FY2017 | | FY2018 | | FY2019 | | 10M2019 | | 10M2020 | |
|--|-----------------------------|---------------|-----------------------------|---------------|-----------------------------|---------------|--|---------------|-----------------------------|---------------|
| | Revenue (RMB million) | % | Revenue (RMB million) | % | Revenue (RMB million) | % | Revenue (RMB million) (unaudited) | % | Revenue (RMB million) | % |
| Energy | 3.4 | 100.0% | 3.1 | 93.2% | 3.3 | 94.1% | 2.5 | 96.2% | 7.3 | 98.6% |
| Others* | - | - | 0.2 | 6.8% | 0.2 | 5.9% | 0.1 | 3.8% | 0.1 | 1.4% |
| Total of direct finance leasing | 3.4 | 100.0% | 3.3 | 100.0% | 3.5 | 100.0% | 2.6 | 100.0% | 7.4 | 100.0% |

* During the Track Record Period, the Target Group also generated insignificant revenue from other industries including the retail industries.

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During the Track Record Period, customers from energy industry contributed the largest portion, represented over 90% of the Target Group's finance lease income derived from direct finance leasing in each year.

The following table sets forth the breakdown of finance lease income from direct finance leasing by geographic coverage for the years/periods indicated:

| Region | FY2017 | | FY2018 | | FY2019 | | 10M2019 | | 10M2020 | |
|--|----------------------|---------------|----------------------|---------------|----------------------|---------------|-------------------------------------|---------------|----------------------|---------------|
| | Revenue (RMB'000) | % | Revenue (RMB'000) | % | Revenue (RMB'000) | % | Revenue (RMB'000) (unaudited) | % | Revenue (RMB'000) | % |
| Tibet | 3,361 | 97.6% | 3,057 | 93.0% | 2,770 | 79.6% | 1,986 | 77.7% | 1,239 | 16.8% |
| Shandong Province | 81 | 2.4% | 6 | 0.2% | 30 | 0.9% | - | - | 1,150 | 15.6% |
| Anhui Province | - | - | 224 | 6.8% | 246 | 7.1% | 138 | 5.4% | 54 | 0.7% |
| Guangdong Province | - | - | - | - | 443 | 12.4% | 433 | 16.9% | 1,043 | 14.1% |
| Tianjin Municipality | - | - | - | - | - | - | - | - | 886 | 12.0% |
| Zhejiang Province | - | - | - | - | - | - | - | - | 1,639 | 22.2% |
| Jiangsu Province | - | - | - | - | - | - | - | - | 1,373 | 18.6% |
| Total of direct finance leasing | 3,442 | 100.0% | 3,287 | 100.0% | 3,479 | 100.0% | 2,556 | 100.0% | 7,384 | 100.0% |

During the Track Record Period, customers from Tibet generally contributed the largest portion, represented over 97.6%, 93.0%, 79.6% and 16.8%, respectively, of the Target Group's finance lease income derived from direct finance leasing for FY2017, FY2018, FY2019 and 10M2020.

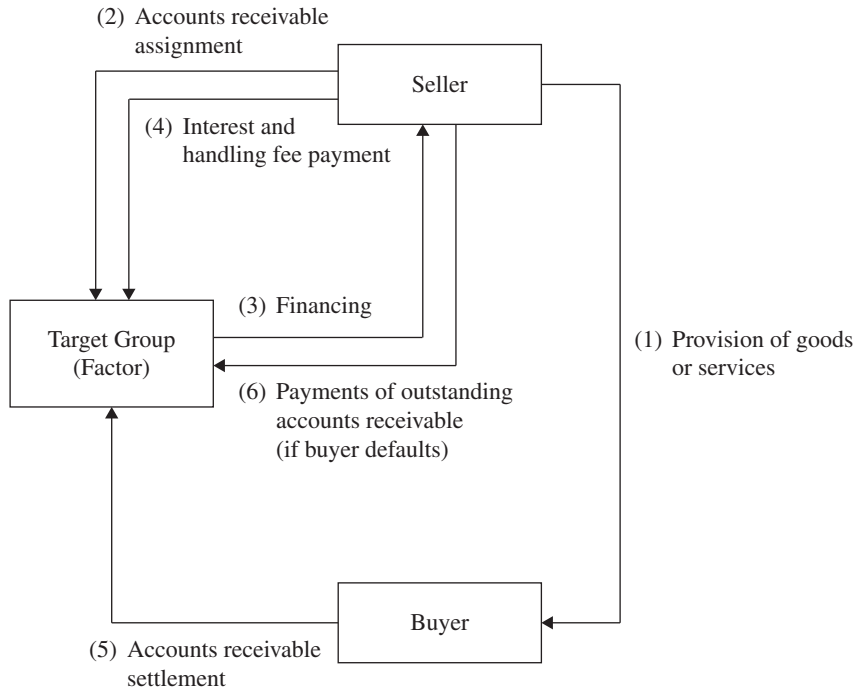
(B) Factoring

In addition to the finance leasing services, the Target Group also provided factoring service in connection with finance leasing service in FY2019 and 10M2020. The relevant revenue amount was approximately RMB6.4 million and RMB56.3 million; the major customers were from construction industry and logistic industry, which accounted for approximately 0.6% and 4.6% of the Target Group's total revenue for FY2019 and 10M2020, respectively.

Factoring service is primarily used by customers who need working capital to fund their business operations. A typical factoring transaction involves three parties, namely a seller, a factor and a buyer. In a factoring transaction between a seller and the Target Group (as the factor), the seller sells account receivables to the Target Group for financing, and the Target Group acquires the right to receive payments from the buyer. There are typically two types of factoring, namely factoring with recourse and factoring without recourse. Under the factoring with recourse transaction, the sellers are required to provide guarantees for the due performance of buyer and the factor has the right to claim for the unpaid account receivables from the sellers. During the Track Record Period, the Target Group's factoring service was provided with both recourse and without recourse basis.

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The following diagram illustrates the relationship among the factor, the seller and the buyer in a factoring with recourse transaction:

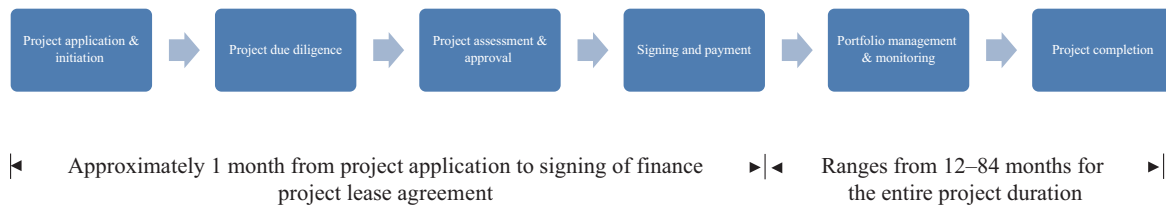


The Target Group's factoring transactions are subject to the same internal review, assessment and approval process as other finance leasing transactions which require assessment by the risk management department and approval from the transactions assessment committee. Shall the buyer is in default, on a case by case basis, the Target Group may (but not obligated to) claim against the seller and/or the buyer for the unpaid account receivables. The Target Group places high standards on the due diligence work to be performed on factoring transactions. Once the transaction has been approved, the reviewed and approved agreement is delivered to the seller (as customer) for execution. At the post factoring service stage, the Target Group conducts post factoring assessment quarterly which includes site visits and public searches, to acquire updated information on our customers' operating and financial conditions.

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Operational Workflow

The Target Group has designed a systematic operational workflow and applied to each of the finance leases. Under this workflow, various risk control measures and procedures are consistently applied to every finance lease, which involves the active participation of various internal departments of the Target Group. The chart below sets out the typical process workflow of the finance leasing business operations:



Stage 1: Project application and initiation (項目申請/立項)

Generally, the Target Group's business team leaders are responsible for sourcing new customers, and would typically visit potential customers' premises at their principal place of business with the Target Group's Business and Sales Department ("**Business and Sales Department**") staff. The Business and Sales Department was co-led by three of Target Group's senior management members, each was responsible for different areas:

- Mr. Wan – for Mr. Wan's background, please refer to the sub-section headed "The Target Group's Competitive Strengths – The Target Group has an experienced and dedicated management team" in this section for further details.
- Mr. Xu – Mr. Xu has over 8 years of experience in the finance leasing industry in the PRC. His experience in the finance leasing industry enables him to better understand the Target Group's existing and potential customers in the PRC. In particular, his experience in finance leasing industry enables him to better understand the customers needs and market demand in various infrastructure related industries.
- Mr. Zhu – Mr. Zhu has over 10 years of experience in sales management, including over 9 years of experience working in the finance leasing industry in the PRC. In particular, he is mainly responsible for overseeing sales in Shanghai and the Target Group's businesses within the energy industry.

Upon initial contact, the staff in the Business and Sales Department will study the demand for finance leasing products and services in the targeted markets, gather potential customer's background, answer enquiries from potential customers, assess the customer's financial needs and understand the proposed use of the financing. Then after cross checking with the Target Group's business and sales policy (營銷指引), the staff in the Business and Sales Department will introduce the Target Group's products and services, and establish the initial relationship with potential customers. Wherever relevant, in accordance with the Target Group's business and

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sales policy (營銷指引), it takes into consideration of the prevailing general conditions in which the customers operate, such as the national and local laws and regulations, especially those specifically govern a customer's business, industry performance and macroeconomic conditions. With such information, the Business and Sales Department will conduct preliminary customer selection.

Upon receiving an application for finance leasing services, the Business and Sales Department shall take into consideration the commercial feasibility study based on the information provided in the application including (i) whether the potential lessee meets the Target Group's requirements; and (ii) whether the business nature, business scale, leased assets' nature, pricing, lease period, interest, payment method, the potential leasee's location and industry and other elements of the potential project meet with the Target Group's business and sales policy (營銷指引).

Upon passing the examination of commercial feasibility study by the project initiation committee (項目立項委員會) within the Business and Sales Department, the Business and Sales Department will prepare a financial leasing plan confirmation which contains, among others, the basic information of the lessee, amount required, condition and valuation of the equipment, collateral, guarantee, purpose of the proposed use of funds, source of repayment and/or proposed project plan (as the case may be) signed by the applicant (the “**Financial Leasing Plan Confirmation**”) (融資租賃方案確認函). If the project initiation committee is of the view that the commercial feasibility study is insufficient, it may require the relevant project manager to gather additional information to supplement the commercial feasibility study for further review.

Stage 2: Project due diligence (盡職調查)

Once the commercial feasibility study and the Financial Leasing Plan Confirmation is signed, the Business and Sales Department will conduct an on-site investigation and due diligence on the background and creditworthiness of the potential lessee, such as the following:

- (i) attend to the potential lessee's office(s) to review and verify corporate documents, which include basic information of its responsible persons;
- (ii) review and verify financial status concerning its solvency, operation capacity and profitability, such as reviewing the financial statements and accounts of the potential lessee;
- (iii) conduct site-visit to potential lessee's premises, such as the place of business and/or production site, to inspect and take photos of the these assets;
- (iv) attend to respective government departments to review and inspect title documents of the lease assets and conduct valuation of lease assets;
- (v) assess business risks, such as debt risk, risk of leasing and income risk;

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- (vi) review operation history and financial situation of the potential lessee;
- (vii) evaluate feasibility of the financing; and
- (viii) research and understand basic situation of lessee's industry.

The Business and Sales Department will also review and examine the physical condition and legal title of the potential lessee's asset(s). In addition, due diligence will be performed on the guarantors of the potential lessee. For example, the Target Group will consider the guarantors' basic information, including its financial status, such as solvency, operation capacity and profitability, credit situation and its controlling shareholder(s) basic information. In respect of the asset appraisal, the Target Group generally requires the lessee to provide the purchase records for the leased assets or appoint independent asset appraisal agency to substantiate the assessment of the value of the leased assets. After performing due diligence and discussing the potential risk and compliance of relevant laws and regulations with the Risk Management Department, the project manager from the Business and Sales Department will prepare a due diligence report for each case (the **"Due Diligence Report"**) (盡職調查報告). The Due Diligence Report, along with relevant underlying documents, and the Financial Leasing Plan Confirmation will be submitted to the Risk Management Department of the Target Group (**"Risk Management Department"**) for their further assessment.

The Risk Management Department was led by Mr. Hou, Mr. Hou has over 11 years of experience in the risk assessment and finance leasing industry in the PRC. His solid experience in working in various banks and finance leasing-related areas allows him to identify financial, operational and project risks that the Target Group may face, and to prepare action plans to mitigate relevant risk factors.

Stage 3: Project assessment and approval (項目審查/審批)

Upon reviewing the Due Diligence Report, the Risk Management Department will prepare a risk assessment report, which analyses, and includes its view on, among others, the industry risk, market risk, risk in relation to lessee's finance status and operation, project feasibility, risk control measures and transaction conditions of the potential lessee (the **"Risk Assessment Report"**) (風控報告).

After the Risk Assessment Report is approved internally by the head of the Risk Management Department, the Risk Management Department will submit the Risk Assessment Report, together with the Due Diligence Report, to the Internal Approval Committee of the Target Group (**"Internal Approval Committee"**) (for all projects) and/or the Risk Management Committee of the Target Group (**"Risk Management Committee"**) (for projects with finance lease amount of RMB100 million or above which had been approved by the Internal Approval Committee) for their review, discussions and approval. Details of the Internal Approval Committee and the Risk Management Committee as well as their respective duties and committee members are set out in the subsection headed "Risk Management and Operation of the Target Group – Risk Management Framework" in this circular.

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During the approval meeting, members of the Internal Approval Committee and/or the Risk Management Committee may advise to amend the proposed finance leasing project plan and/or adopt additional measures in relation to conditions precedent of payment or post-lease management. For example, a potential lessee may be required to provide additional warranties or collateral if the Target Group's committee member is concerned about such lessee's creditworthiness.

Both the Internal Approval Committee and/or the Risk Management Committee (where applicable) adopt a voting system in making decisions to approve the proposed finance leasing projects. In order to approve lease applications, the application shall be approved by more than two-third of the voting members attending the relevant committee meeting. For the proposed project approved by the Internal Approval Committee and/or the Risk Management Committee (where applicable), the president of the two committees can exercise his veto right during the relevant meeting to return such project if based on his professional experience in the industry, he is of the view that such project may not be appropriate in the context of risks exposure.

Stage 4: Signing and payment (合同簽訂和放款)

Upon obtaining approval from the Internal Approval Committee and/or the Risk Management Committee (where applicable) without the president of the committees exercising his veto right, the Business and Sales Department will negotiate and finalise the finance leasing structure and contract terms with the lessee based on the terms and conditions internally approved by the Target Group. The final draft of the finance lease agreement is required to be reviewed and approved by each of the risk management officer, the head of Legal and Asset Management Department of the Target Group ("**Legal and Asset Management Department**"), the head of Finance Department of the Target Group ("**Finance Department**") and the general manager of the Target Group, respectively, in order to ensure the lease terms are in compliance with the Target Group's policies and procedures.

The Legal and Asset Management Department was led by Mr. Chen. Mr. Chen has over 10 years of experience in the legal and assets management sectors. His rich experience in working in different listed finance leasing companies allows him to provide legal and asset management support to the Target Group in respect to the Target Group's leasing portfolio as well as advising on regulatory affairs.

The Finance Department was led by Ms. Peng. Ms. Peng has over 10 years of experience in accounting, including 6 years of experience working in the finance industry in the PRC. She is mainly responsible for internal financial analysis, management accounting and reporting.

All the finance lease agreements must be executed by authorised persons of both parties in person and affixed with company chops. After the execution of finance lease agreement, the Business and Sales Department, the Risk Management Department, the Legal and Asset Management Department and the Finance Department will inspect and ensure the fulfillment of the contractual conditions precedent before submitting to the general manager for approval of

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payment for the leased equipment. The Business and Sales Department is also responsible for participating in the transfers and inspections for acceptance of the leased assets.

Stage 5: Portfolio management and monitoring (租後管理)

The Legal and Asset Management Department and the project manager from the Business and Sales Department are responsible for post-finance leasing portfolio management through timely collection of lease payments, asset title registration with relevant government organisations, monitoring each project status and preparation of regular on-site inspection reports on the leased assets, which will cover the following key aspects:

- (i) whether the leased assets have been maintained in good and complete condition;
- (ii) whether the lessee has overused and abused the leased assets;
- (iii) whether the relevant registration is duly completed;
- (iv) whether the lessee is the actual user of the leased assets; and
- (v) whether the relevant insurance coverage remains in force.

Furthermore, the project manager from the Business and Sales Department or a designated person from the Legal and Asset Management Department is required to conduct site visit of the leased assets and to monitor the status of the finance lease receivables regularly. The Finance Department will also regularly conduct reconciliation with the Legal and Asset Management Department and the customers. When there are potential risks occur (such as outstanding lease payments which may lead to potential lease defaults or damage to the leased asset), certain risk control procedures will be initiated by the Legal and Asset Management Department to mitigate potential losses, such as dispatching a notice of default and finance lease receivables collection, or filing legal proceedings if necessary. The Target Group also conducts valuation on its leased assets by its in-house officer on a periodic basis, so that it can keep track of and evaluate the lessee's creditworthiness.

The Target Group collects lease payments from the lessees in a timely manner. If the lease payment is not received on time, the Business and Sales Department will firstly follow up with the respective lessees to repay at the soonest. If the result is unsatisfactory, the Legal and Asset Management Department will intervene and consider further appropriate action.

Under the finance lease agreements, the Target Group is usually entitled to several remedies, including, among other things, acceleration of finance lease receivables repayment when a customer defaults the finance lease agreement. The Target Group may decide on whether to exercise such remedy by considering, amongst others, (i) the credit record of the customer; (ii) the Target Group's relationship with the customer; (iii) the current status and the prospects of the customer's financial condition; and (iv) the difficulty of repossessing the assets underlying the Target Group's leases and realising their value.

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Stage 6: Project completion

Generally, the finance leasing project is completed upon full performance of the finance lease agreement. At the completion stage, the customer purchases the leased assets from the Target Group at a nominal consideration, and the Legal and Asset Management Department will be responsible for the final settlement and relevant ownership transfer process.

Mechanism of making allowance and writing off non-performing assets

At the end of each quarter of each financial year, the Legal Asset Management Department submits the classification list of lease receivables to the Finance Department. Depending on whether there is a significant increase in credit risk, the Finance Department may determine whether expected credit loss or recognition of loss provision or allowance is required. In particular, the Target Group takes into account the calculation of Probability of Default, Exposure at Default and Loss given Default in evaluating the Group's expected loss calculations. For details, please refer to note 4.1 of the Accountant's Report on the Target Group as set out in Appendix III to this circular.

In terms of writing off non-performing assets, the Target Group has established a non-performing assets management committee (不良資產管理委員會), which consists of the chairman of the Target Group, the general manager of the Target Group, the deputy general manager of the Target Group as well as other selected members from its senior management.

Generally, the Business and Sales Department prepares the draft "Non-performing Assets Write-off Application Form" (呆賬核銷申請), which will be supplemented by the Legal and Asset Management Department after it has completed the evaluation of the proposed non-performing assets write-off project. Together with relevant materials, the application form will then be reviewed by the head of Internal Control and Compliance Department and the head of Finance Department, and be submitted to the non-performing assets management committee for consideration. Upon the relevant application form is approved by the committee, it will finally be reviewed by the head of Finance Department before formal execution.

For the background of (i) the head of Legal Asset Management Department, Mr. Chen; (ii) the head of the Finance Department, Ms. Peng; and (iii) the co-head of the Business and Sales Department, namely, Mr. Wan, Mr. Xu and Mr. Zhu, please refer to the sub-sections headed "The Target Group's Competitive Strengths – The Target Group has an experienced and dedicated management team" and "Business Operations – Operations Workflow" in this section for further details.

For the Target Group's Internal Control and Compliance Department, it was led by Ms. Xu, who is a certified public accountant and a qualified senior accountant in the PRC as well as a certified internal auditor. Ms. Xu has over 15 years of experience in audit and assurance, including 5 years of experience working in the finance industry in the PRC.

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Key terms of finance lease agreements

The Target Group has a standard agreement for the finance leasing business. The key terms of the Target Group's finance lease agreements are as follows:

| | |
|-------------------------------------|--|
| Term: | usually 3 to 5 years (depends on the type of finance leasing and the leased asset); |
| Equipment under lease: | lessee's operational equipment; detailed equipment list to be enclosed as appendix to the Target Group's finance lease agreement; |
| Ownership of equipment under lease: | <ul style="list-style-type: none">– under sale and leaseback, the ownership of equipment under lease must be free from any encumbrance and will first be transferred from lessee to the Target Group from the date of which the Target Group fully pays the transfer price of the leased equipment; such ownership will be transferred back to the lessee at an agreed consideration upon completion of the agreement;– under direct finance leasing, the ownership of equipment under lease will be transferred from the equipment supplier to the Target Group from the date of which The Target Group pays the purchase price in full or at an agreed percentage of the leased equipment; such ownership will be transferred back to the lessee at an agreed consideration upon completion of the agreement; |
| Equipment delivery: | <ul style="list-style-type: none">– under sale and leaseback, the assets will remain in lessee's possession provided that the original or copies of invoice, purchase contract, registration certificate or other proof of ownership (if necessary) should be provided for the Target Group's examination and reservation;– under direct finance leasing, the supplier or the subcontractor commissioned by the Target Group will deliver the equipment to the lessee; |

BUSINESS OF THE TARGET GROUP

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|--------------------------------------|--|
| Insurance: | the Target Group does not usually require insurance coverage on assets under the finance lease. However, on a case-by-case basis, the Target Group may, after due consideration require insurance coverage on assets under the finance lease and such insurance cost shall be borne by the lessee; |
| Interest, fees and payment schedule: | usually at fixed rate or floating rate based on PBOC benchmark rate (for those agreements entered into prior to February 2020) and loan prime rate (for those agreements entered into in and after February 2020); payment of interest and principal is usually by quarterly instalments taking into account customers' credit status; generally security deposit and/or guarantee is required based on the size of the finance lease, lessee's credit status and financial conditions; detailed repayment schedule is listed as appendix in the Target Group's finance lease agreement; |
| Default provision: | if the lessee has committed any default, the Target Group shall have the right to demand prompt payment in full or in part of the finance lease receivables plus penalty interest or default interest; |
| Termination of the agreement: | <ul style="list-style-type: none">– the Target Group may elect to, but are not obligated to, terminate a finance lease agreement in case of material breaches by the lessee, among others:<ul style="list-style-type: none">(i) the lessee fails to settle any instalment payment and/or other outstanding fees after the deadline;(ii) the lessee fails to make payments in full; or(iii) the lessee sells, transfers, disposes or subleases the leased equipment, creates any guarantee or other encumbrances on the leased equipment, or takes any action which may cause damage on or adversely affect the Target Group's ownership of the leased equipment; |

BUSINESS OF THE TARGET GROUP

- subject to the Target Group’s approval, and subject to the lessee has no prior breach of finance lease agreement, the lessee has the right to seek early termination of the finance lease agreement with prior written notice to the Target Group. Upon the Target Group’s approval, the lessee will have to settle all the finance lease payments, which includes:

- (i) all the outstanding receivables and amount due to;

- (ii) default interests;

- (iii) liquidated damages; and

- (iv) retention money;

Right to transfer, pledge or mortgage:

the Target Group reserves the right to transfer, pledge or mortgage the Target Group’s contractual rights to third parties but are not required to seek consent from its customers; and

Governing law and dispute resolution:

PRC law, dispute to be resolved through negotiation or litigation in a local People’s Court with jurisdiction at the lessor’s domicile.

BUSINESS OF THE TARGET GROUP

Length of the Target Group's finance lease agreements

The following table sets forth the number and value of the Target Group's outstanding finance lease agreements by lease term as at the dates indicated:

(i) Sale and leaseback

| Lease term | As at 31 December 2017 | | | As at 31 December 2018 | | | As at 31 December 2019 | | | As at 31 October 2020 | | |
|--|------------------------|---------------|--------|------------------------|---------------|--------|------------------------|---------------|--------|-----------------------|---------------|--------|
| | No. of contracts | Value | | No. of contracts | Value | | No. of contracts | Value | | No. of contracts | Value | |
| | | (RMB million) | % | | (RMB million) | % | | (RMB million) | % | | (RMB million) | % |
| Less than 1 year | 4 | 132.0 | 1.2% | 1 | 12.0 | 0.1% | – | – | – | 2 | 0.7 | 0.0%* |
| More than 1 year but less than 3 years | 4 | 294.5 | 2.7% | 18 | 766.8 | 4.8% | 16 | 438.1 | 1.9% | 14 | 143.9 | 0.6% |
| More than 3 year but less than 5 years | 143 | 10,182.2 | 91.7% | 212 | 14,417.9 | 90.2% | 296 | 21,319.5 | 94.0% | 323 | 23,816.0 | 95.5% |
| More than 5 years | 4 | 485.0 | 4.4% | 8 | 778.0 | 4.9% | 10 | 938.0 | 4.1% | 10 | 968.5 | 3.9% |
| Total | 155 | 11,093.7 | 100.0% | 239 | 15,974.7 | 100.0% | 322 | 22,695.6 | 100.0% | 349 | 24,929.1 | 100.0% |

* represents negligible amount

(ii) Direct finance leasing

| Lease term | As at 31 December 2017 | | | As at 31 December 2018 | | | As at 31 December 2019 | | | As at 31 October 2020 | | |
|--|------------------------|---------------|--------|------------------------|---------------|--------|------------------------|---------------|--------|-----------------------|---------------|--------|
| | No. of contracts | Value | | No. of contracts | Value | | No. of contracts | Value | | No. of contracts | Value | |
| | | (RMB million) | % | | (RMB million) | % | | (RMB million) | % | | (RMB million) | % |
| Less than 1 year | – | – | – | – | – | – | – | – | – | 11 | 92.7 | 59.2% |
| More than 1 year but less than 3 years | – | – | – | 1 | 4.5 | 10.1% | 2 | 30.9 | 27.7% | 4 | 23.7 | 15.2% |
| More than 3 year but less than 5 years | 2 | 42.6 | 100.0% | 1 | 40.0 | 89.9% | 4 | 80.8 | 72.3% | 1 | 40.0 | 25.6% |
| Total | 2 | 42.6 | 100.0% | 2 | 44.5 | 100.0% | 6 | 111.7 | 100.0% | 16 | 156.4 | 100.0% |

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The average term of the Target Group's finance lease agreements for FY2017, FY2018, FY2019 and 10M2020 was approximately 4.86 years, 4.81 years, 4.76 years and 4.59 years, respectively.

The following table sets forth the number and value of the Target Group's newly signed finance lease agreements by lease term for the years/periods indicated:

(i) Sale and leaseback

| Lease term | FY2017 | | | FY2018 | | | FY2019 | | | 10M2019 | | | 10M2020 | | |
|--|------------------|---------------|--------|------------------|---------------|--------|------------------|---------------|--------|------------------|---------------|--------|------------------|---------------|--------|
| | No. of contracts | Value | | No. of contracts | Value | | No. of contracts | Value | | No. of contracts | Value | | No. of contracts | Value | |
| | | (RMB million) | % | | (RMB million) | % | | (RMB million) | % | | (RMB million) | % | | (RMB million) | % |
| Less than 1 year | 7 | 327.0 | 4.5% | 1 | 12.0 | 0.2% | - | - | - | 1 | 99.0 | 1.6% | 2 | 0.7 | 0.0% |
| More than 1 year but less than 3 years | 3 | 194.5 | 2.7% | 13 | 434.3 | 8.1% | 4 | 23.8 | 0.3% | 2 | 120.5 | 1.9% | 7 | 75.8 | 1.8% |
| More than 3 year but less than 5 years | 92 | 6,501.9 | 88.9% | 77 | 4,655.2 | 86.3% | 88 | 7,022.4 | 97.5% | 75 | 5,965.1 | 94.0% | 46 | 4,012.0 | 96.3% |
| More than 5 years | 3 | 285.0 | 3.9% | 4 | 293.0 | 5.4% | 2 | 160.0 | 2.2% | 2 | 160.0 | 2.5% | 1 | 80.0 | 1.9% |
| Total | 105 | 7,308.4 | 100.0% | 95 | 5,394.5 | 100.0% | 94 | 7,206.2 | 100.0% | 80 | 6,344.6 | 100.0% | 56 | 4,168.5 | 100.0% |

(ii) Direct finance leasing

| Lease term | FY2017 | | | FY2018 | | | FY2019 | | | 10M2019 | | | 10M2020 | | |
|--|------------------|---------------|---|------------------|---------------|--------|------------------|---------------|--------|------------------|---------------|--------|------------------|---------------|--------|
| | No. of contracts | Value | | No. of contracts | Value | | No. of contracts | Value | | No. of contracts | Value | | No. of contracts | Value | |
| | | (RMB million) | % | | (RMB million) | % | | (RMB million) | % | | (RMB million) | % | | (RMB million) | % |
| Less than 1 year | - | - | - | - | - | - | - | - | - | 1 | 15.5 | 37.0% | 9 | 67.4 | 74.0% |
| More than 1 year but less than 3 years | - | - | - | 1 | 4.5 | 100.0% | 1 | 26.4 | 39.2% | 1 | 26.4 | 63.0% | 4 | 23.7 | 26.0% |
| More than 3 year but less than 5 years | - | - | - | - | - | - | 3 | 40.9 | 60.8% | - | - | - | - | - | - |
| More than 5 years | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total | - | - | - | 1 | 4.5 | 100.0% | 4 | 67.3 | 100.0% | 2 | 41.9 | 100.0% | 13 | 91.1 | 100.0% |

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The following table sets forth the number and value of the Target Group's finance lease agreements newly signed finance lease agreements, terminated and completed for the years/periods indicated:

(i) Sale and lease back

| Category | FY2017 | | FY2018 | | FY2019 | | 10M2019 | | 10M2020 | |
|-------------------------|------------------|---------------------------|------------------|---------------------------|------------------|---------------------------|------------------|--|------------------|---------------------------|
| | No. of contracts | Value (RMB million) | No. of contracts | Value (RMB million) | No. of contracts | Value (RMB million) | No. of contracts | Value (RMB million) (unaudited) | No. of contracts | Value (RMB million) |
| Newly signed | 105 | 7,308.4 | 95 | 5,394.5 | 94 | 7,206.2 | 80 | 6,344.6 | 56 | 4,168.5 |
| Total | 105 | 7,308.4 | 95 | 5,394.5 | 94 | 7,206.2 | 80 | 6,344.6 | 56 | 4,168.5 |
| Completed upon maturity | 11 | 1,895.0 | 12 | 513.5 | 10 | 485.3 | 10 | 575.0 | 15 | 917.5 |
| Total | 11 | 1,895.0 | 12 | 513.5 | 10 | 485.3 | 10 | 575.0 | 15 | 917.5 |

(ii) Direct finance leasing

| Category | FY2017 | | FY2018 | | FY2019 | | 10M2019 | | 10M2020 | |
|-------------------------|------------------|---------------------------|------------------|---------------------------|------------------|---------------------------|------------------|--|------------------|---------------------------|
| | No. of contracts | Value (RMB million) | No. of contracts | Value (RMB million) | No. of contracts | Value (RMB million) | No. of contracts | Value (RMB million) (unaudited) | No. of contracts | Value (RMB million) |
| Newly signed | – | – | 1 | 4.5 | 4 | 67.3 | 2 | 41.9 | 13 | 91.1 |
| Total | – | – | 1 | 4.5 | 4 | 67.3 | 2 | 41.9 | 13 | 91.1 |
| Completed upon maturity | – | – | 1 | 2.6 | – | – | – | – | 1 | 4.5 |
| Total | – | – | 1 | 2.6 | – | – | – | – | 1 | 4.5 |

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Leasing extension and enforcement measures

The table below sets forth the number and value of the Target Group's finance lease agreements that have been extended or subjected to enforcement measures as at the dates indicated:

| Category | FY2017 | | | FY2018 | | | FY2019 | | | 10M2019 | | | 10M2020 | | |
|---------------------------------|------------------|---------------|---------------|------------------|---------------|---------------|------------------|---------------|---------------|------------------|---------------|----------|------------------|---------------|---------------|
| | No. of contracts | Value | | No. of contracts | Value | | No. of contracts | Value | | No. of contracts | Value | | No. of contracts | Value | |
| | | (RMB million) | % | | (RMB million) | % | | (RMB million) | % | | (RMB million) | % | | (RMB million) | % |
| Extension | - | - | - | - | - | - | 3 | 81.0 | 100.0% | - | - | - | 9 | 379.5 | 60.4% |
| Subject to enforcement measures | 2 | 60.6 | 100.0% | - | - | 100.0% | - | - | - | - | - | - | 4 | 249.0 | 39.6% |
| Total | 2 | 60.6 | 100.0% | - | - | 100.0% | 3 | 81.0 | 100.0% | - | - | - | 13 | 628.5 | 100.0% |

Maturity profile of loans and receivables

The following table sets forth a breakdown of the maturity profile of the Target Group's loans and receivables (before loss allowance) as at the dates indicated:

| | As at 31 December 2017 | | As at 31 December 2018 | | As at 31 December 2019 | | As at 31 October 2020 | |
|---------------------------------|--------------------------|---------------|--------------------------|---------------|--------------------------|---------------|--------------------------|---------------|
| | Balance (RMB million) | % | Balance (RMB million) | % | Balance (RMB million) | % | Balance (RMB million) | % |
| Loans and receivables | | | | | | | | |
| within 1 year | 2,483 | 26.9% | 3,079 | 26.5% | 5,076 | 33.1% | 5,617 | 36.0% |
| Long term loans and receivables | 6,764 | 73.1% | 8,529 | 73.5% | 10,256 | 66.9% | 9,983 | 64.0% |
| Total | 9,247 | 100.0% | 11,608 | 100.0% | 15,332 | 100.0% | 15,600 | 100.0% |

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Maturity profile of finance lease receivables

The following table sets forth a breakdown of the maturity profile of the Target Group's finance lease receivables before loss allowance as at the dates indicated:

| | As at 31 December 2017 | | As at 31 December 2018 | | As at 31 December 2019 | | As at 31 October 2020 | |
|--|------------------------|---------------|------------------------|---------------|------------------------|---------------|-----------------------|---------------|
| | Balance | | Balance | | Balance | | Balance | |
| | (RMB | | (RMB | | (RMB | | (RMB | |
| | million) | | million) | | million) | | million) | |
| | | % | | % | | % | | % |
| Finance lease agreements due within 1 year | 10.3 | 25.6% | 11.5 | 34.7% | 27.8 | 50.8% | 150.6 | 98.5% |
| Long term finance lease receivables | 30.0 | 74.4% | 21.6 | 65.3% | 26.9 | 49.2% | 2.3 | 1.5% |
| Total | 40.3 | 100.0% | 33.1 | 100.0% | 54.7 | 100.0% | 152.9 | 100.0% |

Leased assets and collateral

In most cases, the Target Group aims to keep its net funding provided to its customers at (i) approximately 70% to 100% of the purchase price of the leased assets for direct finance leasing; and (ii) approximately 70% to 90% of the original value or net value of the leased assets for sale and leaseback, taking into account the purchase price, the asset's liquidity, the physical condition of the assets, and the estimated value provided by the third party.

In general, in securing the finance lease, it is the industry practice to have the ownership of the leased assets transferred to the lessor upon the commencement of the finance lease. The Target Group had adopted such practice and during the Track Record Period, the Target Group obtained legal ownership to all the assets under the Target Group's finance lease agreements and according to the terms of such agreements, the Target Group has the right to immediately and unilaterally dispose of such assets if any customer defaulted on the related finance lease.

Moreover, in order to better manage the Target Group's interest as creditor, the Target Group may also require lessees (and related parties) to provide additional collateral such as (i) guarantees from the customer's shareholders, associated companies and third parties with sufficient resources and ability to repay the principal and interest under the finance lease agreement; and/or (ii) pledge of its customers' trade receivables.

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For details of the Target Group's range of coverage ratio and types and value of additional collateral during the Track Record Period, please refer to tables below.

| Newly signed finance leases | FY2017 | FY2018 | FY2019 | 10M2019 | 10M2020 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Range of coverage ratio of individual lease ⁽¹⁾ | 102.53% – 275.93% | 102.05% – 461.61% | 100.00% – 269.51% | 100.00% – 269.51% | 100.00% – 466.67% |
| Aggregate total coverage ratio ⁽²⁾ | 125.38% | 136.15% | 131.77% | 131.19% | 135.96% |
| Outstanding finance lease receivables as at year end | FY2017 | FY2018 | FY2019 | 10M2019 | 10M2020 |
| Range of coverage ratio of individual lease ⁽³⁾ | 102.53% – 335.42% | 102.05% – 461.61% | 100.00% – 461.61% | 100.00% – 461.61% | 100.00% – 466.67% |
| Aggregate total coverage ratio ⁽⁴⁾ | 130.62% | 132.34% | 132.21% | 132.30% | 132.25% |

- (1) The coverage ratio of individual lease is calculated as the leased asset value (book value) at the beginning of lease term divided by the relevant finance lease receivables at the beginning of lease term netting off deposit from lessee.
- (2) The aggregate total coverage ratio is calculated as, for all newly signed leases during the year, the aggregate amount of leased asset values (book value) at the beginning of relevant lease terms divided by the aggregate amount of relevant finance lease receivables at the beginning of lease terms netting off deposits from lessee.
- (3) The coverage ratio of individual lease is calculated as the leased asset value (net value) divided by the relevant finance lease receivables before impairment allowance as at the year-end netting off deposit from lessee.
- (4) The aggregate total coverage ratio is calculated as, for all outstanding leases as at the year-end, the aggregate amount of leased asset value (net value) divided by the total finance lease receivables before impairment allowance as at the year-end netting off the total amount of relevant deposits from lessee.

Notifiable transactions

Upon the Completion, the Target Group's finance leasing activities may constitute notifiable transactions under Chapter 14 of the Listing Rules, which will be subject to the relevant reporting, announcement and shareholders' approval requirements. The Company will ensure compliance with the applicable requirements under Chapter 14 of the Listing Rules and will seek advice from external legal advisers where necessary for ensuring full compliance with the Listing Rules.

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PRICING POLICY

The Target Group's finance lease agreements are generally priced at both fixed and floating rates. The interest rate is determined taking into account of factors including:

- (1) prevailing market rates;
- (2) risk premium through the assessment of the Target Group's customer's industry and financial condition; and
- (3) the Target Group's funding cost.

The risk premium for pricing the Target Group's finance leases is determined by (i) negotiation on a case-by-case basis with each individual customer based on its industry and scale of business; and (ii) assessment on the customer's financial condition.

For FY2017, FY2018, FY2019 and 10M2020, the interest income yield on the Target Group's finance lease receivables was approximately 8.4%, 8.3%, 8.6% and 9.1%, respectively.

For FY2017, FY2018, FY2019 and 10M2020, the Target Group's net interest margin was approximately 3.5%, 3.7%, 4.1% and 4.8%, respectively.

CUSTOMER INDUSTRY ANALYSIS

The Target Group mainly have been providing services to customers in the four targeted industries, namely (i) public infrastructure, (ii) medical and healthcare, (iii) water supplies and (iv) energy industries, since the commencement of the Target Group's business operation in 2014. For each of the targeted industry, the Target Group maintains a dedicated sales team with significant industry understanding and finance expertise to provide customised services to its customers. The Target Group frequently liaises with industry experts, equipment manufacturers and market players in targeted industries in order to gain first-hand information regarding industry and regulatory trends. Active participation in equipment fairs and industry forums are also considered as key sales and marketing activities to help strengthening the Target Group's industry presence and promoting the Target Group's services.

Public infrastructure

The public infrastructure industry is one of the four targeted industries in which the Target Group is primarily involved. The Target Group provides sale and leaseback finance leasing on public infrastructure equipment such as construction equipment.

The Target Group's interest income from the public infrastructure industry increased by approximately RMB31.1 million, or by 32.4%, from approximately RMB96.0 million for FY2017 to approximately RMB127.1 million for FY2018, and further increased by approximately RMB66.7 million, or by 52.5%, from approximately RMB127.1 million for

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FY2018 to approximately RMB193.8 million for FY2019. It also increased by approximately RMB87.4 million, or by 56.5%, from approximately RMB154.7 million for 10M2019 to approximately RMB242.1 million for 10M2020.

The Target Group's lease equipment mainly includes engineering machinery and construction equipment. As at 31 December 2017, 2018, 2019 and 31 October 2020, the loans and receivables (before expected credit loss) relating to the public infrastructure industry were approximately RMB1,785.8 million, RMB1,850.1 million, RMB2,828.9 million and RMB2,882.1 million, respectively.

Medical and healthcare

For the Target Group's medical and healthcare lease equipment, the Target Group mainly provides sale and leaseback finance leasing. The Target Group's interest income from the medical and healthcare industry increased from approximately RMB173.8 million for FY2017 to approximately RMB346.7 million for FY2018, which then decreased by approximately RMB12.3 million, or 3.5% to approximately RMB334.4 million for FY2019. It decreased by approximately RMB74.0 million, or by 26.0%, from approximately RMB284.1 million for 10M2019 to approximately RMB210.1 million for 10M2020.

The leased equipment consists of a wide variety of medical and healthcare equipment, including large-scale medical facilities such as CT machines and X-ray machines, as well as small and medium-sized medical or theater equipment such as endoscopes, monitors, disinfection machines, and operating tables and as at 31 December 2017, 2018, 2019 and 31 October 2020, the Target Group's loans and receivables (before expected credit loss) relating to the medical and healthcare industry were approximately RMB3,130.2 million, RMB4,183.1 million, RMB3,345.9 million and RMB2,564.9 million, respectively.

The Target Group's medical and healthcare customers are mainly public hospitals. The Target Group's directors consider that the Target Group could better manage its risks by targeting public hospital customers, as public hospitals generally have a higher credit rating and a more stable income than private hospitals in the PRC according to the Industry Report.

Water supplies

The Target Group provides sale and leaseback finance leasing on water supplies equipment to the enterprises involving operation in sewage treatment, water supply, waste water management and other water suppliers within the PRC.

The Target Group's interest income from the water supplies industry increased from approximately RMB67.2 million for FY2017 to approximately RMB147.8 million for FY2018, and further increased to approximately RMB280.8 million for FY2019, representing CAGR of approximately 104.4%. It also increased by approximately RMB74.9 million, or by 33.1%, from approximately RMB226.3 million for 10M2019 to approximately RMB301.2 million for 10M2020.

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The Target Group's lease equipment mainly includes drainage pipe, sewerage facilities and pump valves. As at 31 December 2017, 2018, 2019 and 31 October 2020, the loans and receivables (before expected credit loss) relating to the water supplies industry were approximately RMB1,441.0 million, RMB2,119.0 million, RMB3,794.3 million and RMB4,173.8 million, respectively.

Energy

The Target Group provides both sale and leaseback finance leasing and direct finance leasing to the photovoltaic power station within the PRC.

The Target Group's finance lease income and interest income from the energy industry decreased by approximately RMB101.6 million, or by 86.3%, from approximately RMB117.7 million for FY2017 to approximately RMB16.1 million for FY2018, then increased by approximately RMB7.7 million, or by 47.8%, from approximately RMB16.1 million for FY2018 to approximately RMB23.8 million for FY2019. It also increased by approximately RMB2.7 million, or by 13.8%, from approximately RMB19.6 million for 10M2019 to approximately RMB22.3 million for 10M2020.

The Target Group's lease equipment mainly includes photovoltaic power generation equipment, consisting photovoltaic components, inverters, combiner boxes, brackets, transformers, etc. As at 31 December 2017, 2018, 2019 and 31 October 2020, the finance lease receivables and loans and receivables (before expected credit loss) relating to energy industry were approximately RMB230.0 million, RMB253.7 million, RMB297.0 million and RMB332.8 million, respectively.

ASSET QUALITY

Asset quality classification

The Target Group measures and monitors the asset quality of its finance lease receivables portfolio throughout the term of the lease. Since its establishment, the Target Group has formally adopted a five-category classification system (五級分類) in classifying the finance lease receivables, which is modelled with reference to (i) the statutory requirements relating to asset quality classification promulgated by the CBRC for financial leasing companies and other financial institutions; and (ii) the asset quality classification system used by comparable finance leasing companies in the Target Group's industry.

As advised by the Company's PRC Legal Adviser, according to the Interim Measures for the Supervision and Administration of Finance Leasing Companies promulgated by the CBIRC, finance leasing companies shall establish an assets quality classification system and a provision system, to better manage the asset quality of the finance lease receivables. The Target Group voluntarily adopted the five-category asset quality classification system with reference to the statutory requirements promulgated by the CBRC for commercial banks in the PRC. The asset quality classification is designed to assess the likelihood of repayment by the lessee and the collectability of principal and interest on the finance lease receivables.

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The five-category asset quality classification focuses on a number of factors, to the extent applicable. The five-category classifications are as follows:

| | |
|-----------------|--|
| Pass | There is no reason to doubt that the loan principal and interest will not be repaid by the lessee in full and/or on a timely basis. The financial status shows that the operating performance is good and solvent. There is no reason whatsoever to suspect that the finance lease receivable will be impaired. |
| Special Mention | Even though the lessee has been able to repay the lease payments in a timely manner, if there are factors that could adversely affect its ability to pay, then the finance lease receivable for such finance lease agreement should be classified as special mention or lower. Special mention asset has certain characteristics, for example, the payments have been overdue for more than one month but less than or equal to three months, and in some cases, where the financial position of the lessee has worsened, making the lessee unable to repay the lease payment in full by its normal operating income (despite the fact that the guarantee provided is still in full force and the Target Group is able to recover the full lease payment). |
| Substandard | If the lessee's ability to pay is in question as it is unable to make its payments in full with its operating revenue, then the finance lease receivable for such finance lease agreement should be classified as substandard or lower. Substandard asset has certain characteristics, for example, the lease payments have been overdue for more than three months, the lessee is unable to obtain new fund source to support its operation or repay its debts, or the net cash flow of the lessee has become negative and the lessee has to seek fund sources from its collateral and guarantees for repayment. |

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Doubtful

The lessee's ability to pay is in question as it is unable to make lease payments in full and/or on a timely basis with its operating revenue and we are 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 lessee has suspended its entire or part of its business operation for more than 6 months, the lessee's liability-asset ratio exceeds 100% and the lessee continues to lose money in the current year, or even if the guarantor is pursued or the collateral is processed, the leased assets are not sufficient to cover all its lease payment.

Loss

After taking all possible steps and/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 lessee and the guarantor declare bankrupt or the production and business activities have been completely ceased under which the Target Group failed to recover the lease payment from the lessee and the guarantor, or where the Target Group could not recover the lease payment even with the enforcement of court judgement because the lessee and the guarantor have no property for enforcement.

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The following table sets forth the asset quality of the Target Group's finance lease receivables and loans and receivables and the Target Group's non-performing assets as at the dates indicated:

Asset quality of finance lease receivables by classification

| Index | 31 December 2017 | | 31 December 2018 | | 31 December 2019 | | 31 October 2020 | |
|---|------------------------------|---------------|------------------------------|---------------|------------------------------|---------------|------------------------------|---------------|
| | Gross value (RMB million) | % | Gross value (RMB million) | % | Gross value (RMB million) | % | Gross value (RMB million) | % |
| Pass | 9,209.8 | 99.2% | 11,601.9 | 99.7% | 15,211.0 | 98.9% | 15,115.7 | 96.0% |
| Special mention | – | – | – | – | 125.0 | 0.8% | 473.3 | 3.0% |
| Substandard | 77.8 | 0.8% | 38.8 | 0.3% | 50.8 | 0.3% | 163.7 | 1.0% |
| Doubtful | – | – | – | – | – | – | – | – |
| Loss | – | – | – | – | – | – | – | – |
| Total gross value of finance lease receivables and loans and receivables | 9,287.6 | 100.0% | 11,640.7 | 100.0% | 15,386.8 | 100.0% | 15,752.7 | 100.0% |
| Non-performing assets ^{(1) (2)} | 77.8 | | 38.8 | | 50.8 | | 163.7 | |
| Non-performing assets ratio ⁽³⁾ | 0.8% | | 0.3% | | 0.3% | | 1.0% | |
| Provision for loss of finance lease receivables and loans and receivables | 109.3 | | 134.1 | | 184.6 | | 286.4 | |
| Provision coverage ratio ⁽⁴⁾ | 140.5% | | 345.6% | | 363.4% | | 175.0% | |

Notes:

- (1) Non-performing assets are defined as those finance lease receivables and loans and receivables having objective evidence of impairment as a result of one or more events that occur after initial recognition and that event has an impact on the estimated future cash flows of finance lease receivables and loans and receivables that can be reliably estimated. These finance lease receivables and loans and receivables are classified as “substandard”, “doubtful” or “loss”. If such receivables is credit-impaired, it is then moved to “Stage 3” under HKFRS 9.
- (2) During the Track Record Period, the non-performing assets of approximately RMB77.8 million, RMB33.8 million, RMB50.8 million and RMB163.7 million as at 31 December 2017, 2018, 2019 and 31 October 2020 were non-performing assets arising from sale and leaseback transactions. For details, please refer to Note 16(a) to the Accountant's Report in Appendix III to this circular.
- (3) Non-performing assets ratio is the percentage of non-performing assets over the carrying amount of finance lease receivables and loans and receivables as at the applicable date.
- (4)
$$\text{Provision coverage ratio} = \frac{\text{Provision for loss of finance lease receivable and loans and receivables}}{\text{Non-performing assets}}$$

According to the Industry Report, the industry average non-performing asset ratio for the finance leasing industry is approximately 2.1% in 2019. As at 31 December 2017, 2018, 2019 and 31 October 2020, the non-performing asset ratio of the Target Group's loans and receivables was approximately 0.8%, 0.3%, 0.3% and 1.0%.

BUSINESS OF THE TARGET GROUP

CUSTOMERS

The Target Group's main customer base includes enterprises in the four targeted industries which the Target Group's business is engaged in, including (i) public infrastructure, (ii) medical and healthcare, (iii) water supplies and (iv) energy industries. As at 31 October 2020, the Target Group had 394 customers, of which 88 customers were in the medical and healthcare industry, 75 customers were in the water suppliers industry, 101 customers were in the public infrastructure industry and 16 customers were in the energy industry.

For FY2017, FY2018 and FY2019 and 10M2020, revenue from the Target Group's top five customers accounted for approximately 30.6%, 13.7%, 8.2% and 6.0%, respectively, of the Target Group's total revenue, and revenue from the Target Group's largest customer accounted for approximately 16.7%, 3.6%, 2.3% and 1.4%, respectively, of the Target Group's total revenue during the same periods.

Generally, the Target Group has been attaining customers through direct sales and marketing by the Target Group's Business and Sales Department staff by leveraging the Target Group's industry expertise and local contacts. For further details regarding how the Target Group sourced its new customers, please refer to the sub-section headed "Sales and Marketing" in this section for further details.

SUPPLIERS

Due to the Target Group's business nature as a finance leasing services provider, the Target Group does not have major suppliers.

FUNDING CAPABILITIES

During the Track Record Period, the Target Group's business operation was funded through a combination of internal capital and external funding channels, including borrowings from banks and other financial institutions, related companies, as well as asset-backed securities and bond issuances. Such diverse funding sources enable the Target Group to maintain a capital-adequate funding base.

BUSINESS OF THE TARGET GROUP

The table below sets forth a breakdown of the Target Group's interest-bearing debts as at the respective dates:

| | As at 31 December 2017 Outstanding balance (RMB'000) | As at 31 December 2018 Outstanding balance (RMB'000) | As at 31 December 2019 Outstanding balance (RMB'000) | As at 31 October 2020 Outstanding balance (RMB'000) |
|----------------------------------|---|---|---|--|
| Interest-bearing debts | | | | |
| Financial institution borrowings | 6,792,501 | 7,287,546 | 6,809,491 | 3,730,858 |
| Other liabilities | 500,000 | 300,000 | 110,000 | —* |
| Bonds payable | 512,389 | 1,489,669 | 5,170,237 | 8,363,146 |
| Total | 7,804,890 | 9,077,215 | 12,089,728 | 12,094,004 |

* represents negligible amount

As at 31 October 2020, the Target Group had outstanding financial institution borrowings of approximately RMB3,730.9 million and bonds payable of approximately RMB8,363.1 million, and obtained financing facilities of approximately RMB9,902.8 million, of which approximately RMB3,672.8 million has been used as at 31 October 2020.

In terms of the Target Group's liquidity, below sets out the Target Group's net receivable over the Target Group's total liability:

| | As at 31 December 2017 | As at 31 December 2018 | As at 31 December 2019 | As at 31 October 2020 |
|--|------------------------------|------------------------------|------------------------------|-----------------------------|
| Liquidity index | | | | |
| Finance lease receivables and Loans and receivables/ Total liability | 104.4% | 111.1% | 110.9% | 113.1% |

BUSINESS OF THE TARGET GROUP

Borrowings

All the Target Group's borrowings were denominated in RMB. The Target Group's RMB-denominated borrowings comprised both fixed-rate borrowings and floating-rate borrowing. The range of borrowing rate was 4.49% to 7.50%. For details, please refer to Note 22 in the Accountant's Report in Appendix III to this circular. The Target Group's financing agreements with its lenders may restrict the use of loan proceeds to certain purposes or projects. The financing agreements also contained a number of covenants, undertakings, restrictions and default provisions. Examples of major covenants, undertakings and restrictions that may trigger default provisions include:

- failure to repay the principal and/or interest in a timely manner;
- liquidation or cessation of business; and
- deterioration of the lessee's credit worthiness, financial performance or cash flows.

Asset-backed securities

During the Track Record Period, the Target Group launched nine batches of asset-backed securities as follows:

| Name/batch of the asset-backed securities | Aggregate principal amount (RMB) | Preferential interest rates ranging | Guarantor |
|---|---|---|--------------|
| Qingdao Urban Investment Leasing Phase I Asset-backed Special Plan 青島城投租賃一期資產支持專項計劃 | 370 million | 3.7%–4.4% | QCCIG |
| Qingdao Urban Investment Leasing Phase II Asset-backed Special Plan 青島城投租賃二期資產支持專項計劃 | 630 million | 5.2%–5.8% | QCCIG |
| Qingdao Urban Investment Leasing Phase III Asset-backed Special Plan 青島城投租賃三期資產支持專項計劃 | 1,050 million | 6.2%–6.5% | No guarantor |
| Qingdao Urban Investment Leasing Phase IV Asset-backed Special Plan 青島城投租賃四期資產支持專項計劃 | 959 million | 6.5%–7.2% | No guarantor |

BUSINESS OF THE TARGET GROUP

| Name/batch of the asset-backed securities | Aggregate principal amount (RMB) | Preferential interest rates ranging | Guarantor |
|---|-------------------------------------|-------------------------------------|--------------|
| Qingdao Urban Investment Leasing Phase V Asset-backed Special Plan 青島城鄉租賃第五期資產支持專項計劃 | 1,200 million | 6.1%–7.2% | No guarantor |
| Qingdao Urban Investment Leasing Phase VI Asset-backed Special Plan 青島城鄉租賃第六期資產支持專項計劃 | 1,321 million | 5.8%–6.6% | No guarantor |
| Qingdao Urban Investment Leasing Phase VII Asset-backed Special Plan 青島城鄉租賃第七期資產支持專項計劃 | 1,115 million | 5.8%–6.7% | No guarantor |
| Qingdao Urban Investment Leasing Phase VIII Asset-backed Special Plan 青島城鄉租賃第八期資產支持專項計劃 | 1,448 million | 4.8%–6.3% | No guarantor |
| Qingdao Urban Investment Leasing Phase IX Asset-backed Special Plan 青島城投租賃九期資產支持專項計劃 | 1,660 million | 5.0%–6.0% | No guarantor |

As at 31 December 2017, 2018, 2019 and 31 October 2020, the outstanding balance of the Target Group's bonds payable amounted to approximately RMB512.4 million, RMB1,489.7 million, RMB5,170.2 million and RMB8,363.1 million, respectively.

Corporate Bonds

During the Track Record Period, in addition to raise funds from asset-back securities, the Target Group also launched five tranches of corporate bonds.

BUSINESS OF THE TARGET GROUP

The following table sets forth the details of the corporate bonds issued by the Target Group during the Track Record Period:

| | First tranche of corporate bonds for FY2020 | Second tranche of corporate bonds for FY2020 | Third tranche of corporate bonds for FY2020 | First tranche of corporate bonds for FY2019 | Second tranche of corporate bonds for FY2019 |
|---------------|---|--|---|---|--|
| Principal | RMB500.0 million | RMB1,000.0 million | RMB1,000.0 million | RMB800.0 million | RMB1,500.0 million |
| Coupon rate | 4.02% | 4.30% | 5.50% | 4.95% | 4.68% |
| Maturity date | 5 years ⁽¹⁾ | 5 years ⁽¹⁾ | 3 years ⁽¹⁾ | 3 years ⁽¹⁾ | 5 years ⁽¹⁾ |
| Bond rating | AAA/AA+ | AAA/AA+ | AA+/AA+ | AA+ | AAA |
| Issue date | February 2020 | June 2020 | September 2020 | October 2019 | November 2019 |
| Guarantor | QCCIG | QCCIG | No guarantor | QCIFH | QCCIG |

Note:

- (1) The bondholders have an option to redeem their subscription from the issuer. Please refer to Note 23(i) to the Accountant's Report as set out in Appendix III to this circular for further details.

Private Placement Notes

During the Track Record Period, in addition to raise funds from asset-back securities and corporate bonds, the Target Group also launched one tranche of private placement notes. The following table sets forth the details of the private placement notes issued by the Target Group during the Track Record Period:

First tranche of private placement notes for FY2020

| | |
|---------------|------------------------|
| Par value | RMB500.0 million |
| Coupon rate | 3.58% |
| Maturity date | 5 years ⁽¹⁾ |
| Issue date | April 2020 |
| Guarantor | QCCIG |

Note:

- (1) The noteholders have an option to redeem their subscription from the issuer.

BUSINESS OF THE TARGET GROUP

SALES AND MARKETING

Since the Target Group's establishment in 2014, the Target Group has been attaining customers through direct sales and marketing by the Target Group's Business and Sales Department staff by leveraging the Target Group's industry expertise and local contacts.

As at the Latest Practicable Date, the Target Group had a total of 38 employees in the Business and Sales Department which was co-led by three of Target Group's senior management members, namely, Mr. Wan, Mr. Xu, and Mr. Zhu. For their background, please refer to the sub-sections headed "The Target Group's Competitive Strengths – The Target Group has an experienced and dedicated management team" and "Business Operations – Operation Workflow" in this section for further details.

The Target Group's business team leaders are responsible for sourcing new customers and visiting potential customers' premises at their principal place of business with the Target Group's Business and Sales Department staff. They contact and visit the Target Group's existing and potential customers in the PRC regularly to understand their requests and financing needs, and to establish relationships with them. During the Target Group's site-visits with customers, the Target Group conducts client review and obtains valuable feedback from customers, so that the Target Group can further improve its client management. The Target Group also maintains good relationship with suppliers or manufacturers of finance lease assets of its customers in the four targeted industries.

As the Target Group's Business and Sales Department staff have in-depth experience and industry knowledge, the Target Group is able to analyse customers' asset quality and financing needs and provide tailored service accordingly.

As a result of these cross-selling efforts, the Target Group, from time to time, identifies business opportunities from such cross-selling efforts. In relation to advertising, the Target Group rely on the Target Group's website and word of mouth to introduce the Target Group and promote the Target Group's services to the potential customers.

The Target Group has established business relationships with different banks and financial institutions. Through these relationships, it will enable the Target Group to capture different market opportunities and widen the Target Group's connections to potential customers.

COMPETITION

According to the Industry Report, (i) the penetration rate of finance leasing in the PRC has increased from approximately 5.3% in 2015 to approximately 7.8% in 2019, which is expected to reach approximately 10.0% by 2024; (ii) the finance lease receivables increased from approximately RMB4.4 trillion by the end of 2015 to approximately RMB6.7 trillion by the end of 2019, with CAGR of approximately 10.6%. For details, please refer to the section headed "Industry Overview – Overview of the finance leasing industry in the PRC" in this circular.

BUSINESS OF THE TARGET GROUP

Although the finance leasing industry in the PRC has high entry barriers, the relevant market is fragmented. According to the Industry Report, there were 12,130 market participants in 2019, including 70 bank-affiliated enterprises, 403 domestic-funded enterprises and 11,657 foreign-funded enterprises.

In addition, according to the Industry Report, the Target Group ranked fifth among foreign-funded medical device finance leasing companies in the PRC in 2019, accounting for a market share of 1.0% in terms of finance lease receivables of the overall medical device finance leasing segment in the PRC. For details, please refer to the section headed “Industry Overview – Competitive landscape of the finance leasing industry in the PRC” in this circular.

In response to the competitive environment, the Target Group intends to continue to implement the Target Group’s strategies to differentiate itself from its competitors and to enable the Target Group to compete effectively in the finance leasing industry.

INFORMATION TECHNOLOGY

The Target Group’s IT systems are integral to many aspects of the its business operations, including transaction processing, risk management, asset management and financial management. The Target Group has formulated and implemented a series of internal rules to regulate information system governance and information safety strategies.

INSURANCE

Generally, the Target Group requires certain customers to maintain asset insurance for the assets underlying the Target Group’s leases to cover any loss or damage to such assets during the lease term in the (i) public infrastructure, (ii) medical and healthcare, (iii) water supplies; and (iv) energy industries on a needed basis. The insurance payments are generally paid by its customers in line with finance leasing industry practice and the Target Group is usually the beneficiary of such insurance.

For the Target Group operations, the Target Group has purchased (i) personal injury insurance for the Target Group’s employees; and (ii) compulsory traffic insurance and motor vehicles insurance. The Target Group has made contributions to pension insurance, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance for the Target Group’s employees in the PRC in compliance with relevant PRC laws and regulation.

As at the Latest Practicable Date, the Target Group has not experienced any business interruptions which had a material adverse effect on its business. Based on industry practice in the PRC, the Target Group’s experience in running the Target Group’s businesses, the availability of insurance products in China and advice received from insurance agents, the Target Group is of the view that the Target Group has sufficient insurance coverage for its current operations.

BUSINESS OF THE TARGET GROUP

EMPLOYEES & NUMBER OF STAFF

As at 31 December 2017, 2018, 2019 and 31 October 2020, the Target Group had a total of 48, 77, 98 and 101 full-time employees, respectively. As at the Latest Practicable Date, the Target Group had 100 staff. The Target Group is of the view that the Target Group's employees are one of its most valuable assets and that they have contributed significantly to the success of the Target Group.

The Target Group sets out below a breakdown of the Target Group's employees by function as at the Latest Practicable Date:

| Function | Number of employees |
|---|---------------------|
| Business and Sales Department | 38 |
| Risk Management | 10 |
| Finance Department | 11 |
| Legal and Asset Management Department | 9 |
| Commerce Department | 7 |
| Administration and Human Resources Department | 7 |
| Management | 6 |
| Internal Control and Compliance Department | 4 |
| IT Department | 8 |
| | <hr/> |
| Total | 100 |

Training and recruitment policies

The Target Group generally recruits employees based on, among others, education background, capability and relevant working experiences. The Target Group provides induction training to new employees and regular trainings to the Target Group's existing employees.

Labour unions and any labour disputes

During the Track Record Period and up to the Latest Practicable Date, the Target Group's Group had not experienced any significant difficulties in recruiting employees, and had not experienced any staff or labour disputes that materially and adversely affected the Target Group's operations.

BUSINESS OF THE TARGET GROUP

Staff remuneration and benefits

The Target Group reviews the performance of the Target Group's staff periodically and reflects such results in the Target Group's staff's salary review. The Target Group seeks to motivate the Target Group's staff by distributing year-end bonus (base on their performance) in addition to their respective basic salary and commission (if any).

The Company's PRC Legal Adviser confirms that the Target Group was in compliance with the Social Insurance Law and the Regulations on the Administration of Housing Fund in all material aspects during the Track Record Period and up to the Latest Practicable Date.

Health and work safety

The Target Group's strives to provide employees with a safe and healthy environment. The Target Group's directors confirm that there were no material accidents, health injuries or any non-compliance incidents with the relevant laws and regulations during the Track Record Period and up to the Latest Practicable Date.

ENVIRONMENTAL MATTERS

The Target Group's operations do not involve manufacturing and do not directly generate industrial pollutants. The Company's PRC Legal Adviser confirms that the Target Group has not been subject to any material claim or penalty in relation to environmental protection or any accident.

RESEARCH AND DEVELOPMENT

During the Track Record Period and up to the Latest Practicable Date, the Target Group did not engage in any research and development activity.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, the Target Group were not aware of any infringement (i) by the Target Group of any intellectual property rights owned by any third party; or (ii) by any third party of any intellectual property rights owned by the Target Group. During the Track Record Period and up to the Latest Practicable Date, there had not been any pending or threatened claims against the Target Group, nor had any claims been made by the Target Group against third parties, with respect to the infringement of intellectual property rights owned by the Target Group or third parties.

BUSINESS OF THE TARGET GROUP

PROPERTIES

As at the Latest Practicable Date, the Group owned the following property:

| No. | Location | Approximate gross floor area (in square meters) | Usage |
|-----|---|---|--------|
| 1 | 11th Floor, Building T9, No. 195 Hong Kong East Road, Laoshan District, Qingdao | 1,469.3 | Office |

As at the Latest Practicable Date, the Group leased the following properties from Independent Third Parties:

| No. | Location | Approximate gross floor area (in square meters) | Usage | Expiry dates of the lease |
|-----|--|--|--|--|
| 1 | 5th Floor, Building T9, No. 195 Hong Kong East Road, Laoshan District, Qingdao | 245.3 | Office | 1 January 2021 – 31 December 2021 |
| 2 | House No. 406 in Chuangxiang Town, Tianmu City, 80 Liaoning Road, Shibei District, Qingdao | 63.9 | Office | 1 January 2021 – 31 December 2021 |
| 3 | Room 145, Meitongyijia Apartment, No. 951 Shilong Road, Xuhui District, Shanghai | 35 | Residential purposes for employees | 1 January 2021 – 31 December 2021 |
| 4 | No. 217A, 3rd Floor, Office Building, No. 43, Beijing Road, Qianwan Free Trade Port Zone, Qingdao Area, China (Shandong) Free Trade Zone | 16.0 | Office | 24 September 2020 – 24 September 2021 |

BUSINESS OF THE TARGET GROUP

| No. | Location | Approximate gross floor area (in square meters) | Usage | Expiry dates of the lease |
|-----|--|--|--|--|
| 5 | Room 1604, Building 35, No. 16, Liaoyang East Road, Laoshan District, Qingdao | 95.4 | Residential purposes for employees | 15 July 2020 – 14 July 2021 |
| 6 | 3A, No. 18, Lane 1029, Zhaojiabang Road, Xuhui District, Shanghai | 169.6 | Residential purposes for employees | 20 June 2020 – 19 June 2021 |
| 7 | Room 125, Meitongyijia Apartment, No. 951 Shilong Road, Xuhui District, Shanghai | 25 | Residential purposes for employees | 7 April 2020 – 6 April 2021 |
| 8 | 603–10, 6th Floor, Building 1, No. 38 Debao Road, Pudong New Area, Shanghai | 70 | Operating premises | 15 August 2019 – 14 August 2022 |
| 9 | Units 3001, 3008–10, Hong Kong Center (Tower 2), No. 3 Hongqiao Road, Shanghai | 629.4 | Office | 1 April 2019 – 31 March 2022 |
| 10 | Room 2704, No. 2, Lane 1878, Zhongshan West Road, Xuhui District, Shanghai | 144.3 | Residential purposes for employees | 15 February 2019 – 14 February 2022 |
| 11 | Unit 3002, Ganghui Center (Tower 2), No. 3 Hongqiao Road, Shanghai | 158.1 | Office | 1 November 2018 – 31 March 2022 |
| 12 | Room 1403, No. 24, Lane 3208, Longhua Road, Xuhui District, Shanghai | 131.1 | Residential purposes for employees | 20 September 2016 – 19 September 2023 |

BUSINESS OF THE TARGET GROUP

APPROVALS, LICENCES AND PERMITS

The approvals, licences and permits required for the Target Group's operations in the PRC primarily include foreign invested company establishment approval, medical devices business operation permit and filings, enterprise business licence, foreign exchange registration certificate, social insurance registration certificate issued by the local branches of MOFCOM, local branches of SAIC and other government agencies.

The Target Group's directors confirm that during the Track Record Period and up to the Latest Practicable Date, the Target Group had obtained and maintained all necessary licences, approvals and permits from the relevant government authorities that are required for the Target Group's business operations in the PRC.

The Target Group's directors confirm that (i) The Target Group did not experience any material difficulty in obtaining or renewing any required licence, approval or permit; and (ii) The Target Group were not admonished or penalised by the relevant government authorities for any material non-compliance in connection with the Target Group's business operation.

The Target Group's directors are of the view that to the best of their knowledge and belief, (i) there is no existing circumstances that would render the revocation or cancellation of any required licence, approval or permit; and (ii) there is no legal impediment to renew any required licences, approvals, registrations and permits.

LEGAL PROCEEDINGS AND NON-COMPLIANCE

As at the Latest Practicable Date, neither the Target Group nor any of the Target Group's directors were engaged in any litigation, arbitration or claim of material importance cases, and no litigation, arbitration or claim of material importance cases is known to the Target Group's directors to be pending or threatened by or against the Target Group, or any of the Target Group's directors, that would have a material adverse effect on the Target Group's results of operations or financial condition.

During the Track Record Period and up to the Latest Practicable Date, the Target Group did not experience any material or systemic non-compliance of the laws or regulations which, when taken as a whole, in the opinion of the directors of the Target Group, is likely to have a material adverse effect on the business operations or financial condition or reflects negatively on the ability of the Target Group and its core management team, to operate in a compliant manner in all material aspects.

The following table outlines the immaterial non-compliance incidents of the Target Group during the Track Record Period.

1. Foreign exchange registration management

| Non-compliance incidents | Reasons for non-compliance | Legal consequences and potential maximum penalty | Rectification actions taken | Potential operational and financial impact |
|--|---|--|---|--|
| <p>Due to the actual controllers of Vasari Investment and Chinese Capital have not completed any registration with SAFE according to SAFE Circular No. 37 ("SAFE Circular No. 37 Filings"), the Target Company made the wrong foreign exchange registration filings (外匯登記) (the "SAFE Filings") with incorrect information relating to the nationality of the actual controllers of CQDHG, Vasari Investment and Chinese Capital in respect of the Target Company's capital injection and related foreign currency remittance conducted in October 2015.</p> | <p>Pursuant to the relevant PRC laws and regulations, if the offshore Special Purpose Vehicles ("SPVs") are controlled by PRC residents, the actual controllers of the SPVs involved in the said capital injection and associated foreign currency remittance should be primarily responsible for completing SAFE Circular No. 37 Filings at the time of conducting the relevant respective cross border foreign currency remittance.</p> <p>The incorrect information contained in the SAFE Filings was mainly due to inadvertent oversight of the responsible staff of the Target Company. It was not a wilful act on the part of the Target Company.</p> | <p>The Target Company was fined by the SAFE Qingdao Branch for an administrative penalty in an amount of approximately RMB6.54 million in November 2018 due to the wrong exchange registration filings, evasion of foreign exchange and illegal remittance of foreign exchange in accordance with the Administrative Penalty Decision (Qinghui Jianpu [2018] No. 22) ((行政處罰決定書)(青匯檢罰[2018]22號)).</p> <p>According to Article 24 of Administration Penalty of the PRC ((《中華人民共和國行政處罰法》), for some illegal act committed by a party, the party shall not be given an administrative penalty of fine for more than once.</p> <p>As advised by the Company's PRC Legal Adviser, the Target Company is not subject to further administrative penalty in accordance with the Article 24 of the Administrative Punishment Law of the PRC.</p> | <p>The Target Company has promptly paid the penalties in an aggregate amount of approximately RMB6.54 million to the SAFE Qingdao Branch on 19 November 2018 in accordance with the orders set out in the Administrative Penalty Decision.</p> <p>The Target Company has adopted relevant internal control measures.</p> <p>For details, please refer to the paragraph headed "Internal control measures in relation to aforesaid non-compliances" in this section for further information.</p> | <p>In view of the Target Company's due and complete payment of the penalties set out in the Administrative Penalty Decision, the directors of the Target Group believe that there will be no adverse impact on the Acquisition.</p> <p>Having considered the following, the directors of the Target Company are of the view that such past non-compliant acts do not have any material adverse implication on the Target Group business operation and financial performance:</p> <ul style="list-style-type: none"> (i) none of the directors of the Target Company has benefited from any financial gains arising from the non-compliant acts; (ii) the non-compliant acts are not wilful acts done by any of them and only due to inadvertent oversight of the responsible staff; (iii) under the PRC laws, the actual controllers of Vasari and Chinese Capital was primarily responsible for completing the SAFE Circular No. 37 Filings and the Vendor has provided the Company an indemnity against any potential loss resulting from the non-compliance incident; (iv) rectifications have been taken after the Target Group was informed by the relevant authorities; (v) the nature of the non-compliance incident has no relevance to the ordinary course of business of operation of the Target Group and non-recurring in nature; and (vi) there was no provision or contingent liabilities recognised or required to be recognised for the incident in the Target Group's consolidated financial statement of financial position in accordance with the relevant applicable accounting standard(s). |

2. Failure to obtain registration permit and operation permit for certain medical devices

| Non-compliance incidents | Reasons for non-compliance | Legal consequences and potential maximum penalty | Rectification actions taken | Potential operational and financial impact |
|--|---|--|---|---|
| Pursuant to relevant PRC laws and regulations, a company which engages in financial leasing for Type II and III medical equipment is required to obtain requisite licenses. The Target Company and one of its subsidiaries, Shanghai Qingtou, conducted certain amount of financial leasing transactions without the operation license for Type II and Type III medical equipment during the Track Record Period ("Medical Device Permits Failure"). | The occurrence of the Medical Device Permits Failure was due to misunderstanding of the relevant laws and regulations by the management of the Target Group. It was not a wilful act on the part of the Target Group. | According to the Medical Devices Regulations, if any entity engages in business operation of Type III medical devices without a permit, the competent government authorities may confiscate proceeds gained from the dealings in these medical devices, and the tools, equipment, raw materials and other articles that are used for illegal production or business operation may also be confiscated. Furthermore, if the value of the medical device concerned is less than RMB10,000, a fine of RMB50,000 to RMB100,000 shall be imposed; and if the value of the medical device concerned is more than RMB10,000, a fine of 10 times to 20 times the value of the medical device concerned shall be imposed. For serious cases, the medical device permit applications submitted will not be accepted for five years. In addition, if any company engages in business operation of Type II medical devices without the necessary filing certificate, the competent government authorities may order the entity concerned to make correction within a prescribed time limit; if the entity concerned fails to make correction within the prescribed time limit, the name of the entity and the product concerned will be made public and a fine of not more than RMB10,000 will be imposed. | As at the Latest Practicable Date, no administrative action, fine or penalty had been imposed by the relevant PRC government authorities with respect to such non-compliance incidents, nor has any order been received by the Target Group to cease the medical devices finance leasing business prior to successfully obtaining the relevant filing certificate and operation permits. The Target Group is committed to be fully compliant with all applicable laws and regulations, and the Target Company has obtained the registration permits for Type II medical devices in August 2019 and the operation permits for Type III medical devices in October 2018. In addition, Shanghai Qingtou has obtained the registration permits for Type II medical devices in October 2020 and the operation permits for Type III the relevant medical devices in October 2020. | Having considered the following, the directors of the Target Company are of the view that the Medical Device Permits Failure do not have any material adverse impact on the business operation of the Target Group and the Acquisition: <ul style="list-style-type: none"> (i) The Target Company and its subsidiary, Shanghai Qingtou had obtained the requisite filing certificate for financial leasing of Type II and III medical equipment; (ii) the Target Group has not been and not likely be imposed any penalties by any government authority from the incident; (iii) the likelihood of the relevant local competent authorities issuing a penalty in the future on the Target Group with respect to the Medical Device Permits Failure is low, given that the Target Group is not aware and has never been ordered to suspend operations or penalised by the relevant local authorities during the Track Record Period and up to the Latest Practicable Date; (iv) the fact that the Company's PRC Legal Adviser has also advised that the imposition of any penalty for the Medical Device Permits Failure by the competent government authorities on the Target Group is low^(Note); (v) there was no provision or contingent liabilities recognised or required to be recognised for the incident in the Target Group's consolidated financial statement of financial position in accordance with the relevant applicable accounting standard(s); and (vi) rectifications have been made after the issue of the Medical Device Permits Failure has been brought to the attention of the directors of the Target Group. |

Note:

Relating to operation of Type II medical devices: The Target Company had conducted financial leasing business of Type II medical devices before obtaining the requisite filing certificate. According to the Medical Devices Regulations, the competent government authorities may order the Target Company to make rectification/remedial actions within a prescribed time limit; where failing to do so, the Target Company may liable for a fine of not more than RMB10,000. Given the Target Company (a) has filed for the operations of Type II medical device on 13 August 2019 and (b) has not received any oral or written notice from the competent government authorities for any rectification/remedial actions prior to the said date, the Company's PRC Legal Adviser is of the view that the imposition of any penalty by the competent government authorities regarding the relevant incident is low.

Relating to operation of Type III medical devices: The Target Company conducted financial leasing business of Type III medical devices before obtaining the requisite license. According to the inquiry record list (查詢記錄單) issued by the Qingdao Administration for Market Regulations (青島市市場監督管理局) on 23 July 2020, upon checking of the Qingdao Municipal Administrative Penalty and Administrative Mandatory Network Operation System (青島市行政處罰與行政強制網絡運行系統), there are no records that the Target Company has been issued administrative penalty for violating relevant market supervision and management laws and regulations. On 30 November 2020, Qingdao Shibei District Administration for Market Regulation (青島市北區市場監督管理局) ("QAAMR") issued a certificate ("Compliance Certificate") to Target Company confirming that QAAMR has not found any violation of market supervision and management laws and regulations on part of the Target Company, nor any penalties ordered by QAAMR for the same, from the date of establishment of the Target Company until 30 November 2020. According to the Administrative Penalty Law of the PRC (《中華人民共和國行政處罰法》), if an illegal act is not discovered within two years, no administrative punishment may be imposed, unless otherwise provided by other laws and regulations. Such time limit of two years shall start to run on the day of occurrence of any illegal act. For any illegal act is of a continual or continuous nature license, such time limit of two years have lapsed between the said date and the date of the Compliance Certificate, the Company's PRC Legal Adviser is of the view that the imposition of any penalty by the competent government authorities regarding the relevant incident is low.

BUSINESS OF THE TARGET GROUP

Save as the non-compliance incidents disclosed above, as advised by the directors of the Target Company and the Company's PRC Legal Adviser, the Target Group had not been subject to significant fines or legal actions involving non-compliance with any PRC laws or regulations relating to its business operation during the Track Record Period and up to the Latest Practicable Date.

Internal control measures in relation to aforesaid non-compliances

The Target Company has adopted the following specific internal control measures to prevent the recurrence of similar non-compliance incidents relating to:

1. Foreign exchanges control

The Target Company has adopted the following specific internal control measures to prevent the recurrence of similar non-compliance incidents relating to foreign exchange control laws and regulations:

- (i) the Target Company has issued "Policy of Legal and Asset Management", requiring Legal and Asset Management Department to obtain and assess the latest policies and information regularly from all the regulators applicable to the Target Company including SAFE to ensure that itself, its directors, senior management and employees comply with the latest administrative practices, policies and regulations;
- (ii) the Target Company will enquire and update with its directors and senior management regularly and keep in its record (the "**Internal Record**") details of:
 - (a) whether they have made contribution to any SPVs or transferred any assets (domestic or foreign) which is/are subject to foreign exchange control policies; and
 - (b) whether there is any change in their foreign exchange registration information in its Internal Record. Upon receipt of replies from the directors and senior management of the Target Company, a responsible staff member will ascertain with SAFE on whether the relevant directors and senior management have completed the relevant foreign exchange registration procedures and provide all assistances to them, if necessary, to ensure their compliance with the foreign exchange control policies; and
- (iii) the Target Company will regularly keep and update a record regarding the shareholdings of its directors and senior management, including, amongst others, their number of shareholding, nature of shareholding, whether any shares of the Target Company is held by any SPVs (if so, the nature of their interest in the vehicle), whether any registration is required in respect of such shareholding (if so, whether proper registration has been filed). If the Target Company is aware of any non-compliance with the registration requirement, it will advise its directors and senior management the requirement and assist them to register accordingly.

2. Failure to obtain registration permit and operation permit for certain medical devices

The Target Company has adopted the following specific internal control measures to prevent the recurrence of similar non-compliance incidents relating to failure in obtaining registration permits for category two medical devices and operation permits for category three medical devices:

- (i) the Target Company has issued “Policy of Legal and Asset Management”, requiring Legal and Asset Management Department to obtain and assess the latest policies and information regularly from all the regulators applicable to the Target Company including National Medical Products Administration so as to ensure that itself, its directors, senior management and employees comply with the latest administrative practices, policies and regulations; and
- (ii) the Target Company has issued the “Policy of the Development and Management of New Business and New Product” to standardise its development and management of new business and new products. The policy stipulates that the Department of Risk Control shall be responsible for the identification and assessment of relevant risk and the Department of Legal and Asset Management shall be responsible for the assessment of the legal and compliance risk, so as to ensure that the risk of new business and new product is properly identified, assessed and mitigated.

In order to further improve corporate governance and to mitigate the risk of non-compliances in the future, the Target Company has also adopted and will continue to adopt the following general internal control measures:

- (i) its core management team will be provided with training regarding the legal and regulatory requirement applicable to the business operation of the Target Company on a regular basis;
- (ii) external Hong Kong and PRC legal counsel will be appointed to advise the Target Company on compliance with the Listing Rules and the applicable laws and regulations in Hong Kong and the PRC, respectively; and
- (iii) the Target Company has designated its supervisor of the Department of Legal and Asset Management to monitor and oversee the implementation of the abovementioned internal control measures to prevent the recurrence of similar non-compliance incidents in the future. The said supervisor possessed academic experience and related experience in legal field and has over 5 years of experience in legal related work in the Target Company.

BUSINESS OF THE TARGET GROUP

Views of the Target Group's directors

As the Target Group conducted a review of its internal control system (including those relating to the Medical Device Permits Failure). The management of the Target Group has issued, in particular the policies of (i) “Policy of Legal and Asset Management”; and (ii) “Policy of the Development and Management of New Business and New Product” in relation to prevent the recurrence of similar non-compliance incident relating to failure in obtaining medical registration permits.

Due to the fact that (a) the Target Group implemented measures to rectify the non-compliance incident after becoming aware of the incidents and all such incident has been rectified as of the Latest Practicable Date; and (b) rectification and improvement actions have been taken by the Target Group to prevent the recurrence of the incident, and (c) the fact that: (i) such incident was not a wilful act on the part of the management or directors of the Target Group where no element of fraud or dishonesty was involved; (ii) the Target Group had obtained the requisite filing certificate for its operation, (iii) the Target Group has not been and is not likely be imposed any penalties by any government authority from the incident; (iv) the likelihood of the relevant local competent authorities issuing a penalty on the Target Group with respect to the Medical Device Permits Failure is low; (v) the Company's PRC Legal Adviser has also advised that the imposition of any penalty for the Medical Device Permits Failure by the competent government authorities on the Target Group is low; (vi) there was no provision or contingent liabilities recognised or required to be recognised for the incident in the Target Group's consolidated financial statement of financial position; (vii) rectifications have been made after the issue of the Medical Device Permits Failure has been brought to the attention of the directors of the Target Group; and (viii) the continuation of the expansion of the Target Group's business and scale of its operation, the Target Group's directors are of the view, that, after the abovementioned enhancement and ratifications made, the Target Group internal control system is adequate and effective for its current operation environment and the incident did not have and will not have materially adverse impact on the business operation of the Target Group and the Acquisition.

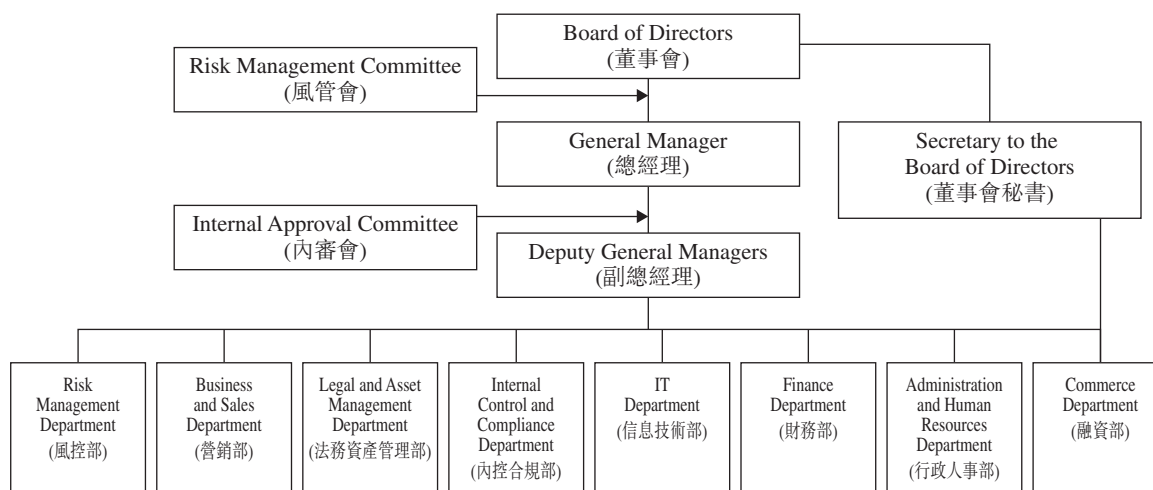
RISK MANAGEMENT AND OPERATION OF THE TARGET GROUP

OVERVIEW

As a finance leasing company serving different industries, the Target Group assumes various risks in the business operations, including but not limited to credit, liquidity, market, compliance, legal, operational and reputational risks, among which credit risk is the primary exposure. The Target Group has developed a comprehensive risk management system and controls various risks through measures including, amongst others, due diligence on customers, independent information review and a multi-level approval process.

RISK MANAGEMENT FRAMEWORK

Given the business expansion, the Target Group faces different risks and challenges. Accordingly, the Target Group has been constantly improving its risk management system. The following graph illustrates the risk management framework of the Target Group:



Board of Directors of the Target Company

The board of directors of the Target Company is the highest decision-making authority within the hierarchy of bodies responsible for internal risk management and is ultimately responsible for the overall risk management. The main duties of the board of directors of the Target Company include reviewing and approving the major risk management strategies and policies, monitoring the implementation of risk management rules and procedures, and assessing the overall risk exposure. The board of directors of the Target Company performs certain risk management functions through the Internal Approval Committee and/or the Risk Management Committee which are mainly responsible for assessing the risks and approving, where appropriate, the finance leasing projects. The Risk Management Committee reports directly to the board of directors of the Target Company.

RISK MANAGEMENT AND OPERATION OF THE TARGET GROUP

Internal Approval Committee (“IAC”)

The IAC is responsible for vetting all finance leasing projects regardless of the finance lease amount. The respective project managers of the Business and Sales Department, together with the Risk Management Department, are responsible for preparing and submitting the relevant project initiation materials, such as due diligence report and risk assessment report to the IAC for vetting, discussions and approval. Upon the IAC members’ approval, project with a finance lease amount which is below RMB100 million will proceed to the signing and payment stage; and project with a finance lease amount of RMB100 million or above will be presented to the Risk Management Committee for vetting, discussion and approval. Meeting of the IAC is held regularly to review and approve the projects and shall be attended by at least five IAC members who are entitled to vote. In order to be approved by the IAC, finance leasing project shall be approved by over two-third of the voting members at the IAC meeting. Where appropriate, the IAC may invite industry experts to attend the IAC meeting, but such experts will not be entitled to vote at the meeting.

In general, the IAC consists of 17 members, including a president who shall be the chairman of the board of directors of the Target Company, a vice-president who shall be a general manager of the Target Company, and several standing members. The standing members of the IAC generally include the directors of the Target Company, and the head and deputy head of various departments, such as the Risk Management Department, the Legal and Asset Management Department, Commerce Department, the Finance Department and the Internal Control and Compliance Department.

As at the Latest Practicable Date, the IAC consisted of the following members:

| Name | Position in the IAC | Experience |
|------------------------------|-------------------------|--|
| 1. Mr. Li Chenggang (李成剛) | President (主任) | Please refer to Mr. Li Chenggang’s biography under the section headed “Core Management Team of the Target Group” in this circular for further information. |
| 2. Mr. Shang | Vice-president (副主任) | Please refer to Mr. Shang’s biography under the section headed “Core Management Team of the Target Group” in this circular for further information. |

RISK MANAGEMENT AND OPERATION OF THE TARGET GROUP

| | Name | Position in the IAC | Experience |
|----|---------------------------|--------------------------------|---|
| 3. | Mr. Wang Xiaolei (王笑磊) | Member | Mr. Wang Xiaolei has solid experience working in the finance industry, in particular in bank operation and management. He also has over ten years of project approval experience. |
| 4. | Ms. Song Hui (宋慧) | Member | Please refer to Ms. Song Hui's biography under the section headed "Core Management Team of the Target Group" in this circular for further information. |
| 5. | Mr. Liu Hailiang (劉海亮) | Member | Please refer to Mr. Liu Hailiang's biography under the section headed "Core Management Team of the Target Group" in this circular for further information. |
| 6. | Ms. Shen Hui (沈慧) | Member | Ms. Shen Hui has solid experience in finance and management within the finance leasing sector. |
| 7. | Ms. Zhang | Member | Please refer to Ms. Zhang's biography under the section headed "Core Management Team of the Target Group" in this circular for further information. |
| 8. | Mr. Liu Jia (劉佳) | Member | Mr. Liu Jia has solid finance experience, of which over three years were spent in the banking sector and over five years were spent in the finance leasing sector. |
| 9. | Mr. Hou | Member | Mr. Hou has solid finance experience, of which over three years were spent in the banking sector and over five years were spent in the finance leasing sector. |

RISK MANAGEMENT AND OPERATION OF THE TARGET GROUP

| Name | Position in the IAC | Experience |
|--------------------------------|------------------------|--|
| 10. Ms. Peng | Member | Ms. Peng has solid experience in accounting and finance of which six years were spent in the finance leasing sector. She also has over three years of project approval experience. |
| 11. Mr. Chen | Member | Mr. Chen has solid legal experience at large state-owned finance leasing enterprise. He also has over seven years of project approval experience. |
| 12. Ms. Xu | Member | Ms. Xu is a certified public accountant and a senior accountant of the PRC. She has solid auditing experience. |
| 13. Mr. Chang Xianbin (常顯斌) | Member | Mr. Chang has solid finance experience, in particular, in the finance leasing sector. He also has over six years of project approval experience. |
| 14. Mr. Wang Haoran (王浩然) | Member | Mr. Wang Haoran has solid finance and finance leasing experience. He also has over six years of project approval experience. |
| 15. Mr. Li Hao (李浩) | Member | Mr. Li Hao has solid finance and finance leasing experience. |
| 16. Ms. Li Yuyi (李煜宜) | Member | Ms. Li Yuyi has solid finance leasing and project approval experience. |
| 17. Mr. Liu Mingbo (劉明波) | Member | Mr. Liu Mingbo has solid finance experience spanning across commercial, manufacturing and financial services sectors. He also has over three years of project approval experience. |

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Risk Management Committee (“RMC”)

The purpose of the RMC is to perform the management and supervision function of the board of directors of the Target Group in respect of risk management. Its primary duties are to vet, discuss and approve project with a finance lease amount of RMB100 million or above, formulate and monitor the implementation of the major risk management policies and systems. The RMC is in charge of further reviewing the feasibility, risk prevention and mitigation measures of finance leasing projects, and approving such projects where appropriate, based on the findings of the IAC. Meeting of the RMC is held on an as-needed basis to review, discuss and approve the projects with a relatively substantial finance lease amount and shall be attended by at least four RMC members who are entitled to vote at the RMC meeting. In order to be approved by the RMC and to proceed to the signing and payment stage, the project shall be approved by over two-third of the voting members at the RMC meeting. The RMC may invite industry experts to attend the RMC meeting, but such experts will not be entitled to vote at the meeting.

The RMC consists of five members all being directors of the Target Company. The president of the RMC shall be the chairman of the board of directors of the Target Company, and the vice-president of the RMC shall be a director of the Target Company who is also a general manager of the Target Company. Generally, the term of years that members of the RMC serve for is the same as that of the board of directors of the Target Company, and is subject to renewal. They are nominated and appointed by the board of directors of the Target Company. However, if a member resigns or switches to another position in the Target Group during the term or becomes unsuitable for being an RMC member, the board of directors of the Target Company will adjust the composition of the RMC.

As at the Latest Practicable Date, the RMC consisted of the following members:

| Name | Position in the RMC | Experience |
|------------------------------|-------------------------|--|
| 1. Mr. Li Chenggang (李成剛) | President (主任) | Please refer to Mr. Li Chenggang’s biography under the section headed “Core Management Team of the Target Group” in this circular for further information. |
| 2. Mr. Shang | Vice-president (副主任) | Please refer to Mr. Shang’s biography under the section headed “Core Management Team of the Target Group” in this circular for further information. |

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| Name | Position in the RMC | Experience |
|------------------------------|------------------------|--|
| 3. Ms. Song Hui (宋慧) | Member | Please refer to Ms. Song Hui's biography under the section headed "Core Management Team of the Target Group" in this circular for further information. |
| 4. Mr. Liu Hailiang (劉海亮) | Member | Please refer to Mr. Liu Hailiang's biography under the section headed "Core Management Team of the Target Group" in this circular for further information. |
| 5. Ms. Zhang | Member | Please refer to Ms. Zhang's biography under the section headed "Core Management Team of the Target Group" in this circular for further information. |

The functional differences between the IAC and the RMC are as follows:

- IAC is responsible for vetting all projects regardless of the finance lease amount whilst the RMC is responsible for vetting projects with a finance lease amount of RMB100 million or above and has been approved by the IAC. In other words, upon the IAC members' approval, project with a finance lease amount which is below RMB100 million may proceed to the signing and payment stage; and project with a finance lease amount of RMB100 million or above shall be further vetted and approved by the RMC before proceeding to the signing and payment stage. The directors of the Target Company believe that adding a further layer of vetting by the RMC for projects with a relatively large finance lease amount would be vetted by the RMC could better control and manage the risks associated with finance leasing business.

Mr. Shang, being a director and the general manager of the Target Company, has over 13 years of experience in finance leasing industry. His extensive experience in the finance leasing industry enables him to better identify business opportunities and potential risks arising from constant market changes. Mr. Hou, being the head of the Risk Management Department, is experienced in asset management and risk control, which enables him to better understand the credit risks involved in different types of transactions, especially those finance lease projects with larger transaction amounts in the aviation and public infrastructure industries. Ms. Zhang's experience in accounting and finance helps strengthen the credit risk management by providing analysis on the financial condition and capability of the potential lessees. Mr. Chen's legal knowledge enables the Target Company to identify any defects in guarantees or collaterals

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provided/to be provided by the potential lessees, and ensure that the finance lease agreements are in compliance with relevant laws and regulations.

Risk Management Department

The Risk Management Department is the core risk management functional department. The main duties of the Risk Management Department include, amongst others, (i) formulating risk management policies, rules and procedures within its scope of authority; (ii) supervising the formulation of business risk management rules and procedures by various departments, branches and subsidiaries and supervising their efforts in identifying and assessing major risks associated with their businesses; (iii) determining the major risk control indicators and organizing the risk monitoring; (iv) organizing inspections and supervision on the implementation of the risk management rules and procedures associated with the businesses and various finance leasing projects; (v) carrying out comprehensive assessment of, and reporting on, the overall risk profile and the risk profile of various finance leasing projects; (vi) submitting business information on the National Finance Leasing Enterprise Management Information System (全國租賃融資管理系統); (vii) registering the finance leasing information with the Movable Financing Comprehensive Registration System of the PBOC Credit Reference Centre (中國人民徵信中心動產融資統一登記系統); and (viii) timely reporting significant potential risks or risk events and providing recommendations on risk management.

Business and Sales Department

The Business and Sales Department conducts due diligence of potential customers and proposed finance leasing projects and prepares due diligence reports on the same for the approval of the Risk Management Department. After a project proposal is approved, the relevant project manager from the Business and Sales Department is responsible for coordinating with other departments, such as the Risk Management Department, the Legal and Asset Management Department and the Finance Department, in arranging execution of the finance leasing agreement, payment of leasing amount and monitoring the risks level of the projects on an ongoing basis. The Target Group also maintains business and sales teams in the PRC which focus on the aforementioned responsibilities and the business operations of the Target Group.

Legal and Asset Management Department

The Legal and Asset Management Department is responsible for the overall legal risk management and post-finance leasing management of projects. Its functions include, amongst others, conducting legal and regulatory compliance and due diligence review on project proposals, including the assets subject to finance leasing and/or security, and providing relevant legal advice, managing the legal risks relating to the drafting, consultation, approval and execution of transaction documents and assisting the other departments in handling any commercial or legal disputes arising from or related to the transactions. In addition, the department is responsible for the overall monitoring and management of assets, such as assets recovery, disposal of non-performing assets, in order to ensure an orderly and safe recovery of assets. The department is also responsible for post-finance leasing management of projects by

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monitoring payment of receivables, dispatching notices of default and lease receivables collection, as well as performing regular on-site visits to the customers, and taking follow-up measures. When a repayment default occurs or where the risk associated with the project has been increased to an alarming level, the Legal and Asset Management Department will take appropriate measures and will report to the board of directors of the Target Company in time if the breach of contract is material.

Internal Control and Compliance Department

The Internal Control and Compliance Department is mainly responsible for the internal control (including financial, operational and compliance) mechanisms within the Target Group. Its main duties include, amongst others, (i) proposing an effective internal control and compliance management system and annual compliance management plan; (ii) supervising and commenting on the completeness and reasonableness of the internal control mechanisms as well as the effectiveness of its implementation; (iii) conducting audit on business operations and performance, financial accounting and quality of assets of the Target Group; (iv) conducting audit on material economic activities of the Target Group such as corporate restructuring and reorganisation, equity transfer, outward investment, mergers and acquisitions and performance of major contracts; (v) conducting special audits on major abnormalities within the Target Group; (vi) evaluating audit results and rectifying any identified issues; (vii) upholding departmental leadership accountability by reporting any shortcomings to the board of directors of the Target Company; and (viii) organising compliance training and providing compliance advice to the management of the Target Group.

Commerce Department

The Commerce Department is mainly responsible for the centralised management of domestic and overseas capital within the Target Group, including (i) the raising, allocation and utilisation of capital; (ii) monitoring and analysis of the asset liability structure; (iii) the formulation and supervision and control of capital budget and planning; (iv) the management of liquidity risk; and (v) day-to-day capital settlement. It is also responsible for establishing and maintaining relationships with banks and administering the credit rating system.

Finance Department

The Finance Department is responsible for account management, budget management as well as formulation and implementation of financing strategies and accounting policies and procedures such as receipt and payment. In formulating the financing strategies, the department will monitor and take into account external factors, such as the latest development of the finance leasing market, interest rate and foreign exchange policies together with internal factors, such as the Target Group's equity/debt structure and level of capital resources. It also supervises utilisation of funds by each department and provides financial training to the employees.

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Administration and Human Resources Department

The Administration and Human Resources Department is responsible for administrative matters and supporting other departments, including but not limited to resources purchasing and facilities arrangement. It is also responsible for human resources planning and recruitment, and staff training and development.

IT Department

The IT Department is primarily responsible for, in accordance with the business strategies, organizing the formulation of the IT strategic planning. The IT Department is also responsible for the maintenance and management of the IT systems and infrastructure to ensure the proper functioning as well as the security and reliability of the IT systems.

CREDIT RISK MANAGEMENT

Finance leasing services constitute an important and integral part of the business of the Target Group. The Target Group derives revenue mainly from the provision of finance leasing services, which contributed 99.6%, 99.7%, 99.4% and 94.6% of the revenue for FY2017, FY2018, FY2019 and 10M2020, respectively. The primary risk the Target Group is exposed to in relation to the finance leasing business is credit risk, which derives from the customers' default in payment or unwillingness to honour their contractual obligations. The Target Group focuses on customers in the public infrastructure, medical and healthcare, water supplies and energy industries, which, in the view of the directors of the Target Company, may have high growth potential and stable cash flows. The Target Group has established a prudent risk management system that imposes risk management measures in each stage of finance leasing services, as such the management of the Target Group believes that the overall credit risk faced by them is substantially mitigated.

The table below illustrates the risk management processes in the key stages of the finance leasing projects:

| Key stages | Work description | Department(s) involved |
|---------------------------------------|---|-------------------------------|
| 1. Project application and initiation | Customer identification and preliminary due diligence | Business and Sales Department |
| 2. Project due diligence | Conducting due diligence and preparing report on the same | Business and Sales Department |
| | Preparing risk assessment report | Risk Management Department |

RISK MANAGEMENT AND OPERATION OF THE TARGET GROUP

| Key stages | Work description | Department(s) involved |
|--|--|--|
| 3. Project assessment and approval | Assessment and approval of due diligence reports and results | Business and Sales Department, Risk Management Department, IAC and RMC (if amount of finance lease is RMB100 million or above) |
| 4. Signing and payment | Reassessment of risk profile | Risk Management Department |
| | Provision of information and negotiation of terms of the agreement | Business and Sales Department |
| | Drafting and execution of agreement | Legal and Asset Management Department |
| | Verification of interest rates and payment of finance lease amount | Finance Department |
| 5. Portfolio management and monitoring | Collection of periodic payments from customer | Business and Sales Department |
| | Ongoing monitoring of customer and finance leasing assets | Business and Sales Department |
| | Project termination | Legal and Asset Management Department |
| | Final settlement | Finance Department |
| 6. Project completion | Project completion or termination | Legal and Asset Management Department |
| | Ongoing file management | Legal and Asset Management Department |

For detailed analysis on each of the credit risk management process, please refer to the subsection headed “Business of the Target Group – Business Operations – Operational workflow” in this circular.

Risk reporting system

Risk reporting system is designed to identify potential risks such as credit risk, market risk, operational risk, liquidity risk and mitigate risks. The project manager of each finance leasing project from the Business and Sales Department will take lead with the support from other departments, such as the Risk Management Department and the Legal and Asset Management Department, in preparing post-leasing risk reports on a quarterly basis and conducting site visit annually on the leased assets and the lessees. The regular post-leasing risk reports relates to monitoring asset risk (such as lessees' performance and outstanding balance) and providing pointed management measures in respect of the detected risks. Such post-leasing risk reports will be submitted to the Legal and Asset Management Department for review. Based on the comments given by the Legal and Asset Management Department, the project manager may conduct additional inspection and examination on the leased assets with potential risks and prepare assessment reports on key risks for further review. If the findings of the post-leasing risk reports have suggested an increased risk level, the Legal and Asset Management Department together with the Sales and Business Department may follow up with the relevant lessees and assets closely, develop and implement counter-measures.

Finance lease extension approval and management

As part of the ordinary course of business and in line with industry practice, the Target Group has from time to time extended its finance leases for existing customers when the leases are expired or upon the requests of its customers. The Target Group has two types of extensions, namely extension of lease term and change of principal and/or interest repayment schedule within the same lease term. Before deciding whether to grant a customer any extension, as part of the enforcement measures, the Target Group will conduct stringent due diligence and determine whether an extension is the optimal option for mitigating risks according to the customer's credit record and financial condition. When deciding whether or not to extend a finance lease, the following factors will also be considered: (i) whether the customer maintained a good credit record; (ii) whether the customer punctually paid its finance lease payments and used its finance lease proceeds as stated in the finance lease agreement; (iii) whether the customer's cash flow from business operation is able to cover its finance lease receivables balance; (iv) whether there is material negative impact on the customer's business operation and major financial performance indicators; (v) whether there is material negative change of the customer's senior management team, major shareholders, corporate governance structure and market conditions; and (vi) whether there is material deterioration in the value of the leased assets.

The Business and Sales Department, the Legal and Asset Management Department and the Finance Department are responsible for collating and preparing the information and materials to be considered in deciding whether to grant extension. The decision to grant extension shall be approved by the IAC and the RMC (subject to the finance lease amount). If the customer fails to

RISK MANAGEMENT AND OPERATION OF THE TARGET GROUP

perform any obligation under the finance lease agreement which may affect the recovery of the finance lease receivables, we will carry out further risk mitigation and enforcement actions, including but not limited to:

- claim against the existing guarantors;
- suspend finance lease agreement and consider the feasible method of disposing the finance leasing assets;
- terminate finance lease agreement, obtain and dispose the finance leasing assets;
- enforce the rights under the finance leases through lawsuit; and
- apply for court orders in seizing the customer's and guarantor's assets and properties, (including but not limited to real property, vehicles and other personal property, and securities), and blocking their bank accounts.

MARKET RISK MANAGEMENT

Market risk refers to the risk of losses to the Target Group resulting from an adverse movement of market prices. In view of the reform in the interest rate market and foreign exchange rate policies in the PRC in recent years, market risk in association with the Target Group mainly includes interest rate risks and exchange rate risks. The Target Group is exposed to interest risk, whereby the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The exposure to the risk of changes in interest rates relates primarily to the finance lease receivables, borrowings, amounts due to related companies, deposits from finance lease customers and bonds issued. Exchange rate risk occurs when the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Target Group is exposed to risk of changes in foreign exchange relates if its operating activities involved receipt or payment which is settled using a currency that is different from the functional currency being RMB.

The Target Group has established a mechanism for the management of interest rate and exchange rate risks and have developed measures to manage and monitor interest rate and exchange rate risks. The Finance Department is responsible for identifying, measuring, monitoring and reporting interest rate and exchange rate risks and taking corresponding measures to minimise losses caused to the Target Group.

Management of interest rate risk

A principal measure of the Target Group's management of interest rate risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios. The Target Group aims to mitigate the impact of prospective interest rate movements which could adversely affect future net interest income, while balancing the cost of such risk mitigation measure.

RISK MANAGEMENT AND OPERATION OF THE TARGET GROUP

In respect of the RMB-denominated interest-earning assets and interest-bearing liabilities, the interest rate risk that faced by the Target Group is relatively limited as the Target Group has provided in most of its finance leasing agreements that the finance leasing interest rate is determined with reference to the interest rate of RMB-denominated borrowings and that the Target Group has the right to adjust the finance leasing interest rate with reference to the PBOC's benchmark interest rate (for those agreements entered into prior to January 2020) and loan prime rate (for those agreements entered into in and after January 2020) from time to time. In other words, the Target Group is entitled in most cases adjust the interest rate of its interest-earning assets with reference to the interest rate of its interest-bearing liabilities.

LIQUIDITY RISK MANAGEMENT

Liquidity risk refers to the risk that funds will not be available to meet liabilities as they fall due. Liquidity risk mainly stems from the mismatch of the structure and payment schedule between the debts owed by Target Group and finance leasing granted by the Target Group. In order to ensure the stability of the finance leasing business, the Target Group aims to match its assets and liabilities so as to maintain sufficient level of liquidity to enable it to meet the payment obligations to its lenders when such obligations come due.

The objective of liquidity risk management requires the Target Group to constantly monitor and analyse the assets and liabilities. The Target Group's principal assets are finance lease receivables and the principal liabilities include borrowings from banks and other financial institutions and asset-backed securities. When the Target Group undertakes a new finance lease or extends an existing finance lease, an important part of the analysis is whether the Target Group can obtain financing in both the size and at a cost that matches each of the finance lease. As the Target Group has established and maintained an amicable relationship with existing funding providers, it has historically been able to secure sufficient debt financing to finance its business during the Track Record Period. In future, the Target Group will actively look for opportunities to diversify its financing channels, such as issuing bonds and other debt securities.

The Commerce Department is responsible for monitoring the usage and source of capital, matching of the maturity of liabilities with the assets closely, analysing the liquidity demand and developing effective cash management plan to avoid material deficiency. In ensuring that the Target Group has sufficient levels of funds to meet the funding obligations, the Commerce Department prepares regular cash flow forecasts and capital utilisation plans weekly, monthly and annually to project up-to-date liquidity positions of the Target Group. The senior management (including general manager) then reviews the cash flow forecasts and capital utilisation plans, and makes necessary adjustments according to actual needs to ensure that the Target Group maintains sufficient funds to fulfil its short and medium term payment obligations. Based on the cash flow forecasts and capital utilisation plans, the senior management formulates appropriate and timely financing plans to meet funding requirements.

RISK MANAGEMENT AND OPERATION OF THE TARGET GROUP

The Target Group adopts different measures to mitigate the liquidity risk and the liquidity mismatch:

- (i) The Target Group strives to maintain sufficient liquid assets to ensure that it can meet the financial obligations to its lenders when such obligations come due.
- (ii) The Commerce Department prepares rolling cash flow forecast and capital utilisation plan on a weekly basis, which reflect the asset and liability positions for the directors of the Target Company and senior management members' review. The Target Group closely reviews and analyses its principal assets of finance lease receivables and principal liabilities including borrowings and asset-backed securities in terms of scale, terms and pricing.
- (iii) The Commerce Department, Business and Sales Department, and Finance Department have regular meetings to discuss the cash flow forecast and capital utilisation plan to ensure that the parameters in the forecast and plan are up-to-date and reflect its actual finding needs.
- (iv) The Target Group also aims to match its finance leasing projects with its principal liabilities. In terms of pricing, the pricing policy takes into account various factors to compute the Target Group's finance cost in order to determine the rates charged to customers.
- (v) The Target Group regularly monitors the maturity dates of its principal liabilities based on a series of liquidity risk indicators, such as debt-to-asset ratio and liquidity ratios. The Commerce Department and Finance Department determine and monitor the liquidity risk indicators, and update the liquidity risk management policy if necessary. The Finance Department is responsible for providing key liquidity risk indicators and corresponding financial data.

If any adverse situation arises, the responsible department(s) will report to the management of the Target Company immediately and take appropriate actions accordingly, such as: (i) working with the lenders or funding providers to adjust the payment schedule to avoid payment term mismatch and (ii) redeeming near cash financial investment, withdraw bank time deposit and conduct bank borrowings if necessary. However, if those measures are unable to serve the operation needs, the Commerce Department will submit a liquidity risk report to the management of the Target Company and report to the board of directors of the Target Company of such liquidity risk.

RISK MANAGEMENT AND OPERATION OF THE TARGET GROUP

The directors of the Target Group confirm that, during the Track Record Period and up to the Latest Practicable Date, there were no adverse situations in connection with liquidity risk and the Target Group had been able to meet its financial obligations to its lenders on time. As a result of the liquidity risk management efforts, the Target Group has been in full compliance with the payment obligations in respect of its borrowings and asset-backed securities. Based on the above information, the directors of the Target Group are of the view that the liquidity risk management policies and procedures have been, during the Track Record Period, and are expected to be in the future, effective for its business operations.

OPERATIONAL RISK MANAGEMENT

Operational risk is the risk resulting from inadequate or ineffective internal controls and systems, human errors, information technology system failures or external events. The directors of the Target Company consider operational risk to be one of the key risks in its business and believe that this inherent risk can be controlled or mitigated through adequate and comprehensive operational policies and procedures. In this connection, the Target Group has adopted the following measures:

- establishing integrated internal control and risk management systems which enable the Target Group to identify various risks, formulate and improve its internal control policies, and implement, monitor and improve various responsive risk control measures throughout its business operations;
- developing, examining and supervising the workflow of various business operations to ensure the independence of different departments and committees in performing their risk management duties. In particular, we have adopted and have strictly implemented measures to prevent and detect potential employee frauds, such as segregation of Business and Sales Department and Risk Management Department, multiple approval layers and on-site due diligence visits;
- formulating and adopting standard commercial contracts for its business operations, and implementing a comprehensive review and approval mechanism for contracts with terms that are deviated from the standard business contracts;
- seeking compensations for damages and pursuing legal proceedings (if necessary) if any misconduct by an employee is found; and
- providing training and ethical education to employees in order to improve their awareness and ethical level against fraud and other crimes.

LEGAL AND COMPLIANCE RISK MANAGEMENT

The Target Group's business is subject to regulation and supervision by relevant government authorities with regard to finance leasing. These regulations are subject to constant changes and require the staff to be diligent in understanding and adapting to the changes. Please refer to the section headed "Appendix II – Regulatory overview" in this circular. If the Target Group does not respond to these changes in a timely manner and efficiently and is found to be not in compliance with the applicable laws and regulations, it may incur significant penalties and losses and could affect the finance leases provided.

When planning a new finance leasing project or renewing the finance lease agreement, the Target Group will review the relevant development plan thoroughly, including obtaining advice on the legal and regulatory requirements applicable to such new project or renewal, as well as the relevant restrictions. The Target Group may also consider consulting external legal advisers, where appropriate, on the legal compliance aspects of offering such new project or renewal. Such information will be collected by the Legal and Asset Management Department and will be included in the new project or renewal proposal for the consideration and approval of other departments and/or committees.

During the Track Record Period, the Target Group has not been challenged for any non-compliance incidents by any governmental authorities. On the other hand, the Target Group has established the Legal and Asset Management Department to advise on the internal and external risks of legal non-compliance in its business and to consult the senior management team in:

- providing legal updates, including updates on the interpretation of applicable laws and regulations by relevant regulatory authorities to the legal personnel of the risk management system on a regular basis and as necessary; and
- reiterating the importance of adhering to the operational protocols and procedures to all the employees and, in particular, new employees, to ensure effective implementation of the operational protocols and procedures.

CORE MANAGEMENT TEAM OF THE TARGET GROUP

The following table sets out certain information of the core management team of the Target Company as of the Latest Practicable Date and their roles and responsibilities in the Target Company:

| Name | Age | Position | Date of appointment as a director of the Target Company | Date of joining the Target Group | Principal responsibilities | Relationship with other directors of the Target Company |
|---------------------|-----|------------------------------|---|----------------------------------|---|---|
| Li Chenggang (李成剛) | 45 | Chairman and director | 18 March 2020 | March 2020 | Mr. Li is mainly responsible for overseeing the overall strategic direction of the Target Group. | None |
| Song Hui (宋慧) | 43 | Vice chairman and director | 6 May 2020 | March 2014 | Ms. Song is mainly responsible for supervising the overall strategic direction of the Target Group. In particular, she provides advice on risk assessment and portfolio management. | None |
| Liu Hailiang (劉海亮) | 39 | Director | 6 May 2020 | May 2020 | Mr. Liu is mainly responsible for supervising the overall strategic direction of the Target Group. | None |
| Jiang Jige (姜繼革) | 52 | Director | 25 November 2015 | November 2015 | Mr. Jiang is mainly responsible for supervising the overall strategic direction of the Target Group. In particular, he provides advice on sales and marketing management. | None |
| Shang Zhitian (尚志田) | 42 | Director and general manager | 11 March 2014 | February 2014 | Mr. Shang is mainly responsible for managing the overall strategic planning and business operations of the Target Group. | None |

CORE MANAGEMENT TEAM OF THE TARGET GROUP

| Name | Age | Position | Date of appointment as a director of the Target Company | Date of joining the Target Group | Principal responsibilities | Relationship with other directors of the Target Company |
|-----------------|-----|-------------------------------------|---|----------------------------------|--|---|
| Wan Jun (萬軍) | 47 | Director and deputy general manager | 15 May 2018 | November 2015 | Mr. Wan is mainly responsible for managing the Target Group's overall strategic implementation, and is in charge of its sales and marketing operations. | None |
| Zhang Yang (張洋) | 43 | Director and deputy general manager | 15 May 2018 | June 2014 | Ms. Zhang is mainly responsible for managing the Target Group's overall strategic implementation, and is in charge of its finance and accounting operations. | None |

Mr. Li Chenggang (李成剛), aged 45, is the chairman and director of the Target Company. He joined the Target Group and was appointed to his current position in March 2020. Since May 2019 and from March 2017 to May 2019, Mr. Li has been the general manager and was the deputy general manager of QCIFH, respectively. He was the head of strategic development at QCCIG from May 2016 to March 2017 and the head of asset management at QCCIG from August 2015 to May 2016. Prior to joining QCCIG, Mr. Li worked at the Qingdao Municipal People's Government Research Office* (青島市人民政府研究室) during around 2014 to 2015 and worked at Qingdao City Development and Reform Commission* (青島市發展和改革委員會) from around 2004.

Mr. Li graduated with a doctor of philosophy degree in western economics from Peking University* (北京大學) in the PRC in June 2004.

Ms. Song Hui (宋慧), aged 43, is the vice chairman and director of the Target Company. She joined the Target Group in March 2014 and was appointed to her current position in May 2020. Since around 2015, Ms. Song has been the general manager for finance at Qingdao Huiquan Fortune Financial Information Services Co., Ltd.* (青島匯泉財富金融信息服務有限公司) ("**QH Fortune Financial**"). Prior to joining the QH Fortune Financial, Ms. Song worked at Qingdao Urban and Rural Development Financing and Guaranty Co., Ltd (青島城鄉社區建設融資擔保有限公司) during around 2013 to 2015 and worked at China Securities Co., Ltd.* (中信建投證券股份有限公司) during around 2010 to 2013.

Ms. Song graduated with a master of business administration from the University of China Academy of Sciences* (中國科學院大學) in January 2013. She also graduated with a master of laws degree from Tsinghua University* in the PRC in July 2007.

CORE MANAGEMENT TEAM OF THE TARGET GROUP

Mr. Liu Hailiang (劉海亮), aged 39, is the director of the Target Company. He joined the Target Group and was appointed to his current position in May 2020. Mr. Liu assumed various positions at QCIFH from July 2013 to August 2020, including being office director, assistant to general manager, president of the labour union and head of the secured lending department. Mr. Liu was a reporter at Qingdao Daily* (青島日報) from July 2004 to May 2010.

Mr. Liu graduated with a master of business administration degree from Webster University in the United States in August 2019.

Mr. Jiang Jige (姜繼革), aged 52, is the director of the Target Company. He joined the Target Group and was appointed to his current position in November 2015. Prior to joining the Target Group, Mr. Jiang worked in Sunrise Holding Group (江蘇正陽投資控股集團有限公司), as the general manager in the treasury department (資金部).

Mr. Jiang graduated with a bachelor degree in financial accounting from Jilin Vocational University* (金陵職業大學) (the predecessor of Jinling Institute of Technology (金陵科技學院)) in the PRC in July 1990.

Mr. Shang Zhitian (尚志田), aged 42, is the director and general manager of the Target Company. He joined the Target Group in February 2014 and was appointed to his current position in March 2014. From February 2014 to March 2014, Mr. Shang was the general manager of the Target Company. From May 2007 to February 2014, Mr. Shang was chairman and general manager of Tibet Luoyou.

Mr. Shang graduated with a master degree in enterprise management from The Shanghai University of Finance and Economics* (上海財經大學) in the PRC in January 2002.

Mr. Wan Jun (萬軍), aged 47, is the director and deputy general manager of the Target Company. He joined the Target Group in November 2015 as deputy general manager and was appointed to his current position in May 2018. From 2001 to 2007, he was a customer service officer of the corporate management department at China Everbright Bank Co., Ltd. Qingdao Branch* (中國光大銀行股份有限公司青島分行). Mr. Wan served as deputy general manager at Qingdao Zhongyuan Lingkun Finance Holdings Co., Ltd.* (青島中元羅焜金融控股公司) from 2011 to 2014.

Mr. Wan graduated with a bachelor degree in international finance from Shandong Institute of Economics* (山東經濟學院) (the predecessor of Shandong University of Finance and Economics* (山東財經大學)) in the PRC in July 1997.

Ms. Zhang Yang (張洋), aged 43, is the director and deputy general manager of the Target Company. She joined the Target Group from June 2014 to March 2016 as finance director (財務總監) and was appointed to her current position in May 2018. From November 2015 to July 2018, Ms. Zhang was in charge of finance matters in QCIFH. Prior of joining the Target Group, Ms. Zhang worked at the Northeast business department of Anheuser-Busch InBev China Co., Ltd.* (百威英博啤酒中國有限公司).

Ms. Zhang graduated with a master degree in business administration from Ocean University of China* (中國海洋大學) in the PRC in June 2013. Ms. Zhang is a senior accountant (高級會計師) of the PRC and achieved the qualification for secretary to the board of directors of listed issuers on the Shanghai Stock Exchange (上海證券交易所上市公司董事會秘書資格).

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS OF THE ENLARGED GROUP

THE CONTROLLING SHAREHOLDERS

As at the Latest Practicable Date, the Company was approximately 69.02% owned by CQIH, which was wholly owned by CQDHG, and CQDHG was in turn wholly owned by QCCIG. For the purpose of the Listing Rules, CQIH, CQDHG and QCCIG are regarded as the Controlling Shareholders and are together interested in approximately 69.02% of the Company's total issued share capital.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

On the basis of the following reasons, the Directors are of the view that the Target Group is capable of carrying on its business independently of, and does not place undue reliance on, the Controlling Shareholders and their respective close associates:

Operational Independence

The Target Group makes business decisions independently. Taking into account the following reasons, the Directors consider that the Target Group is able to operate independently of the Controlling Shareholders and their respective close associates:

- (i) the Target Group holds its own licenses, permits and approvals for operating its business;
- (ii) the Target Group has its own operational, financial and administrative resources and does not share such resources with the Controlling Shareholders or their respective close associates;
- (iii) the Target Group has its own organisational structure and each of its departments is assigned with specific responsibilities and functions;
- (iv) the Target Group has established its own corporate governance structure and internal control procedures to facilitate the effective operation of its business and ensure overall compliance; and
- (v) the Target Group has independent access to customers.

Financial Independence

The Target Group makes financial decisions according to its business needs, and its financial matters are handled by its own finance department and independently of the Controlling Shareholders and their respective close associates. The Target Group has also established its own accounting, financial management and internal audit systems, treasury functions for cash receipts and payments as well as independent access to third-party financing. The Target Group maintains and manages its own bank accounts, and the

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS OF THE ENLARGED GROUP

Controlling Shareholders and their respective close associates do not interfere with its use of funds. Upon Completion, the Target Group's business will continue to be funded independently by its operational cash flow and banking facilities.

During the Track Record Period, the Controlling Shareholders had provided guarantees and/or credit support in respect of certain of the Target Group's bank borrowings and bond issuances. As at 31 October 2020, approximately 39.8% of the Target Group's bank borrowings and bond issuances were guaranteed by the Controlling Shareholders. Taking into account (i) the fact that the Target Group has been able to obtain external financing, credit facilities or raise funds on a standalone basis without the support of the Controlling Shareholders or their respective close associates; (ii) the Target Group's proven track record of business and financial performance; and (iii) the financial resources presently available to the Target Group, the Directors are of the view that the guarantees provided by the Controlling Shareholders in respect of the Target Group's bank borrowings and bond issuances do not and will not have any material impact on the Target Group's financial independence. The Directors also believe that the Target Group will continue to be able to obtain financing from external sources or raise funds independently without the support of the Controlling Shareholders or their respective close associates.

Having considered the abovementioned factors, the Directors are satisfied that the Target Group is financially independent of the Controlling Shareholders and their respective close associates.

Management Independence

As at the Latest Practicable Date, none of the senior management team of the Target Group had an overlapping position in any of the Controlling Shareholders or their respective close associates. The Directors are therefore satisfied that the senior management team of the Target Group is able to perform its managerial function in the Target Group independently.

FINANCIAL INFORMATION OF THE TARGET GROUP

*You should read this section in conjunction with the Target Group's consolidated financial information, including the notes thereto, as set out in the Accountant's Report set out in Appendix III to this circular (the "**Consolidated Financial Information**"). The Target Group's Consolidated Financial Information has been prepared in accordance with HKFRSs. You should read the entire Accountant's Report and not merely rely on the information contained in this section.*

The following discussion and analysis contain certain forward-looking statements that reflect the current views with respect to future events and financial performance of the Target Group. These statements are based on assumptions and analyses made by the Target Group in light of the Target Group's experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Target Group believes are appropriate under the circumstances. However, whether actual outcomes and developments will meet the Target Group's expectations and projections depend on a number of risks and uncertainties over which the Target Group does not have control. For further information, please refer to the section headed "Risk Factors relating to the Target Group" in this circular.

OVERVIEW

The Target Group is a finance leasing company headquartered in Qingdao. The Target Group currently operates its business by targeting customers in four targeted industries in the PRC, including (i) public infrastructure (基礎建設), (ii) medical and healthcare (醫療), (iii) water supplies (水務), and (iv) energy industries.

The Target Group strategically and mainly focuses its business on these industries as the Target Group believes that they have sustainable growth potential. As a result of the Target Group's risk appetite on industry and the quality of customers, the Target Group had a diverse customer base across 21 provinces, four autonomous regions and three municipalities in the PRC during the Track Record Period. During the Track Record Period, all of the Target Group's revenue was generated in the PRC.

Since the commencement of its business in 2014, the Target Group has continuously expanded its customer base and leased asset portfolio. In particular, the Target Group's revenue experienced growth from FY2017 to FY2019 with CAGR of 39.5%, and increased by 26.0% from 10M2019 to 10M2020.

The Target Group's finance leasing offerings include sale and leaseback and direct finance leasing. During the Track Record Period, the Target Group's sale and leaseback transactions were mainly entered into with customers in the (i) public infrastructure, (ii) medical and healthcare, (iii) water supplies and (iv) energy industries, and over 90% of the Target Group's revenue was derived from the sale and leaseback transactions. The Target Group's direct finance lease transactions were mainly entered into with customers in the energy industries.

FINANCIAL INFORMATION OF THE TARGET GROUP

As at 31 December 2017, 2018, 2019 and 31 October 2020, the Target Group's financial institution borrowings amounted to approximately RMB6,792.5 million, RMB7,287.5 million, RMB6,809.5 million and RMB3,730.9 million, respectively. For FY2017, FY2018, FY2019 and 10M2020, the Target Group's total finance cost on financial institution borrowings, amounts due to related companies and bonds payable amounted to approximately RMB344.3 million, RMB477.8 million, RMB607.8 million and RMB551.3 million, respectively.

The Target Group's revenue experienced rapid growth from FY2017 to FY2019 with CAGR of 39.5%. The Target Group's revenue increased by 45.8% from approximately RMB594.5 million for FY2017 to approximately RMB866.5 million for FY2018, which then further increased by 33.6% to approximately RMB1,157.3 million for FY2019. It also increased by approximately RMB243.8 million, or by 26.0%, from approximately RMB938.8 million for 10M2019 to approximately RMB1,182.6 million for 10M2020.

The Target Group's net profit increased by 17.8% from approximately RMB221.2 million for FY2017 to approximately RMB260.6 million for FY2018, which then further increased by 29.3% to approximately RMB336.9 million for FY2019. It increased by approximately RMB100.9 million, or by 37.0%, from approximately RMB272.3 million for 10M2019 to approximately RMB373.3 million for 10M2020.

The Target Group's loans and receivables (net value) relating to connection with sale and leaseback transactions and factoring services increased by 25.6% from approximately RMB9,138.6 million as at 31 December 2017 to approximately RMB11,474.0 million as at 31 December 2018, which then further increased by 32.0% to approximately RMB15,148.7 million as at 31 December 2019. It further increased by 1.1% to approximately RMB15,314.5 million as at 31 October 2020.

The Target Group's finance lease receivables (net value) relating to connection with direct finance leasing decreased by 17.8% from approximately RMB39.7 million as at 31 December 2017 to approximately RMB32.6 million as at 31 December 2018, which then increased by 64.0% to approximately RMB53.5 million as at 31 December 2019. It further increased by 183.7% to approximately RMB151.8 million as at 31 October 2020.

The Target Group strives to continue to improve and enhance its risk management so as to minimise risk exposure. For details of the Target Group's risk management and control, please refer to the section headed "Risk Management and Operation of the Target Group" in this circular.

BASIS OF PREPARATION

The Historical Financial Information of the Target Group has been prepared in accordance with HKFRS, issued by HKICPA and requirements of the Companies Ordinance.

FINANCIAL INFORMATION OF THE TARGET GROUP

The Historical Financial Information has been prepared on a historical cost basis, except for certain financial assets which have been measured at fair value.

Going concern

As at 31 October 2020, the Target Group had net current assets of RMB1,632.4 million. Based on historical renewal rates as well as terms of renewal in the Target Group's credit facility agreements and communications with the relevant banks and financial institutions, the Target Group's directors believe at least 80% of bank loans and certain other bank facilities as at 31 October 2020 can be successfully renewed upon maturity.

The Target Group's directors are of the view that, taking into consideration the Target Group's current cash and cash equivalents, anticipated cash flow from operating activities and the availability of the Target Group's unutilised banking facilities which amounted to approximately RMB5,052.9 million as at the Latest Practicable Date, of which RMB672.0 million is subject to conditions to be determined by the bank, and assuming that approximately 80% of the bank loans and certain other the bank facilities as at 31 October 2020 will be successfully renewed upon maturity, the Target Group has sufficient financial resources to meet the Target Group's capital expenditure requirements and liabilities as and when they fall due for at least the next 12 months from the date of this circular. Accordingly, the underlying financial statements and the historical financial information are prepared on a going concern basis.

On the above basis, the Target Group's directors believe that the Target Group will continue as a going concern and have prepared the historical financial information on a going concern basis. The historical financial information does not include adjustments relating to the carrying amount and classification of assets and liabilities that might be necessary if the Target Group is unable to continue as a going concern.

FACTORS AFFECTING THE RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

The Target Group's financial conditions, results of operations and the period-to-period comparability of its financial results are principally affected by the following factors and other factors as set out in the section headed "Risk Factors of the Target Group" of this circular.

The PRC Economic Environment and Outlook of Finance Leasing Industry

The results of operations and financial condition of the Target Group may be materially and adversely affected by the economic environment in the PRC and the outlook of finance leasing industry. According to the Industry Report, (i) the outstanding balance of finance leasing contracts and (ii) new contract value of the PRC finance leasing market increased at CAGR of approximately 10.6% and 10.3% from 2015 to 2019, respectively. Such growth was primarily driven by favourable government policies and the increase in demand. Further, the penetration rate of finance leasing in the PRC is relatively low compared to the other developed countries, as such, there is huge growth potential in the PRC. The year-end outstanding balance of the PRC

FINANCIAL INFORMATION OF THE TARGET GROUP

finance leasing market is expected to grow at CAGR of approximately 7.3% from 2019 to 2024, while the new contract value of the PRC finance leasing market is expected to increase at CAGR of approximately 9.6% from 2019 to 2024. However, there is no assurance that the PRC economy or the demand for finance lease will continue to grow. If there is a decrease in demand for leasing services or adverse change in the economic condition in the PRC, the Target Group may not be able to secure new customers and there may be an increase in default by customers, which may in turn materially and adversely affect the results of operations and financial condition of the Target Group.

Outlook of Customer Industries

The Target Group currently operates its business by strategically targeting customers in four targeted industries, including (i) public infrastructure (基礎建設), (ii) medical and healthcare (醫療), (iii) water supplies (水務), and (iv) energy industries. The Target Group's finance leasing business is sensitive to the business cycles of these four targeted industries. Any adverse development in these industries may have an adverse impact on the demand of services of the Target Group. Under such circumstances, the Target Group's ability to secure new customers or obtain new finance lease agreements from its existing customers may be materially and adversely affected, which may in turn negatively affect the growth prospects of the Target Group.

Government Regulations and Policies

The MOFCOM, which was in charge of the foreign-invested finance leasing company, has assigned its responsibility of formulating business management and supervision rules for finance leasing companies to the CBIRC on 20 April 2018. Any changes in the policies, laws or regulations applicable to the Target Group or implementation of new policies by the PRC government may render it more restrictive for the Target Group to conduct its business. The Target Group may have to adjust or change its business practices or its business model, which may significantly increase its operating costs, lower its profitability or have a material adverse impact on its business and results of operations. In addition, changes in policies or any new policies that are relevant to any of its target customer industries, mainly including (i) public infrastructure (基礎建設), (ii) medical and healthcare (醫療), (iii) water supplies (水務) and (iv) energy industries, may also have a negative impact on the economic or operating environment of its customers, which may adversely affect the business and results of operations of the Target Group.

Interest Rate Environment

The Target Group's results of operations depend to a great extent on the Target Group's net interest income from its finance leasing business, which is the Target Group's interest income after deducting its interest expense. The interest rate the Target Group charges its customers is an important factor that affects its revenue. The interest rate charged to a customer is determined based on a number of factors, which include the risk profile of the customer, value of assets underlying the finance lease and characteristics of the industry where the customer operates.

FINANCIAL INFORMATION OF THE TARGET GROUP

Market interest rates directly affect the Target Group's interest expense, which in turn has a direct effect on its net interest income. During the Track Record Period, the Target Group's interest expense from financial institution borrowings and financial arrangement with third party was largely determined by the interest rates charged by the banks and financial institutions, which are sensitive to many factors which are beyond the control of the Target Group, including the regulatory framework of the banking and financial sectors in the PRC as well as domestic and international economic and political conditions. In recent years, as part of the overall reform of the banking system, the PBOC has implemented a series of initiatives designed to gradually liberalise interest rates and move towards a more market-based interest rate regime. Currently, RMB-denominated loans granted by commercial banks are subject to minimum rates based on the PBOC benchmark interest rates, but are not subject to any maximum rates. Adjustments to PBOC benchmark interest rates may have an effect on the average market interest rates for loans.

Asset Quality and Provisioning Policy

The quality of the Target Group's interest-earning assets, primarily comprising its loans and receivables, depends on the type of customers and the relevant industries where these customers operate. The Target Group has established risk management system and internal control systems to minimise its credit risk exposure and to monitor the quality of its assets. The Target Group has adopted the expected credit loss model for the recognition, classification and measurement of its financial assets and financial liabilities. The changes in the credit quality of the finance lease receivables and the provision for impairment loss is measured based on the expected credit loss model prescribed by HKFRS 9.

For details on the provisioning policy under HKFRS 9, please refer to Note 2.1 to the Accountant's Report in Appendix III to this circular. The Target Group closely monitors its non-performing assets and provides for impairment if the Target Group determines there is little likelihood of future payment. The Target Group's allowance for finance lease receivables amounted to approximately RMB0.6 million, RMB0.4 million, RMB1.2 million and RMB1.1 million as at 31 December 2017, 2018, 2019 and 31 October 2020, respectively. The Target Group's allowance for loans and receivables amounted to approximately RMB108.8 million, RMB133.7 million, RMB183.4 million and RMB285.2 million as at 31 December 2017, 2018, 2019 and 31 October 2020, respectively. The amount of non-performing assets may fluctuate due to the increase in the Target Group's interest-earning assets and/or deterioration in the quality of the interest-earning assets. The quality of finance lease receivables may deteriorate due to a number of reasons such as economic slowdown, credit crisis and other factors that are beyond the control of the Target Group. Any adverse changes in the customers' operations and financial condition may also affect their ability to fulfil their payment obligations, which may result in an increase in non-performing assets. The Target Group may need to make additional provision for impairment loss or write off its finance lease receivables.

FINANCIAL INFORMATION OF THE TARGET GROUP

Funding Capabilities

One of the major factors affecting the ability of Target Group to expand its operations is whether the Target Group can sustain and strengthen its funding capacities. As the Target Group's services depend upon financing and access to cash, any expansion of the Target Group's business will need to be supported by additional funding. During the Track Record Period, the Target Group's funding sources mainly include its own capital, cash generated from operating activities, shareholders' contribution, and borrowings (including financial institution borrowings, financial arrangements and other borrowings from third parties and advances from related parties). The Target Group will continue to diversify its funding sources and seek opportunities to lower its financing costs. The Target Group's ability to continue to obtain additional funding at low costs may be affected by the PRC and global credit environment over which it has no control, including the cyclical nature of the credit supply and any changes in policies or regulations or new policies and regulations that affect these funding sources.

SIGNIFICANT ACCOUNTING POLICIES

The Target Group has identified certain accounting policies that are significant to the preparation of the Consolidated Financial Information in accordance with HKFRSs. These significant accounting policies are important for understanding the financial condition and results of operation of the Target Group. Some of the accounting policies involve subjective assumptions and estimates, as well as complex judgment related to accounting items such as assets, liabilities, income and expenses. The Target Group bases its estimates on historical experience and other assumptions which the Target Group's management believes to be reasonable under the circumstances. Actual results may differ under different assumptions and conditions.

The Target Group believes that the estimates and judgments were accurate during the Track Record Period by comparing with the actual results, and the Target Group confirms that there was no material change in its accounting policies, estimates and underlying assumptions during the Track Record Period, and as at the Latest Practicable Date, the Target Group did not expect to make any changes to such estimates and underlying assumptions in light of its current business operations.

The Target Group's management has identified certain accounting policies and estimates that are most critical to the preparation of the Target Group's Consolidated Financial Information. Please refer to Notes 2, 3 and 4 to the Accountant's Report as set out in Appendix III to this circular for further details.

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Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Target Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) The Target Group as lessor

Leases where the lessor has transferred substantially all the risks and rewards of ownership are classified as finance leases. All leases other than finance leases are classified as operating leases. Rental income under an operating lease is recognised on a straight-line basis over the period of the lease in profit or loss.

On the beginning date of the lease term, the Target Group, as the lessor of the finance lease, recognises the aggregate of the minimum lease receipts and initial direct costs on the lease inception date, and record the unguaranteed residual value at the same time. The difference between the aggregate of the minimum lease receipts, the initial direct costs and the unguaranteed residual value and their present value shall be recognised as unrealised finance income.

Finance lease receivables are derecognised when the contractual rights of receiving the cash from the finance lease receivables have expired or have been transferred, and all substantial risks and rewards regarding the lease have been transferred.

The Target Group periodically reviews the unguaranteed residual values. If there is evidence of a reduction in the unguaranteed residual value, the interest rate implicit in the lease will be re-calculated and the finance income for subsequent periods will be recognised on the basis of the revised net investment in the lease and the recalculated implicit interest rate.

The unrealised finance income is recognised in the finance income for the current period during the lease term by using the effective interest rate method.

FINANCIAL INFORMATION OF THE TARGET GROUP

(ii) The Target Group as lessee

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Target Group. Each lease payment is allocated between the liability and cost. The cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the implicit interest rate in the leases. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

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Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Revenue recognition

The Target Group recognises revenue from the following major sources:

(i) Finance lease income

The Target Group's accounting policy for recognition of revenue from finance leases is described in the accounting policy for leases as stated in the above subsection.

(ii) Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Target Group and the amount of income can be measured reliably. Interest income from a financial asset at amortised cost is accrued on a timely basis using the effective interest method, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(iii) Rental income

The Target Group's accounting policy for recognition of rental income is described in the accounting policy for lease as stated in the above subsection.

Financial Instruments

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Consolidated Financial Information, the Target Group has consistently applied a number of HKFRSs, which are effective for the accounting period beginning on 1 January 2017 throughout the Track Record Period. For further disclosure on the accounting policies for financial instruments, please refer to Note 2.11, 2.12 and 2.13 to the Accountant's Report set out in Appendix III to this circular.

FINANCIAL INFORMATION OF THE TARGET GROUP

Income Taxes and Deferred Tax Assets

Determining income tax provision involves judgment on the future tax treatment of certain transactions. The Target Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised in respect of deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, the Target Group's management's judgment is required to assess the probability of future taxable profits. The Target Group's management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the financial information, the Target Group has consistently applied HKFRSs which are effective for annual accounting periods beginning on or after 1 January 2017 throughout the Track Record Period.

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

HKFRS 9

The Target Group has consistently applied HKFRS 9 for the years ended 31 December 2017, 2018, 2019, and ten months ended 31 October 2020.

HKFRS 15

HKFRS 15, 'Revenue from contracts with customers' replaces the previous revenue standards HKAS 18 'Revenue' and HKAS 11 'Construction Contracts' and related interpretations on revenue recognition. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Target Group has elected to apply HKFRS 15 and consistently applied for each of the years ended 31 December 2017, 2018, 2019, and ten months ended 31 October 2020.

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HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an ‘earnings processes’ to an ‘asset-liability’ approach based on transfer of control. HKFRS 15 provides specific guidance on capitalisation of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts with customers.

HKFRS 16

HKFRS 16 was officially issued in May 2016 and is effective for annual periods beginning on or after 1 January 2019. The new standard improves the identification, breakdown and merge of leases and requires lessees to recognise leases on the balance sheet. For lessees, substantially all the leases should be recognised on the balance sheet as the classification of operating leases and financial leases has been removed. Under new standard, the entity is required to recognise the right-of-use assets and leasing liabilities. Exemptions exist only for short-term and low-value leases. Meanwhile, the new standard also improves the accounting treatments of the lessee on subsequent measurement and leasing changes. The new standard causes no substantial changes to the accounting of lessors.

The impact of the adoption of HKFRS 16 on the Target Group is not material.

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SUMMARY OF HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

The selected financial information from the Target Group's consolidated statements of profit or loss and other comprehensive income attributable to shareholders for the Track Record Period sets forth below is extracted from, and should be read in conjunction with, the Accountant's Report included in Appendix III to this circular.

| | FY2017 (RMB'000) | FY2018 (RMB'000) | FY2019 (RMB'000) | 10M2019 (RMB'000) (unaudited) | 10M2020 (RMB'000) |
|--|-----------------------|-----------------------|-----------------------|-------------------------------------|-----------------------|
| Revenue | | | | | |
| Interest income from sale and leaseback transactions | 588,571 | 860,801 | 1,147,067 | 933,898 | 1,110,983 |
| Interest income from factoring | – | – | 6,397 | 2,393 | 56,251 |
| Finance lease income | 3,442 | 3,287 | 3,479 | 2,556 | 7,384 |
| Rental income | 2,452 | 2,452 | – | – | – |
| Others | – | – | 369 | – | 7,998 |
| | <u>594,464</u> | <u>866,540</u> | <u>1,157,312</u> | <u>938,847</u> | <u>1,182,616</u> |
| Expense | | | | | |
| Depreciation | (3,416) | (3,124) | (3,789) | (3,002) | (4,839) |
| Interest expenses | (344,260) | (477,824) | (607,765) | (465,032) | (551,267) |
| Other income, gains or losses | 168,138 | 57,193 | 39,800 | 22,483 | 14,997 |
| Administrative expenses | (63,331) | (67,221) | (84,122) | (44,624) | (43,347) |
| Credit impairment losses | (56,351) | (24,736) | (50,528) | (85,464) | (101,736) |
| | <u>–</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>–</u> |
| Profit before income tax | 295,245 | 350,828 | 450,909 | 363,209 | 496,423 |
| Income tax expenses | (73,999) | (90,259) | (113,984) | (90,862) | (123,171) |
| Net profit attributable to shareholders of the Target Company | <u>221,247</u> | <u>260,569</u> | <u>336,925</u> | <u>272,347</u> | <u>373,251</u> |
| Other comprehensive income | <u>–</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>–</u> |
| Total comprehensive income attributable to shareholders of the Target Company | <u><u>221,247</u></u> | <u><u>260,569</u></u> | <u><u>336,925</u></u> | <u><u>272,347</u></u> | <u><u>373,251</u></u> |

FINANCIAL INFORMATION OF THE TARGET GROUP

PRINCIPAL COMPONENTS OF THE RESULTS OF OPERATIONS

Revenue

During the Track Record Period, the Target Group's revenue mainly consisted of (i) finance lease income sale and leaseback and, finance lease transactions and interest income from factoring; (ii) rental income and (iii) others.

The following table sets forth a breakdown of the Target Group's revenue by service type during the Track Record Period:

| | FY2017 (RMB'000) | FY2018 (RMB'000) | FY2019 (RMB'000) | 10M2019 (RMB'000) (unaudited) | 10M2020 (RMB'000) |
|-----------------------------------|---------------------|---------------------|---------------------|-------------------------------------|----------------------|
| Interest income | | | | | |
| – Sale and leaseback transactions | 588,571 | 860,801 | 1,147,067 | 933,898 | 1,110,983 |
| – Interest income from factoring | – | – | 6,397 | 2,393 | 56,251 |
| Finance lease income | | | | | |
| – Direct finance leasing | 3,442 | 3,287 | 3,479 | 2,556 | 7,384 |
| Subtotal | 592,013 | 864,088 | 1,156,943 | 938,847 | 1,174,618 |
| Rental income | 2,452 | 2,452 | – | – | – |
| Others | – | – | 369 | – | 7,998 |
| Total | <u>594,465</u> | <u>866,540</u> | <u>1,157,312</u> | <u>938,847</u> | <u>1,182,616</u> |

Finance lease income is the interest income generated from the finance lease agreements entered into with the Target Group's customers. For sale and leaseback transaction interest income, the relevant revenue increased by approximately RMB272.2 million, or by 46.3%, from approximately RMB588.6 million for FY2017 to approximately RMB860.8 million for FY2018, which then further increased by approximately RMB286.3 million, or by 33.3%, from approximately RMB860.8 million for FY2018 to approximately RMB1,147.1 million for FY2019. It also increased by approximately RMB177.1 million, or by 19.0%, from approximately RMB933.9 million for 10M2019 to approximately RMB1,111.0 million for 10M2020. It is noted the growth rate for sale and leaseback transaction interest income decreased during FY2019 and 10M2020 (on a year-on-year, or period-on-period basis, where applicable), mainly due to the decrease of new addition finance lease projects and the general economic slowdown in the PRC as a result of the coronavirus disease 2019 (“COVID-19”) since late 2019.

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Interest income from factoring is the interest income from the Target Group's provision of factoring services which commenced in July 2019. For direct finance leasing, the relevant revenue decreased by approximately RMB0.2 million, or by 4.5%, from approximately RMB3.4 million for FY2017 to approximately RMB3.3 million for FY2018, which then increased by approximately RMB0.2 million, or by 5.9%, from approximately RMB3.3 million for FY2018 to approximately RMB3.5 million for FY2019. It also increased by approximately RMB4.8 million, or by 188.9%, from approximately RMB2.6 million for 10M2019 to approximately RMB7.4 million for 10M2020. The large increase in the revenue for direct finance leasing business during 2020 was mainly due to the increase demand of direct finance lease transactions in the energy industry.

Rental income represents the rental fee the Target Group charged to its lessees from 1 January 2017 to 31 December 2018.

Others represents the ancillary generated from the Target Group's non-core business during FY2019 and 10M2020.

Based on the foregoing, the Target Group's revenue increased by approximately RMB272.1 million, or by 45.8%, from approximately RMB594.5 million for FY2017 to approximately RMB866.5 million for FY2018, which then further increased by approximately RMB290.8 million, or by 33.6%, from approximately RMB866.5 million for FY2018 to approximately RMB1,157.3 million for FY2019. It also increased by approximately RMB243.8 million, or by 26.0%, from approximately RMB938.8 million for 10M2019 to approximately RMB1,182.6 million for 10M2020.

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Finance lease income

The following table sets forth a breakdown of the Target Group's finance lease income derived from sale and leaseback by industry during the Track Record Period:

| Industry | FY2017 | | FY2018 | | FY2019 | | 10M2019 | | 10M2020 | |
|-----------------------------|------------------|--------|------------------|--------|------------------|--------|---------------------------------|--------|------------------|--------|
| | (RMB million) | % | (RMB million) | % | (RMB million) | % | (RMB million) (unaudited) | % | (RMB million) | % |
| Medical and healthcare | 173.8 | 29.6% | 346.7 | 40.3% | 334.4 | 29.1% | 284.1 | 30.5% | 210.1 | 18.9% |
| Energy | 114.3 | 19.4% | 13.0 | 1.5% | 20.6 | 1.8% | 17.2 | 1.8% | 15.0 | 1.3% |
| Public infrastructure | 96.0 | 16.3% | 127.1 | 14.8% | 187.6 | 16.4% | 152.3 | 16.3% | 188.7 | 17.0% |
| Water supplies | 67.2 | 11.4% | 147.8 | 17.2% | 280.8 | 24.5% | 226.3 | 24.2% | 301.3 | 27.1% |
| Transportation | 41.1 | 7.0% | 79.0 | 9.2% | 101.7 | 8.9% | 85.3 | 9.1% | 76.2 | 6.9% |
| Heating | 27.1 | 4.6% | 36.3 | 4.2% | 65.7 | 5.7% | 51.4 | 5.5% | 83.0 | 7.5% |
| Travelling and tourism | 12.8 | 2.2% | 48.2 | 5.6% | 108.8 | 9.5% | 76.9 | 8.2% | 197.4 | 17.8% |
| Education | 8.4 | 1.4% | 7.3 | 0.8% | 0.7 | 0.1% | 0.8 | 0.1% | 0.1 | 0.0% |
| Gas | 2.8 | 0.5% | 4.1 | 0.5% | 6.9 | 0.6% | 5.8 | 0.6% | 4.8 | 0.4% |
| Aviation | 1.9 | 0.3% | 6.1 | 0.7% | 6.2 | 0.5% | 5.3 | 0.6% | 6.6 | 0.6% |
| Others* | 43.2 | 7.3% | 45.2 | 5.2% | 33.7 | 2.9% | 28.5 | 3.1% | 27.8 | 2.5% |
| Total of sale and leaseback | 588.6 | 100.0% | 860.8 | 100.0% | 1,147.1 | 100.0% | 933.9 | 100.0% | 1,111.0 | 100.0% |

* During the Track Record Period, the Target Group also generated revenue from customers from other industries including broadcasting, building materials manufacturing, metallurgy, mining, logistics, retail and real estate industries.

The following table sets forth a breakdown of the Target Group's finance lease income derived from direct finance leasing by industry during the Track Record Period:

| Industry | FY2017 | | FY2018 | | FY2019 | | 10M2019 | | 10M2020 | |
|---------------------------------|------------------|--------|------------------|--------|------------------|--------|---------------------------------|--------|------------------|--------|
| | (RMB million) | % | (RMB million) | % | (RMB million) | % | (RMB million) (unaudited) | % | (RMB million) | % |
| Energy | 3.4 | 100.0% | 3.1 | 93.2% | 3.3 | 94.1% | 2.5 | 96.2% | 7.3 | 98.6% |
| Others* | – | 0.0% | 0.2 | 6.8% | 0.2 | 5.9% | 0.1 | 3.8% | 0.1 | 1.4% |
| Total of direct finance leasing | 3.4 | 100.0% | 3.3 | 100.0% | 3.5 | 100.0% | 2.6 | 100.0% | 7.4 | 100.0% |

* During the Track Record Period, the Target Group also generated revenue from customers from other industry including retail industry.

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The Target Group's customers from (i) public infrastructure (基礎建設), (ii) medical and healthcare (醫療), (iii) water supplies (水務) and (iv) energy industries, are the major contributors to the Target Group's finance lease income (from both sale and leaseback and direct finance leasing) during the Track Record Period. For FY2017, FY2018, FY2019 and 10M2020, customers from these four industries accounted for approximately 76.8%, 73.8%, 71.8% and 64.6% of the Target Group's finance lease income, respectively.

Public infrastructure

The Target Group's interest income from the public infrastructure industry increased by approximately RMB31.1 million, or 32.4%, from approximately RMB96.0 million for FY2017 to approximately RMB127.1 million for FY2018, which then further increased by approximately RMB60.5 million, or 47.6%, to approximately RMB187.6 million for FY2019. It also increased by approximately RMB36.4 million, or by 23.9%, from approximately RMB152.3 million for 10M2019 to approximately RMB188.7 million for 10M2020.

Medical and healthcare

The Target Group's interest income from the medical and healthcare industry increased by approximately RMB173.0 million, or 99.6%, from approximately RMB173.8 million for FY2017 to approximately RMB346.7 million for FY2018, which then decreased by approximately RMB12.3 million, or 3.5% to approximately RMB334.4 million for FY2019. It decreased by approximately RMB74.0 million, or by 26.0%, from approximately RMB284.1 million for 10M2019 to approximately RMB210.1 million for 10M2020.

Water supplies

The Target Group's interest income from the water supplies industry increased by approximately RMB80.6 million, or 120.0%, from approximately RMB67.2 million for FY2017 to approximately RMB147.8 million for FY2018, which then further increased by approximately RMB133.0 million, or 90.0%, to approximately RMB280.8 million for FY2019. It also increased by approximately RMB74.9 million, or by 33.1%, from approximately RMB226.3 million for 10M2019 to approximately RMB301.2 million for 10M2020.

Energy

The Target Group's finance lease income from the energy industry decreased by approximately RMB101.6 million, or 86.3%, from approximately RMB117.7 million for FY2017 to approximately RMB16.1 million for FY2018. It then increased by approximately RMB7.7 million, or by 48.0% to approximately RMB23.8 million for FY2019. It also increased by approximately RMB2.7 million, or by 13.8%, from approximately RMB19.6 million for 10M2019 to approximately RMB22.3 million for 10M2020.

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Other income, gains or losses

Other income, gains or losses during the Track Record Period primarily included (i) investment gains on financial instruments; (ii) government grants; (iii) bank interest income; (iv) exchange gains/(loss); and (v) others.

The following table sets forth a breakdown of the Target Group's other income, gains or losses for the years/periods indicated:

| | FY2017 | FY2018 | FY2019 | 10M2019 | 10M2020 |
|--|------------------|------------------|------------------|------------------|------------------|
| | <i>(RMB'000)</i> | <i>(RMB'000)</i> | <i>(RMB'000)</i> | <i>(RMB'000)</i> | <i>(RMB'000)</i> |
| | | | | (unaudited) | |
| Investment gains on financial instruments, net | 141,263 | 48,337 | 4,201 | 3,819 | 1,578 |
| Government grants | 24,169 | 4,016 | 28,585 | 14,069 | 5,328 |
| Bank interest income | 1,266 | 11,458 | 7,061 | 4,644 | 7,470 |
| Exchange gain/(loss) | 1,441 | (77) | (88) | (72) | (55) |
| Others | — | (6,540) | 41 | 24 | 676 |
| Total | 168,138 | 57,193 | 39,800 | 22,483 | 14,997 |

Other income, gains or losses decreased by approximately RMB110.9 million, or 66.0%, from approximately RMB168.1 million for FY2017 to approximately RMB57.2 million for FY2018; the amount further decreased by approximately RMB17.4 million, or 30.4%, to approximately RMB39.8 million for FY2019. For 10M2020, it decreased by approximately RMB7.5 million, or by 33.3%, from approximately RMB22.5 million for 10M2019 to approximately RMB15.0 million.

Government grants mainly consisted of the financial support from local governments and refund of value added tax.

During FY2017, the government grant amounted to approximately RMB24.2 million consisted principally of the fiscal support funds offered to financial leasing industry and value added tax refund. During FY2018, no government grants from fiscal support fund were received and the amount of approximately RMB4.0 million represented a refund of value added tax. In FY2019, an amount of approximately RMB22.3 million of government grants were received, whilst the refund of value added tax was approximately RMB6.3 million. For 10M2020, the government grant from fiscal support fund amounted to approximately RMB1.8 million and the refund of tax-related payment were approximately RMB3.5 million.

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During the Track Record Period, the Target Group's net investment gains on financial instruments for FY2017, FY2018, FY2019 and 10M2020 amounted to approximately RMB141.3 million, RMB48.3 million, RMB4.2 million and RMB1.6 million, respectively, while bank interest income derived from the Target Group's deposits with financial institutions for FY2017, FY2018, FY2019 and 10M2020 amounted to approximately RMB1.3 million, RMB11.5 million, RMB7.1 million and RMB7.5 million, respectively.

During the Track Record Period, the Target Group recorded exchange gain of approximately RMB1.4 million for FY2017 and exchange loss of approximately RMB77,000, RMB88,000 and RMB55,000 for FY2018, FY2019 and 10M2020, respectively.

Interest expenses

Interest expense consisted of interest on (i) borrowings from bank and other financial institutions; (ii) bonds payable; and (iii) borrowings from related parties.

The following table sets forth a breakdown of the Target Group's interest expense for the years/periods indicated:

| | FY2017 | FY2018 | FY2019 | 10M2019 | 10M2020 |
|---|------------------|------------------|------------------|------------------|------------------|
| | <i>(RMB'000)</i> | <i>(RMB'000)</i> | <i>(RMB'000)</i> | <i>(RMB'000)</i> | <i>(RMB'000)</i> |
| | | | | (unaudited) | |
| Borrowings from bank and other financial institutions | 282,742 | 408,156 | 405,183 | 329,856 | 301,499 |
| Bonds payable | 26,360 | 66,273 | 130,546 | 81,381 | 236,402 |
| Borrowings from related parties | 35,158 | 3,395 | 72,036 | 53,794 | 13,366 |
| Total | 344,260 | 477,824 | 607,765 | 465,032 | 551,267 |

Interest expenses increased by approximately RMB133.5 million, or 38.8%, from approximately RMB344.3 million for FY2017 to approximately RMB477.8 million for FY2018 which then further increased by approximately RMB129.9 million, or 27.2%, to approximately RMB607.8 million for FY2019 mainly due to additional loan draw down and additional bond issuance along with the continued business expansion. It also increased by approximately RMB86.2 million, or by 18.5%, from approximately RMB465.0 million for 10M2019 to approximately RMB551.3 million for 10M2020.

FINANCIAL INFORMATION OF THE TARGET GROUP

Administrative expenses

The Target Group's administrative expenses comprised employee benefit expenses, tax and surcharges, business travelling expenses, rental, marketing and distribution expenses, auditors' fee, professional service expenses, property maintenance fees and other expenses.

The following table sets forth the breakdown of other operating expenses by nature for the years/periods indicated:

| | FY2017 (RMB'000) | FY2018 (RMB'000) | FY2019 (RMB'000) | 10M2019 (RMB'000) (unaudited) | 10M2020 (RMB'000) |
|--------------------------------------|----------------------------|----------------------------|----------------------------|--|-----------------------------|
| Employee benefit expenses | 41,153 | 49,446 | 62,380 | 28,435 | 27,275 |
| Tax and surcharges | 7,664 | 4,901 | 6,298 | 5,219 | 5,699 |
| Rental expenses for short-term lease | 4,856 | 4,550 | 4,250 | 3,304 | 3,298 |
| Business traveling expenses | 4,473 | 4,044 | 3,542 | 2,473 | 1,947 |
| Professional service expenses | 2,037 | 1,359 | 3,652 | 2,317 | 2,873 |
| Marketing and distribution expenses | 1,243 | 1,039 | 1,166 | 737 | 409 |
| Property maintenance fee | 515 | 622 | 1,220 | 1,027 | 797 |
| Auditor's fee | 54 | 212 | 140 | 24 | 16 |
| Other expenses ⁽¹⁾ | 1,335 | 1,047 | 1,474 | 1,088 | 1,034 |
| Total | 63,331 | 67,221 | 84,122 | 44,624 | 43,347 |

Note:

(1) Other expenses mainly included recruitment expenses, office expenses and miscellaneous expenses.

The Target Group's administrative expenses increased by approximately RMB3.9 million, or 6.1%, from approximately RMB63.3 million for FY2017 to approximately RMB67.2 million for FY2018 which then further increased by approximately RMB16.9 million, or 25.1%, to approximately RMB84.1 million for FY2019. It decreased by approximately RMB1.3 million, or by 2.9%, from approximately RMB44.6 million for 10M2019 to approximately RMB43.3 million for 10M2020.

FINANCIAL INFORMATION OF THE TARGET GROUP

Credit impairment losses

Credit impairment losses primarily represented movement of allowances for impairment losses on loans and receivables and finance lease receivables.

The following table sets forth the breakdown of credit impairment losses for the years/periods indicated:

| | FY2017 (RMB'000) | FY2018 (RMB'000) | FY2019 (RMB'000) | 10M2019 (RMB'000) (unaudited) | 10M2020 (RMB'000) |
|---|---------------------|---------------------|---------------------|-------------------------------------|----------------------|
| Impairment loss recognised/ (reversed) on: | | | | | |
| Loans and receivables | 56,417 | 24,887 | 49,755 | 85,616 | 101,812 |
| Finance lease receivables | (73) | (127) | 772 | (152) | (75) |
| Other receivables | 7 | (24) | 1 | – | – |
| Total | 56,351 | 24,736 | 50,528 | 85,464 | 101,737 |

Generally, credit impairment loss of loans and receivables and finance lease receivables under HKFRS 9 is based on past events, current conditions and forward looking information, to assess the expected credit losses of loans and receivables and finance lease receivables. For details, please refer to note 4.1(b) to the Accountant's Report in Appendix III to this circular regarding the Target Group's adopted expected credit loss model.

The Target Group's credit impairment losses decreased by approximately RMB31.7 million, or 56.2%, from approximately RMB56.4 million for FY2017 to approximately RMB24.7 million for FY2018, which is mainly due to the decrease in addition of loan receivables as compared with FY2017 with the a similar of credit risk for both FY2017 and FY2018. Credit impairment losses increased by approximately RMB25.8 million, or 104.5%, from approximately RMB24.7 million for FY2018 to approximately RMB50.5 million for FY2019, which is mainly due to the addition of loan receivables and increase expected credit loss rate resulted from the increase in the credit risk given the dynamic changes of the business environment. During 10M2020, the Target Group's management believes that the economic environment has changed significantly due to the outbreak of COVID-19 during the relevant period, and therefore has re-evaluated the relevant economic assumptions referencing economists' forecasts and relevant economic indicators. Given the increase in the business risk, the amount of credit impairment loss increased from RMB50.5 million in FY2019 (whole year) to RMB101.7 million in 10M2020 (ten months).

FINANCIAL INFORMATION OF THE TARGET GROUP

The following table sets forth a summary of the allowance for impairment losses of loans and receivables as at the dates indicated:

| | As at 31 December | | | As at |
|--|-------------------|------------|------------|------------|
| | 2017 | 2018 | 2019 | 31 October |
| | (RMB'000) | (RMB'000) | (RMB'000) | 2020 |
| | | | | (RMB'000) |
| Loans and receivables before | | | | |
| allowance for impairment losses | 9,247,410 | 11,607,612 | 15,332,070 | 15,599,767 |
| Allowance for impairment losses of | | | | |
| loans and receivables | 108,765 | 133,651 | 183,406 | 285,218 |
| Ratio of allowance for impairment | | | | |
| losses to loans and receivables ⁽¹⁾ | 1.2% | 1.2% | 1.2% | 1.8% |
| Loans and receivables after | | | | |
| allowance for impairment losses | 9,138,645 | 11,473,961 | 15,148,664 | 15,314,549 |

Note:

- (1) Calculated by dividing allowance for impairment losses of loans and receivables by loans and receivables before allowance for impairment losses and multiplied by 100%.

The Target Group's allowance for impairment losses of loans and receivables increased from approximately RMB108.8 million as at 31 December 2017 to approximately RMB133.7 million as at 31 December 2018. It then increased to approximately RMB183.4 million as at 31 December 2019 and approximately RMB285.2 million as at 31 October 2020, representing approximately 1.2%, 1.2%, 1.2% and 1.8% of loans and receivables before allowance for impairment losses, respectively.

FINANCIAL INFORMATION OF THE TARGET GROUP

The following table sets forth a summary of the allowance for impairment losses of finance lease receivables as at the dates indicated:

| | As at 31 December | | | As at |
|--|-------------------|-----------|-----------|------------|
| | 2017 | 2018 | 2019 | 31 October |
| | (RMB'000) | (RMB'000) | (RMB'000) | 2020 |
| | | | | (RMB'000) |
| Finance lease receivables before allowance for impairment losses | 40,273 | 33,072 | 54,726 | 152,929 |
| Allowance for impairment losses of finance lease receivables | 576 | 449 | 1,221 | 1,146 |
| Ratio of allowance for impairment losses to finance lease receivables ⁽¹⁾ | 1.4% | 1.4% | 2.2% | 0.7% |
| Finance lease receivables after allowance for impairment losses | 39,697 | 32,623 | 53,505 | 151,782 |

Note:

- (1) Calculated by dividing allowance for impairment losses of finance lease receivables by finance lease receivables before allowance for impairment losses and multiplied by 100%.

The Target Group's allowance for impairment losses of finance lease receivables decreased from approximately RMB0.58 million as at 31 December 2017, to approximately RMB0.45 million as at 31 December 2018. It then increased to approximately RMB1.22 million as at 31 December 2019 and then decreased to approximately RMB1.15 million as at 31 October 2020, representing approximately 1.4%, 1.4%, 2.2% and 0.7% of finance lease receivables before allowance for impairment losses, respectively.

The following sensitivity analysis illustrates the impact of a decrease/increase of 5%, 8% and 10% in the allowance for impairment losses of (i) loans and receivables; and (ii) finance lease receivables, with all other things being held constant, on the Target Group's profit before income tax for the Track Record Period:

| | Decrease/ increase by 5% | Decrease/ increase by 8% | Decrease/ increase by 10% |
|---|--------------------------------|--------------------------------|---------------------------------|
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Change in profit before income tax | | | |
| FY2017 | +/-2,817 | +/-4,507 | +/-5,634 |
| FY2018 | +/-1,238 | +/-1,981 | +/-2,476 |
| FY2019 | +/-2,526 | +/-4,042 | +/-5,053 |
| 10M2020 | +/-5,087 | +/-8,139 | +/-10,174 |

FINANCIAL INFORMATION OF THE TARGET GROUP

Income tax expense

During the Track Record Period, the Target Group was subject to the PRC enterprise income tax rate of 25%. During the Track Record Period, the Target Group was not entitled to any special tax treatment. For FY2017, FY2018, FY2019 and 10M2020, the Target Group's effective tax rate, calculated by dividing income tax expenses by profit before income tax, was approximately 25.1%, 25.7%, 25.3% and 24.8%, respectively.

Income tax expense increased by approximately RMB16.3 million, or 22.0%, from approximately RMB74.0 million for FY2017 to approximately RMB90.3 million for FY2018, which then further increased by approximately RMB23.7 million, or 26.3%, to approximately RMB114.0 million for FY2019. It also increased by approximately RMB32.3 million, or by 35.6%, from approximately RMB90.9 million for 10M2019 to approximately RMB123.2 million for 10M2020.

Net profit

Based on the foregoing, the net profit attributable to shareholders of the Target Group increased by approximately RMB39.3 million, or by 17.8%, from approximately RMB221.2 million for FY2017 to approximately RMB260.6 million for FY2018, which then further increased by approximately RMB76.4 million, or by 29.3%, from approximately RMB260.6 million for FY2018 to approximately RMB336.9 million for FY2019. It also increased by approximately RMB100.9 million, or by 37.0%, from approximately RMB272.3 million for 10M2019 to approximately RMB373.3 million for 10M2020. It is noted the growth rate for the Target Group's net profit during 10M2020 was higher compared to FY2018 and FY2019 (on a year-on-year, or period-on-period basis, where applicable) mainly due to the effective control of its operating costs and expenses, and the fact that, the Target Group's revenue, in particular, the interest income generated from its (i) sale and leaseback transactions; and (ii) factoring are increasing faster than operating costs and expenses.

FINANCIAL INFORMATION OF THE TARGET GROUP

NET INTEREST MARGIN

| | FY2017 (RMB'000) | FY2018 (RMB'000) | FY2019 (RMB'000) | 10M2019 (RMB'000) (unaudited) | 10M2020 (RMB'000) |
|--------------------------------------|----------------------------|----------------------------|----------------------------|--|-----------------------------|
| Interest income and finance | | | | | |
| lease income | 592,013 | 864,088 | 1,156,943 | 938,847 | 1,174,618 |
| Interest expense | 344,260 | 477,824 | 607,765 | 465,032 | 551,267 |
| Average of the carrying | | | | | |
| amount of finance lease | | | | | |
| receivables and loan and | | | | | |
| other receivables | 7,056,854 | 10,464,183 | 13,513,740 | 13,322,110 | 15,569,746 |
| Average total of borrowings | 6,304,503 | 8,441,053 | 10,583,472 | 11,085,125 | 12,091,866 |
| Net interest income and | | | | | |
| finance lease income ⁽¹⁾ | 247,753 | 386,264 | 549,178 | 473,815 | 623,351 |
| Interest income yield ⁽²⁾ | 8.4% | 8.3% | 8.6% | 8.5% | 9.1% |
| Interest expense rate ⁽³⁾ | 5.5% | 5.7% | 5.7% | 5.2% | 5.5% |
| Net interest spread ⁽⁴⁾ | 2.9% | 2.6% | 2.8% | 3.4% | 3.6% |
| Net interest margin ⁽⁵⁾ | 3.5% | 3.7% | 4.1% | 4.3% | 4.8% |

Notes:

- (1) Calculated as the difference between interest income and finance lease income and interest expense.
- (2) Calculated by dividing finance lease income and interest income for the year by the average of the carrying amount of finance lease receivables and loan and other receivables at the beginning and at the end of the year and multiplying by 100% (2017: RMB7,056.9 million; 2018: RMB10,464.2 million; 2019: RMB13,513.7 million; 10M2020: RMB15,569.7 million). For 10M2019 and 10M2020, the amount will be further annualised by dividing 10 months then multiplying 12 months.
- (3) Calculated by dividing finance cost for the year by the average total of borrowings (2017: RMB6,304.5 million; 2018: RMB8,441.1 million; 2019: RMB10,583.5 million; 10M2020: RMB12,091.9 million) at the beginning and at the end of the year and multiplying by 100%. For 10M2019 and 10M2020, the amount will be further annualised by dividing 10 months then multiplying 12 months.
- (4) Calculated as the difference between the interest income yield and the interest expense rate.
- (5) Calculated by dividing net interest income for the year by the average of the carrying amount of finance lease receivables and loan and other receivables at the beginning and at the end of the year and multiplying by 100%. For 10M2019 and 10M2020, the amount will be further annualised by dividing 10 months then multiplying 12 months.

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The Target Group's interest income yield decreased from approximately 8.4% for FY2017 to approximately 8.3% for FY2018, and further increased to approximately 8.6% for FY2019. It also increased from approximately 8.5% for 10M2019 to approximately 9.1% for 10M2020. The general increase in the Target Group's interest income yield during the Track Record Period was mainly due to the increase in interest income outweighed the increase in the average of the carrying amount of finance lease receivables and loan and other receivables.

The Target Group's interest expense rate increased from approximately 5.5% for FY2017 to approximately 5.7% for FY2018, and maintained at approximately 5.7% for FY2019. It increased from approximately 5.0% for 10M2019 to approximately 5.5% for 10M2020. The Target Group's interest expense rate remained relatively stable during the Track Record Period.

The Target Group's net interest spread decreased from approximately 2.9% for FY2017 to approximately 2.6% for FY2018, then increased to approximately 2.8% for FY2019. It also increased from approximately 3.4% for 10M2019 to approximately 3.6% for 10M2020. The general increase in the Target Group's net interest spread during the Track Record Period was mainly due to the increase in interest income yield outweighed the increase in the interest expenses rate, as the Target Group's average total of borrowings decreased.

The Target Group's net interest margin increased from approximately 3.5% for FY2017 to approximately 3.7% for FY2018, and further increased to approximately 4.1% for FY2019. It also increased from approximately 4.3% for 10M2019 to approximately 4.8% for 10M2020. The general increase in the Target Group's net interest margin during the Track Record Period was mainly due to the increase in net interest income outweighed the increase in the average of the carrying amount of finance lease receivables and loan and other receivable, as the Target Group's average total of borrowings decreased.

FINANCIAL INFORMATION OF THE TARGET GROUP

CASH FLOWS

The following table sets forth a summary of the selected consolidated statements of cash flows for the years/periods indicated:

| | Year ended 31 December | | | Ten months ended 31 October | |
|--|------------------------|-----------------------|-----------------------|-----------------------------|-----------------------|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | (RMB'000) | (RMB'000) | (RMB'000) | (RMB'000) | (RMB'000) |
| | | | | (unaudited) | |
| Net cash (outflow) /inflow from operating activities | <u>(3,707,578)</u> | <u>(1,274,815)</u> | <u>(2,423,665)</u> | <u>(2,522,222)</u> | <u>587,150</u> |
| Net cash inflow/(outflow) from investing activities | <u>1,199,210</u> | <u>784,453</u> | <u>(2,164)</u> | <u>(54,047)</u> | <u>(16,011)</u> |
| Net cash inflow/(outflow) from financing activities | <u>2,619,895</u> | <u>782,597</u> | <u>2,170,217</u> | <u>3,056,240</u> | <u>(558,513)</u> |
| Net (decrease)/increase in cash and cash equivalents | 111,527 | 292,234 | (255,612) | 479,972 | 12,626 |
| Cash and cash equivalents at the beginning of the financial year | 251,536 | 363,061 | 655,294 | 655,294 | 399,682 |
| Effects of exchange rate changes on cash and equivalents | <u>(2)</u> | <u>(1)</u> | <u>–</u> | <u>–</u> | <u>–</u> |
| Cash and cash equivalents at end of the year | <u><u>363,061</u></u> | <u><u>655,294</u></u> | <u><u>399,682</u></u> | <u><u>1,135,266</u></u> | <u><u>412,308</u></u> |

FINANCIAL INFORMATION OF THE TARGET GROUP

Net Cash (outflow)/inflow from operating activities

The Target Group's major operating cash flows mainly represent cash received from repayment and interest of loans and finance lease receivables, lease guarantee deposit, rental income, tax refund and other operating activities. Cash inflow mainly represents the receipt of loan repayment and interest income from the Target Group's finance lease customers. Cash outflows from operating activities mainly represent payment for funding the Target Group's finance leasing transactions.

For FY2017, the Target Group's net cash outflow from operating activities was approximately RMB3,707.6 million. This represents the profit of the Target Group before income tax of RMB295.2 million, adjusted mainly by (i) an RMB344.3 million adjustment for interest expenses; (ii) an RMB141.3 million adjustment for fair value gains on financial assets at fair value through profit or loss; and (iii) an RMB56.4 million adjustment for impairment losses recognised during the FY2017. This results in an operating cash flows before movements in working capital of RMB556.6 million.

Changes in working capital contributed a net cash outflow of approximately RMB3,605.3 million, mainly due to (i) an RMB4,406.2 million increase in loans and receivables; (ii) an RMB150.3 million increase in other operating liabilities. These amounts were partially offset by (i) an RMB88.9 million decrease in accounts receivable reflecting a decrease in outstanding payment from the Target Group's customers; and (ii) an RMB4.2 million decrease in other operating assets.

For FY2018, the Target Group's net cash outflow from operating activities was approximately RMB1,274.8 million. This represents the profit of the Target Group before income tax of RMB350.8 million, adjusted mainly by (i) an RMB477.8 million adjustment for interest expenses; (ii) an RMB48.3 million adjustment for fair value gains on financial assets at fair value through profit or loss; and (iii) an RMB24.7 million adjustment for impairment losses recognised during the FY2018. This results in an operating cash flows before movements in working capital of RMB808.3 million.

Changes in working capital contributed a net cash outflow of approximately RMB1,132.5 million, mainly due to (i) an RMB2,335.3 million increase in loans and receivables; (ii) an RMB384.5 million increase in other operating liabilities. These amounts were partially offset by (i) an RMB7.1 million decrease in finance lease receivables reflecting a decrease in outstanding payment from the Target Group's customers; and (ii) an RMB3.6 million decrease in other operating assets.

For FY2019, the Target Group's net cash outflow from operating activities was approximately RMB2,423.7 million. This represents the profit of the Target Group before income tax of RMB450.9 million, adjusted mainly by (i) an RMB607.8 million adjustment for interest expenses; (ii) an RMB4.2 million adjustment for fair value gains on financial assets at fair value through profit or loss; and (iii) an RMB50.5 million adjustment for impairment losses recognised during the FY2019. This results in an operating cash flows before movements in working capital of RMB1,108.9 million.

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Changes in working capital contributed a net cash outflow of approximately RMB2,302.0 million, mainly due to (i) an RMB3,674.7 million increase in loans and receivables; (ii) an RMB292.2 million increase in other operating liabilities; (iii) an RMB20.9 million increase in finance lease receivables reflecting an increase in outstanding payment from the Target Group's customers. These amounts were partially offset by an RMB7.8 million increase in other operating assets.

For 10M2020, the net cash inflow generated from the Target Group's operating activities was approximately RMB587.1 million. This represents the profit of the Target Group's before income tax of RMB496.4 million, adjusted mainly by (i) an RMB551.3 million adjustment for interest expenses; (ii) an RMB1.6 million adjustment for fair value gains on financial assets at fair value through profit or loss; and (iii) an RMB101.7 million adjustment for impairment losses recognised during the 10M2020. This results in an operating cash flows before movements in working capital of RMB1,152.7 million.

Changes in working capital contributed a net cash inflow of approximately RMB726.6 million, mainly due to an RMB1,152.7 million operating cash flows before movements in working capital, which was partially offset by (i) an RMB165.9 million increase in loans and receivables; (ii) an RMB120.6 million decrease in other operating liabilities; (iii) an RMB98.3 million increase in finance lease receivables reflecting an increase in outstanding payment from the Target Group's customers; (iv) an RMB23.9 million increase in accounts receivable; and (v) an RMB17.5 million increase in other operating assets.

Net cash inflow/(outflow) from investing activities

For FY2017, the net cash inflow from investing activities was mainly attributable to (i) redemption of financial investments of RMB7,766.9 million; and (ii) income received from financial investments of approximately RMB243.5 million, which was partially offset by (i) purchase and construction of property and equipment of approximately RMB1.3 million; and (ii) purchase of financial instants of approximately RMB6,809.9 million.

For FY2018, the net cash inflow from investing activities was mainly attributable to (i) a redemption of financial investments of RMB6,629 million; and (ii) an income received from financial investments of approximately RMB11.0 million, which was partially offset by (i) purchase and construction of property and equipment of approximately RMB0.6 million; and (ii) purchase of financial investments of RMB5,855.0 million.

For FY2019, the net cash outflow from investing activities was mainly attributable to (i) purchase and construction of property and equipment of approximately RMB1.2 million; and (ii) purchase of financial investments of RMB6,856.9 million, which was partially offset by (i) redemption of financial investments of RMB6,851.5 million; and (ii) an income received from financial investments of approximately RMB4.5 million.

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For 10M2020, the net cash outflow from investing activities was mainly attributable to (i) purchase and construction of property and equipment of approximately RMB22.4 million; and (ii) purchase of financial investments of RMB3,189.2 million, which was partially offset by (i) redemption of financial investments of RMB3,193.6 million; (ii) income received from finance investments of approximately RMB1.7 million; and (iii) disposal of property and equipment of approximately RMB0.3 million.

Net cash inflow/(outflow) from financing activities

For FY2017, the net cash generated from financing activities was mainly attributable to (i) proceeds from borrowings and bonds of approximately RMB4,801.2 million; and (ii) amount borrowed from related parties of RMB1,800.0 million, which was partially offset by (i) repayment of borrowings and bonds of approximately RMB2,627.0 million; (ii) dividends paid of approximately RMB54.3 million; and (iii) amount repaid to related parties of RMB1,300.0 million.

For FY2018, the net cash generated from financing activities was mainly attributable to (i) proceeds from borrowings and bonds of approximately RMB3,201.1 million; and (ii) amount borrowed from related parties of RMB300.0 million, which was partially offset by (i) repayment of borrowings and bonds of approximately RMB2,218.5 million; and (ii) amount repaid to related parties of approximately RMB500.0 million.

For FY2019, the net cash generated from financing activities was mainly attributable to (i) proceeds from borrowings and bonds of approximately RMB10,266.1 million; and (ii) amount borrowed from related parties of RMB2,900.0 million, which was partially offset by (i) repayment of borrowings and bonds of approximately RMB7,903.1 million; and (ii) amount repaid to related parties of approximately RMB3092.8 million.

For 10M2020, the net cash outflow from financing activities was mainly attributable to (i) repayment of borrowings and bonds of approximately RMB9,646.3 million; and (ii) amount repaid to related parties of approximately RMB2,838.5 million, which was partially offset by (i) proceeds from borrowings and bonds of approximately RMB9,201.3 million, and (ii) amount borrowed from related parties of RMB2,725.0 million.

Capital Management

The Target Group's objective of managing capital is to safeguard its ability to continue as a going concern in order to provide returns for its shareholders and other stakeholders as well as to maintain an optimal capital structure to further reduce the cost of capital. The capital of the Target Group consists of debts, cash at banks and in hand, and equity attributable to the shareholders, comprising paid-in capital and retained earnings.

The Target Group reviews its capital structure on an annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. No changes were made in the objectives, policies or processes for managing capital during FY2017, FY2018, FY2019 and 10M2020. The Target Group may utilise its idle cash to make investment for a prudent return.

FINANCIAL INFORMATION OF THE TARGET GROUP

The following table sets forth the total liabilities/total assets ratio as at the dates indicated:

| | As at 31 December | | | As at 31 October |
|--------------------------------------|-------------------|------------|------------|---------------------|
| | 2017 | 2018 | 2019 | 2020 |
| | (RMB'000) | (RMB'000) | (RMB'000) | (RMB'000) |
| Total liabilities | 8,793,720 | 10,356,014 | 13,709,595 | 13,671,319 |
| Total assets | 10,559,454 | 12,382,316 | 16,072,823 | 16,407,798 |
| Total liabilities/Total assets ratio | 83.3% | 83.6% | 85.3% | 83.3% |

The Target Group's total liabilities to total assets ratio as at 31 December 2017, 2018, 2019 and 31 October 2020 was approximately 83.3%, 83.6%, 85.3% and 83.3%, respectively. The slight increase in the Target Group's total liabilities to total assets ratio during the Track Record Period was primarily due to the increasing trend in total liabilities outweighed the increasing trend in total assets during the relevant period.

Measures of Foreign investment in the Leasing Industry and Measures for Finance Leasing Enterprise

In accordance with the Interim Measures for the Supervision and Administration of Financial Leasing Enterprise, the Target Group's assets at risk should not exceed eight times of its net assets. As at 31 December 2017, 2018, 2019 and 31 October 2020, the Target Group's assets at risk was between 5.8 to 6.6 times to its equity.

The following table sets forth the calculations of the total assets at risk to total equity ratio of the Target Group as at the dates indicated:

| | As at 31 December | | | As at 31 October |
|---|-------------------|------------|------------|---------------------|
| | 2017 | 2018 | 2019 | 2020 |
| | (RMB'000) | (RMB'000) | (RMB'000) | (RMB'000) |
| Total assets | 10,559,454 | 12,382,316 | 16,072,823 | 16,407,798 |
| Less: Cash and cash equivalents | 363,061 | 655,294 | 399,682 | 412,308 |
| Total assets at risk ⁽¹⁾ | 10,196,393 | 11,727,022 | 15,673,141 | 15,995,490 |
| Total equity | 1,765,734 | 2,026,303 | 2,363,228 | 2,736,479 |
| Total assets at risk to equity ratio ⁽²⁾ | 5.8 | 5.8 | 6.6 | 5.8 |

Notes:

(1) Calculated as the difference between total assets and cash and cash equivalent.

(2) Total asset at risk to total equity ratio is derived from dividing the total assets at risk by total equity.

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During the Track Record Period, the Target Group had consistently complied with the requirements of the Measures of Foreign Investment in the Leasing Industry and Measures for Finance Leasing Enterprise. The total assets at risk to equity ratio of the Target Group was 5.8, 5.8, 6.6 and 5.8 as at 31 December 2017, 2018, 2019 and 31 October 2020, respectively.

CAPITAL EXPENDITURE

The Target Group's capital expenditures during the of Track Record Period principally comprised expenditures incurred on the purchase of furniture and office equipment as well as motor vehicles.

The following table sets forth the Target Group's capital expenditures for the years/periods indicated:

| | FY2017 (RMB) | FY2018 (RMB) | FY2019 (RMB) | 10M2020 (RMB) |
|--------------------------------|------------------------|------------------------|------------------------|-------------------------|
| Furniture and office equipment | 634,433 | 246,064 | 812,978 | 61,389 |
| Motor vehicles | 427,118 | 282,008 | – | 99,700 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total | <u>1,061,551</u> | <u>528,072</u> | <u>812,978</u> | <u>161,089</u> |

The Target Group's capital expenditures amounted to approximately RMB1.1 million, RMB0.5 million, RMB0.8 million and RMB0.2 million for FY2017, FY2018, FY2019 and 10M2020, respectively. The Target Group's directors confirm that as at the Latest Practicable Date, the Target Group did not have any material capital expenditure.

CAPITAL COMMITMENT

The Target Group did not have any capital commitment as at 31 December 2017, 2018, 2019 and 31 October 2020.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, the Target Group did not have any material off-balance sheet commitments or arrangements.

FINANCIAL INFORMATION OF THE TARGET GROUP

CURRENT ASSETS AND CURRENT LIABILITIES

The following table sets forth the Target Group's current assets and current liabilities as at the dates indicated:

| | As at 31 December | | | As at 31 October |
|--|-------------------|--------------------|--------------------|---------------------|
| | 2017 | 2018 | 2019 | 2020 |
| | (RMB'000) | (RMB'000) | (RMB'000) | (RMB'000) |
| Current assets | | | | |
| Loans and receivables | 2,468,425 | 3,058,763 | 5,032,312 | 5,470,956 |
| Finance lease receivables | 10,108 | 11,368 | 42,495 | 136,946 |
| Financial assets at fair value through profit or loss | 775,000 | – | 4,440 | – |
| Other assets | 4,548 | 2,066 | 20,417 | 41,423 |
| Cash and cash equivalents | 444,561 | 691,794 | 459,682 | 412,308 |
| Total current assets | <u>3,702,643</u> | <u>3,763,991</u> | <u>5,559,345</u> | <u>6,061,632</u> |
| Current liabilities | | | | |
| Borrowings | 951,487 | 3,952,112 | 4,335,522 | 2,074,168 |
| Bonds payable | 207,865 | 918,165 | 2,390,481 | 1,932,285 |
| Other liabilities | 858,611 | 716,673 | 639,238 | 415,098 |
| Income tax payable | 61,542 | 31,277 | 30,748 | 7,664 |
| Total current liabilities | <u>2,079,505</u> | <u>5,618,227</u> | <u>7,395,989</u> | <u>4,429,216</u> |
| Net current assets/(liabilities) | <u>1,623,138</u> | <u>(1,854,235)</u> | <u>(1,836,644)</u> | <u>1,632,417</u> |

The Target Group recorded net current assets of approximately RMB1,623.1 million as at 31 December 2017, and recorded net current liabilities of approximately RMB1,854.2 million and RMB1,836.6 million as at 31 December 2018 and 2019, respectively, and recorded net current assets of approximately RMB1,632.4 million as at 31 October 2020, respectively.

The cause of the Target Group's net current liabilities position as at 31 December 2018 and 2019, was primarily due to its usage of current borrowings instead of non-current bank borrowings. In particular, the Target Group's current borrowings have increased from approximately RMB951.5 million as at 31 December 2017 to approximately RMB4,335.5 million as at 31 December 2019, while the non-current borrowings have decreased from approximately RMB5,841.0 million as at 31 December 2017 to approximately RMB2,474.0 million as at 31 December 2019. The Target Group resumed a net current assets position of approximately RMB1,632.4 million as at 31 October 2020, mainly due to the repayment of bank borrowings,

FINANCIAL INFORMATION OF THE TARGET GROUP

where current borrowings decreased from approximately RMB4,335.5 million as at 31 December 2019 to approximately RMB2,074.2 million as at 31 October 2020.

The Target Group's net current liabilities position as at 31 December 2018 and 2019 mainly reflected the Target Group's use of current borrowings to fund its capital expenditures related to the expansion of the Target Group's business operation.

Despite the Target Group's net current liability position as at 31 December 2018 and 2019, the Target Group had not experienced material financial difficulties due to the following reasons:

- the Target Group's revenue and net profit grew steadily during the Track Record Period, which helped the Target Group refinanced its borrowings or obtain new fund to repay its borrowings when they fall due;
- the Target Group's business operation was funded through a combination of internal and external funding channels, including borrowings from banks and other financial institutions, related companies and asset-backed securities. Such diverse funding sources enabled the Target Group to maintain a capital-adequate and cost-efficient funding base.

To mitigate the risk that the Target Group's cash flow from operations may be insufficient to cover the Target Group's debts as they become due, the Target Group closely monitors the cash flows and cash flow needs. In addition, the Target Group strives to maintain a reasonable level of unrestricted cash to cover any cash flow emergency.

Based on historical renewal rates as well as terms of renewal in the Target Group's credit facility agreements and communications with the relevant banks and financial institutions, the Target Group's directors estimate that at least 80% of bank loans and certain other bank facilities as at 31 October 2020 may be successfully renewed upon maturity.

The Target Group's directors are of the view that, taking into consideration the Target Group's current cash and cash equivalents, anticipated cash flow from operating activities and the availability of the Target Group's unutilised banking facilities which amounted to approximately RMB5,052.9 million as at the Latest Practicable Date, of which RMB672.0 million is subject to conditions to be determined by the bank, and assuming that approximately 80% of the bank loans and certain other bank facilities as at 31 October 2020 will be successfully renewed upon maturity, the Target Group has sufficient financial resources to meet the Target Group's capital expenditure requirements and liabilities as and when they fall due for at least the next 12 months from the date of this circular.

FINANCIAL INFORMATION OF THE TARGET GROUP

DESCRIPTION OF SELECTED ITEMS OF THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Finance Lease Receivables

Finance lease receivables are mainly secured by leased assets, deposits and/or leased assets repurchase arrangements. The net value of the finance lease receivables is the amount of the finance lease receivables after deducting the unrealised finance income and provision for impairment losses.

The following table sets forth a breakdown of the Target Group's finance lease receivables as at the dates indicated:

| | As at 31 December | | | As at |
|--|-------------------|---------------|---------------|----------------|
| | 2017 | 2018 | 2019 | 31 October |
| | (RMB'000) | (RMB'000) | (RMB'000) | 2020 |
| | | | | (RMB'000) |
| Finance lease receivables | 47,257 | 37,248 | 60,031 | 172,018 |
| Less: Unrealised finance income | (6,984) | (4,176) | (5,305) | (19,090) |
| Less: Provision for impairment losses | (576) | (449) | (1,221) | (1,146) |
| Net value of finance lease receivables | <u>39,697</u> | <u>32,623</u> | <u>53,505</u> | <u>151,782</u> |

The Target Group's finance lease receivables decreased by approximately RMB7.1 million from approximately RMB39.7 million as at 31 December 2017 to approximately RMB32.6 million as at 31 December 2018, primarily due to the decrease in number of new finance lease agreements entered during FY2018. The Target Group's finance lease receivables then increased by approximately RMB20.9 million from RMB32.6 million as at 31 December 2018 to approximately RMB53.5 million as at 31 December 2019, primarily due to the commencement of new finance lease agreements in FY2019. The Target Group's finance lease receivables then further increased by approximately RMB98.3 million from RMB53.5 million as at 31 December 2019 to approximately RMB151.8 million at 31 October 2020, primarily due to the Target Group's business expansion in the leasing business of new energy industry in 10M2020.

The following table sets forth the breakdown of the Target Group's finance lease receivables (net value) by current and non-current classification as at the dates indicated:

| | As at 31 December | | | As at |
|--|-------------------|---------------|---------------|----------------|
| | 2017 | 2018 | 2019 | 31 October |
| | (RMB'000) | (RMB'000) | (RMB'000) | 2020 |
| | | | | (RMB'000) |
| Current assets | 10,108 | 11,368 | 42,495 | 136,946 |
| Non-current assets | <u>29,588</u> | <u>21,255</u> | <u>11,010</u> | <u>14,837</u> |
| Net value of finance lease receivables | <u>39,697</u> | <u>32,623</u> | <u>53,505</u> | <u>151,782</u> |

FINANCIAL INFORMATION OF THE TARGET GROUP

Loans and Receivables

| | As at 31 December | | | As at |
|--|-------------------------|--------------------------|--------------------------|--------------------------|
| | 2017 | 2018 | 2019 | 31 October |
| | (RMB'000) | (RMB'000) | (RMB'000) | 2020 |
| | | | | (RMB'000) |
| Receivables arising from sale and leaseback transactions (net value) | 9,138,645 | 11,473,961 | 14,854,650 | 14,786,015 |
| Receivables from factoring (net value) | — | — | 294,013 | 528,535 |
| | <u>9,138,645</u> | <u>11,473,961</u> | <u>15,148,664</u> | <u>15,314,549</u> |
| Analysed as: | | | | |
| Current | 2,468,425 | 3,058,763 | 5,032,312 | 5,470,956 |
| Non-current | <u>6,670,220</u> | <u>8,415,198</u> | <u>10,116,352</u> | <u>9,843,593</u> |
| Total | <u><u>9,138,645</u></u> | <u><u>11,473,961</u></u> | <u><u>15,148,664</u></u> | <u><u>15,314,549</u></u> |

Loans and receivables are represented by (i) receivables arising from sale and leaseback transactions; and (ii) receivables from factoring during the Track Record Period.

The Target Group commenced the factoring business in FY2019 and recorded receivables amounted to RMB294.0 million as at 31 December 2019 and RMB528.5 million as at 31 October 2020.

The Target Group's receivables arising from sale and leaseback transactions increased by approximately RMB2,335.4 million, or by 25.6%, from approximately RMB9,138.6 million for FY2017 to approximately RMB11,474.0 million for FY2018, and further increased by approximately RMB3,380.7 million, or 29.5%, to approximately RMB14,854.7 million for FY2019. It then slightly decreased by approximately RMB68.6 million, or 0.5%, to approximately RMB14,786.0 million for 10M2020.

Financial Assets at Fair Value through Profit or Loss

| | As at 31 December | | | As at |
|----------------------------|-----------------------|-----------------|---------------------|-----------------|
| | 2017 | 2018 | 2019 | 31 October |
| | (RMB'000) | (RMB'000) | (RMB'000) | 2020 |
| | | | | (RMB'000) |
| Trust plan products | 750,000 | — | — | — |
| Wealth management products | <u>25,000</u> | <u>—</u> | <u>4,440</u> | <u>—</u> |
| Total | <u><u>775,000</u></u> | <u><u>—</u></u> | <u><u>4,440</u></u> | <u><u>—</u></u> |

FINANCIAL INFORMATION OF THE TARGET GROUP

The Target Group's financial assets at fair value through profit or loss included short-term wealth management products issued by domestic banks in the PRC.

As at 31 December 2017, 2018, 2019 and 31 October 2020, the Target Group's financial assets at fair value through profit or loss amounted to approximately RMB775.0 million, nil, RMB4.4 million and nil, respectively. The Target Group did not have any financial assets at fair value through profit or loss as at 31 December 2018, primarily because the disposal/maturity of the trust plan products and the redemption of the wealth management products assets at fair value during FY2018. Balances of the Target Group's financial assets at fair value through profit or loss amounted to nil as at 31 October 2020.

The wealth management products held by the Target Group during the Track Record Period, as detailed in Note 4 to the Accountant's Report in Appendix III to this circular, were classified as financial assets measured at fair value through profit or loss. Please refer to Note 4.3 to the Accountant's Report in Appendix III to this circular for more details about the valuation techniques adopted to measure the fair value of various financial instruments.

Details of the fair value measurement of financial assets at fair value through profit or loss, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value and reconciliation of level 3 measurements are disclosed in Note 4.3 to the Accountant's Report in Appendix III.

Treasury policy

During the Track Record Period, the Target Group invested in a number of wealth management products as the Target Group believes it may make better use of its idle cash by making appropriate investments in relatively low-risk products to enhance the Target Group's income without affecting its liquidity.

The Target Group's investment decisions are made on a case-by-case basis after due and careful consideration of a number of factors, including but not limited to:

- the level of surplus cash that is not required for working capital purposes so as to gain reasonably higher investment returns on the Target Group's excess cash than regular bank deposits; and
- the duration of investment and the expected returns and potential losses of such investment.

The Target Group adheres to the Target Group's treasury policy and takes a prudent approach in selecting such investment products issued by reputable PRC banks with low-risk and annualised interest rate above the bank deposit interest rate. The Target Group's finance department, under the management of Mr. Shang, the Target Group's executive director and general manager, is responsible for overseeing the Target Group's investment activities. Further details of his biography is set out in the section headed "Core Management Team of the Target Group" in this circular.

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The Target Group has internal control measures in place to review and monitor such investment decisions in terms of investment limit, risk assessment and management, as well as internal procedures for maintaining and monitoring relevant accounting record. The Target Group's directors believe that the Target Group's internal control policies regarding its historical investments in financial assets and its risk management mechanisms were adequate.

Other Assets

Other assets consist primarily of (i) deposit for borrowings; (ii) VAT receivables; (iii) rent receivables; (iv) foreclosed assets under sale and (v) others.

Deposit for borrowings represented the deposit required to place in lender's account for the purpose of the obtaining the borrowing. As at 31 December 2017, 2018, 2019 and 31 October 2020, the Target Group's deposit for borrowings amounted to approximately RMB16.8 million, RMB17.1 million, RMB32.3 million and RMB25.1 million, respectively.

VAT receivables represented the period-end balance of the net amount of the input tax and output tax arising from the Target Group's sales and purchase activities. As at 31 December 2017, 2018, 2019 and 31 October 2020, the Target Group's VAT receivables amounted to approximately RMB3.6 million, nil, RMB7.8 million and RMB25.3 million, respectively.

Rent receivables represented the receivable balance in connection with the Target Group leased property. As at 31 December 2017, 2018, 2019 and 31 October 2020, the Target Group's rental receivables amounted to approximately RMB0.5 million, RMB1.5 million, RMB1.5 million and RMB1.5 million, respectively.

Foreclosed assets under sale represented properties pledged and used by lessees to repay liabilities to the Target Group. As at 31 December 2017, 2018 and 2019, the Target Group did not record any foreclosed assets under sale. As at 31 October 2020, the Target Group's foreclosed assets under sale amounted to approximately RMB21,557.1 million.

Others mainly represented the proceeds for the disposal of fixed assets etc. As at 31 December 2017, 2018, 2019 and 31 October 2020, the Target Group's others amounted to approximately RMB1.7 million, RMB1.2 million, RMB0.8 million and RMB1.4 million, respectively.

INDEBTEDNESS

The Target Group's total liabilities amounted to approximately RMB8,793.7 million, RMB10,356.0 million, RMB13,710.0 million and RMB13.671 million as at 31 December 2017, 2018, 2019 and 31 October 2020, respectively. During the Track Record Period, the Target Group funded the Target Group's finance leasing business primarily via bank borrowings, borrowings from other financial institutions and bonds.

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Bank borrowings constituted approximately 27.1%, 26.5%, 24.1% and 10.3% of the Target Group's total liabilities as at 31 December 2017, 2018, 2019 and 31 October 2020, respectively. Borrowings from other financial institutions constituted approximately 49.8%, 43.1%, 25.0% and 16.4% of the Target Group's total liabilities as at 31 December 2017, 2018, 2019 and 31 October 2020, respectively.

The following table sets forth a breakdown of the Target Group's indebtedness as at the dates indicated:

| | As at 31 December | | | As at |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2017 | 2018 | 2019 | 31 October |
| | (RMB'000) | (RMB'000) | (RMB'000) | 2020 |
| | | | | (RMB'000) |
| Bank borrowings | 2,386,290 | 2,743,028 | 3,297,896 | 1,413,454 |
| Borrowings from other financial institutions | 4,375,593 | 4,468,163 | 3,426,512 | 2,243,893 |
| Bonds payable | 512,389 | 1,489,669 | 5,170,237 | 8,363,146 |
| Other liabilities | 500,000 | 300,000 | 110,000 | —* |
| Total indebtedness | <u>7,774,273</u> | <u>9,000,860</u> | <u>12,004,645</u> | <u>12,020,494</u> |
| Average indebtedness ⁽¹⁾ | <u>6,264,107</u> | <u>8,387,566</u> | <u>10,502,753</u> | <u>12,012,570</u> |
| Total liabilities | <u>8,793,720</u> | <u>10,356,014</u> | <u>13,709,595</u> | <u>13,671,319</u> |
| Average receivables ⁽²⁾ | <u>6,975,685</u> | <u>10,342,463</u> | <u>13,354,376</u> | <u>15,334,250</u> |

* represents negligible amount

Notes:

- (1) Representing the average of indebtedness as at 31 December of the previous year and 31 October of the current year.
- (2) Representing the average of the carrying amount of finance lease receivables and loans and receivables as at 31 December of the previous year and 31 October of the current year.

As at 31 December 2017, the Target Group's average indebtedness amounted to approximately RMB6,264.1 million.

As at 31 December 2018, the Target Group's average indebtedness amounted to approximately RMB8,387.6 million, representing an increase of approximately 33.9% compared to approximately RMB6,264.1 million as at 31 December 2017.

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As at 31 December 2019, the Target Group's average indebtedness amounted to approximately RMB10,502.8 million, representing an increase of approximately 25.2% compared to approximately RMB8,387.6 million as at 31 December 2018.

As at 31 October 2020, the Target Group's average indebtedness amounted to approximately RMB12,012.6 million, representing an increase of approximately 14.4% compared to approximately RMB10,502.8 million as at 31 December 2019.

Indebtedness Statement

As at the close of business on 31 January 2021, being the latest practicable date for the purpose of this indebtedness statement, the Target Group had outstanding indebtedness totalling approximately RMB12,220.4 million.

As at 31 January 2021, total indebtedness of approximately RMB1,310.5 million were floating-rate that carried annual interest of 4.9% to 7.5%. The remaining balance of approximately RMB10,909.9 million was fixed-rate that carried the annual interest of 3.7%–7.6%.

The following table sets forth a breakdown of the Target Group's total indebtedness as at the dates indicated:

| | As at 31 January 2021 (RMB'000) |
|--|--|
| Bank borrowings | 1,549,731 |
| Borrowings from other financial institutions | 2,154,402 |
| Bonds payable | 8,016,281 |
| Amounts due to related parties | <u>500,000</u> |
| Total indebtedness | <u>12,220,414</u> |

As at 31 January 2021, the Target Group's bank borrowings amounted to approximately RMB1,549.7 million.

As at 31 January 2021, the Target Group had business relationships with 20 banks. As at the Latest Practicable Date, the Target Group had unutilised banking facilities of approximately RMB5,052.9 million.

As at 31 January 2021, the borrowings from other financial institutions were secured by certain securities such as finance leased assets, finance lease receivables and pledged deposits.

FINANCIAL INFORMATION OF THE TARGET GROUP

As at 31 January 2021, save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities, the Target Group did not have any material covenants and undertaking in relation to any outstanding loans, debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, debt securities, mortgages, charges, finance leases or hire purchases commitments, capital commitments, guarantees or other contingent liabilities.

The Target Group's directors confirm that, other than as disclosed in this circular, there has not been any material adverse change in the Target Group's indebtedness since 31 January 2021, being the latest practicable date for the preparation of the indebtedness statement for this circular.

Borrowings

Borrowings are represented by the borrowings obtained from banks in the PRC and other financial institutions and respective interest payables. During the Track Record Period, bank borrowings amounted to approximately RMB2,386.3 million, RMB2,743.0 million, RMB3,297.9 million and RMB1,413.5 million as at 31 December 2017, 2018, 2019 and 31 October 2020, respectively.

The following table sets forth a breakdown of the Target Group's financial institution borrowings by maturity as at the dates indicated:

| | As at 31 December | | | As at |
|--|-------------------|------------------|------------------|------------------|
| | 2017 | 2018 | 2019 | 31 October |
| | (RMB'000) | (RMB'000) | (RMB'000) | (RMB'000) |
| Within one year | 951,487 | 3,952,112 | 4,335,522 | 2,074,168 |
| In the second year | 3,135,726 | 2,089,012 | 979,918 | 1,500,343 |
| In the third to fifth years, inclusive | 2,705,288 | 1,246,422 | 1,494,051 | 156,347 |
| Total | 6,792,501 | 7,287,546 | 6,809,491 | 3,730,858 |

FINANCIAL INFORMATION OF THE TARGET GROUP

The following table sets forth a breakdown of the Target Group's financial institution borrowings by current and non-current classification as at the dates indicated:

| | As at 31 December | | | As at 31 October |
|--------------|-------------------|------------------|------------------|---------------------|
| | 2017 | 2018 | 2019 | 2020 |
| | (RMB'000) | (RMB'000) | (RMB'000) | (RMB'000) |
| Current | 951,487 | 3,952,112 | 4,335,522 | 2,074,168 |
| Non-current | 5,841,014 | 3,335,434 | 2,473,969 | 1,656,690 |
| Total | 6,792,501 | 7,287,546 | 6,809,491 | 3,730,858 |

Bonds payable

The Target Group's bonds payable are represented by the bonds issued to various beneficiaries in the PRC. During the Track Record Period, bonds payable amounted to approximately RMB512.4 million, RMB1,489.7 million, RMB5,170.2 million and RMB8,363.1 million as at 31 December 2017, 2018, 2019 and 31 October 2020, respectively.

The following table sets forth a breakdown of the Target Group's bonds payable as at the dates indicated:

| | As at 31 December | | | As at 31 October |
|-------------------------|-------------------|------------------|------------------|---------------------|
| | 2017 | 2018 | 2019 | 2020 |
| | (RMB'000) | (RMB'000) | (RMB'000) | (RMB'000) |
| Asset-backed securities | 512,389 | 1,489,669 | 2,860,499 | 3,773,760 |
| Corporate bonds | – | – | 2,309,738 | 4,082,180 |
| Private placement notes | – | – | – | 507,180 |
| Total | 512,389 | 1,489,669 | 5,170,237 | 8,363,146 |

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The following table sets forth a breakdown of the Target Group's bonds payable by current and non-current classification as at the dates indicated:

| | As at 31 December | | | As at |
|--------------|-------------------|------------------|------------------|------------------|
| | 2017 | 2018 | 2019 | 31 October |
| | (RMB'000) | (RMB'000) | (RMB'000) | 2020 |
| | | | | (RMB'000) |
| Current | 207,865 | 918,165 | 2,390,481 | 1,932,285 |
| Non-current | 304,524 | 571,504 | 2,779,756 | 6,430,861 |
| Total | 512,389 | 1,489,669 | 5,170,237 | 8,363,146 |

As at 31 December 2017, 2018, 2019 and 31 October 2020, bonds payable of RMB512.4 million, RMB364.8 million, RMB2,459.4 million and RMB3,635.9 million were guaranteed by QCCIG and QCIFH. For details, please refer to note 23 of the Accountant's Report on the Target Group as set out in Appendix III to this circular.

Other Liabilities

Other liabilities consist primarily of (i) amounts due to related parties; (ii) security deposits from customers; (iii) fee income to be amortised; (iv) dividends payable; (v) staff payroll and welfare payable; (vi) other tax payables; (vii) advance receipt from customers; (viii) accounts payable-project funds; (ix) professional service fee and (x) other payables. As at 31 December 2017, 2018, 2019 and 31 October 2020, the Target Group had other liabilities of approximately RMB1,427.3 million, RMB1,547.5 million, RMB1,699.1 million and RMB1,569.7 million, respectively.

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The following table sets forth a breakdown of the Target Group's other liabilities as at the dates indicated:

| | As at 31 December | | | As at |
|-----------------------------------|-------------------|------------------|------------------|------------------|
| | 2017 | 2018 | 2019 | 31 October |
| | (RMB'000) | (RMB'000) | (RMB'000) | 2020 |
| | | | | (RMB'000) |
| Amounts due to related parties | 500,000 | 300,000 | 110,000 | – |
| Security deposits from customers | 394,692 | 639,355 | 924,076 | 988,197 |
| Fee income to be amortised | 317,141 | 372,216 | 446,587 | 388,417 |
| Dividends payable | 144,180 | 144,180 | 151,931 | 151,931 |
| Staff payroll and welfare payable | 53,495 | 75,784 | 26,597 | 8,218 |
| Other tax payables | 16,322 | 13,526 | 19,183 | 26,041 |
| Advance receipt from customers | – | – | 6,999 | 790 |
| Accounts payable-project funds | – | – | 9,871 | 3,607 |
| Professional service fee | – | – | – | 977 |
| Other payables | 1,458 | 2,461 | 3,875 | 1,471 |
| Total | 1,427,288 | 1,547,522 | 1,699,119 | 1,569,651 |

Amounts due to related parties

As at 31 December 2017, 2018 and 2019, the Target Group had amounts due to related parties of approximately RMB500.0 million, RMB300.0 million and RMB110.0 million which were mostly unsecured and interest-bearing, representing 35.0%, 19.4% and 6.5% of total other liabilities as at the same dates, respectively. As at 31 October 2020, the Target Group did not record any amounts due to related parties.

Security deposits from customers

The Target Group's security deposits from customers represented the pledged deposit in relation to the receivables from finance lease, sale and lease back transaction and factoring from its customers.

As at 31 December 2017, 2018, 2019 and 31 October 2020, the Target Group had security deposits from customer of approximately RMB394.7 million, RMB639.4 million, RMB924.1 million and RMB988.2 million, representing 27.7%, 41.3%, 54.4% and 63.0% of total other liabilities as at the same dates, respectively.

FINANCIAL INFORMATION OF THE TARGET GROUP

Capital and Reserves

As at 31 December 2017, 2018, 2019 and 31 October 2020, the total equity of the Target Group amounted to approximately RMB1,765.7 million, RMB2,026.3 million, RMB2,363.2 million and RMB2,736.5 million, respectively. The following table sets forth a breakdown of the capital and reserve as at the dates indicated:

| | As at 31 December | | | As at 31 October |
|----------------------------|-------------------|------------------|------------------|---------------------|
| | 2017 | 2018 | 2019 | 2020 |
| | (RMB'000) | (RMB'000) | (RMB'000) | (RMB'000) |
| Paid-in capital | 1,312,274 | 1,312,274 | 1,312,274 | 1,312,274 |
| Capital reserve | 241,732 | 241,732 | 241,732 | 241,732 |
| Statutory surplus reserves | 57,494 | 85,881 | 118,913 | 118,913 |
| Retained earnings | 154,233 | 386,415 | 690,308 | 1,063,559 |
| Total equity | 1,765,734 | 2,026,303 | 2,363,228 | 2,736,479 |

The increase in the Target Group's total equity from RMB1,765.7 million as at 31 December 2017 to RMB2,026.3 million as at 31 December 2018 was primarily attributable to an increase in retained earnings of approximately RMB232.2 million, which represents the total comprehensive income attributable to shareholders of the Target Group for FY2018. Furthermore, there were an increase of statutory surplus reserves of approximately RMB28.4 million for FY2018.

The increase in the Target Group's total equity from RMB2,026.3 million as at 31 December 2018 to RMB2,363.2 million as at 31 December 2019 was primarily attributable to an increase in retained earnings of approximately RMB303.9 million, which represents the total comprehensive income attributable to shareholders of the Target Group for FY2019. Furthermore, there were an increase of statutory surplus reserves of approximately RMB33.0 million for FY2019.

The increase in the Target Group's total equity from RMB2,363.2 million as at 31 December 2019 to RMB2,736.5 million as at 31 October 2020 was primarily attributable to an increase in retained earnings of approximately RMB373.3 million, which represents the total comprehensive income attributable to shareholders of the Target Group for 10M2020.

FINANCIAL INFORMATION OF THE TARGET GROUP

LIQUIDITY

Liquidity Risk

Liquidity risk is the risk that the Target Group will not be able to meet its liabilities as they fall due. This may arise from amounts or maturity mismatches of assets and liabilities. The Target Group manages its liquidity risk primarily by monitoring the liquidity risk indicators and conducting specific liquidity management measures and adjustments on an as-needed basis. Please refer to the subsection headed “Risk Management and Operation of the Target Group – Liquidity Risk Management” in this circular for further details.

During the Track Record Period, the Target Group financed its finance leasing business principally through borrowings. The Target Group seeks to optimise the mix of its short-term and long-term debts so as to lower its funding cost in a prudent manner.

SUBSEQUENT EVENTS

Please refer to Note 29 to the Accountant’s Report set out in Appendix III to this circular for further details of the significant events that took place subsequent to 31 October 2020.

RELATED PARTY TRANSACTIONS

During the Track Record Period, the Target Group entered into certain related party transactions, the details of which are set out in Note 28 to the Accountant’s Report in Appendix III to this circular. The Target Group is of the view that the related party transactions were conducted in the ordinary course of business on an arm’s length basis and with normal commercial terms between the relevant parties, and/or that such terms were no less favorable to the Target Group than available from Independent Third Parties.

FINANCIAL INSTRUMENTS

As at the Latest Practicable Date, the Target Group had not entered into any financial instruments for hedging purposes.

FINANCIAL INFORMATION OF THE TARGET GROUP

KEY FINANCIAL RATIOS

| | For the year ended/as at 31 December | | | For the ten months ended/as at 31 October |
|---------------------------------------|--------------------------------------|-----------|-----------|---|
| | 2017 | 2018 | 2019 | 2020 |
| Profitability indicators | | | | |
| Net profit margin ⁽¹⁾ | 37.2% | 30.1% | 29.1% | 31.6% |
| Return on equity ⁽²⁾ | 12.5% | 12.9% | 14.3% | N/A ⁽⁵⁾ |
| Return on total assets ⁽³⁾ | 2.1% | 2.1% | 2.1% | N/A ⁽⁵⁾ |
| Liquidity indicators | | | | |
| Current ratio ⁽⁴⁾ | 1.8 times | 0.7 times | 0.8 times | 1.4 times |
| Gearing ratio ⁽⁶⁾ | 73.91% | 73.31% | 75.22% | 73.71% |

Notes:

- (1) Net profit margin is calculated by dividing net profit for the year/period by revenue for the year/period and multiplied by 100.0%.
- (2) Return on equity is calculated by dividing the net profit for the year of the Target Group for the year by the total equity as at the end of the year during the Track Record Period and multiplied by 100.0%.
- (3) Return on total assets is calculated by dividing the net profit for the year of the Target Group for the year by the total assets as at the end of the year during the Track Record Period and multiplied by 100.0%.
- (4) Current ratio is calculated by dividing the total current assets by the total current liabilities as at the end of the year/period.
- (5) Ratios are not meaningful because the net profit for the period only represented ten months of the net profit for the relevant year.
- (6) Calculated by dividing total interest-bearing debt included in total liabilities divides by total assets as at the respective financial year/period end.

Net Profit Margin

The Target Group's net profit margin decreased from approximately 37.2% for FY2017 to approximately 30.1% for FY2018 mainly due to the increase in revenue for the year by approximately 45.8% from approximately RMB594.5 million for FY2017 to approximately RMB866.5 million for FY2018, which outweighed the 17.8% increase in profit for FY2018.

The Target Group's net profit margin decreased from approximately 30.1% for FY2018 to approximately 29.1% for FY2019 mainly due to the increase in revenue for the year by 33.6% from approximately RMB866.5 million for FY2018 to approximately RMB1,157.3 million for FY2019, which outweighed the 29.3% increase in profit for FY2019.

FINANCIAL INFORMATION OF THE TARGET GROUP

The Target Group's net profit margin increased from approximately 29.1% for FY2019 to approximately 31.6% for 10M2020 mainly due to the increase in profit for the period by approximately 37.0% from approximately RMB272.3 million for 10M2019 to approximately RMB373.3 million for 10M2020, which outweighed the 26.0% increase in revenue for 10M2020.

Return on Equity

The Target Group's return on equity remained relatively stable at approximately 12.5% and approximately 12.9% for FY2017 and FY2018, respectively.

The Target Group's return on equity increased from approximately 12.9% for FY2018 to approximately 14.3% for FY2019 mainly due to the fact that the increase in the Target Group's net profit has outweighed the increase in total equity during the relevant period during FY2019.

Return on Total Assets

During the Track Record Period, the Target Group's return on total assets remained relatively stable at approximately 2.1%, 2.1% and 2.1% for FY2017, FY2018 and FY2019, respectively.

Current Ratio

The Target Group's current ratio decreased from approximately 1.8 times as at 31 December 2017 to approximately 0.7 times as at 31 December 2018 mainly due to an increase in its current liabilities in borrowings and bonds payable for financing its expansion of operation during FY2018.

The Target Group's current ratio remained relatively stable at approximately 0.7 times and approximately 0.8 times as at 31 December 2018 and 2019, respectively.

The Target Group's current ratio increased from approximately 0.8 times as at 31 December 2019 to approximately 1.4 time as at 31 October 2020 due to primarily due to a decrease in its current liabilities in borrowings as a result of its lower borrowing level as at 31 October 2020 as compared to 31 December 2019.

Gearing Ratio

During the Track Record Period, the Target Group's gearing ratio remained stable between approximately 73.31% to 75.22%.

FINANCIAL INFORMATION OF THE TARGET GROUP

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT FINANCIAL RISKS

Credit Risk

Credit risk arises from a customer's inability or unwillingness to meet its financial obligations to make timely payments. Credit risk is considered as one of the most significant risks to the Target Group's business operations. Management therefore carefully manages its exposure to credit risk. Credit risk primarily arises from finance leasing business.

The Target Group establishes industry risk management framework and measurements which the Target Group will perform research by industry, implement credit evaluation, estimate the value on lease assets, monitor lessee business status and evaluate the impact from change in technology to lease assets, to strengthen the credit risk control and management.

The Target Group enters into transactions only with recognised and creditworthy third parties. In accordance with the policies of the Target Group, the Target Group examines and verifies the credit risk of all customers with which the Target Group has credit transactions. In addition, the Target Group monitors and controls the leases receivable regularly to mitigate the risk of significant exposures from non-performing assets.

Other financial assets of the Target Group include cash and cash equivalents, accounts receivable and other financial assets. The credit risk of these financial assets arises from the counterparty's inability to meet its obligations. The maximum exposure to credit risk is equal to the carrying amounts of these assets.

The following table sets forth the maximum exposure to credit risk before collateral held and other credit enhancement as at the dates indicated:

| | As at 31 December | | | As at |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2017 | 2018 | 2019 | 31 October |
| | (RMB'000) | (RMB'000) | (RMB'000) | 2020 |
| | | | | (RMB'000) |
| Financial assets | | | | |
| Cash and cash equivalents | 444,561 | 691,794 | 613,682 | 616,308 |
| Loans and receivables | 9,138,645 | 11,473,961 | 15,148,664 | 15,314,549 |
| Finance lease receivables | 39,697 | 32,623 | 53,505 | 151,782 |
| Financial assets at fair value | | | | |
| through profit or loss | 775,000 | – | 4,440 | – |
| Other assets | 16,791 | 17,092 | 32,333 | 25,073 |
| Total | 10,414,694 | 12,215,470 | 15,852,623 | 16,107,712 |

FINANCIAL INFORMATION OF THE TARGET GROUP

The above table represents a worst case scenario of credit risk exposure to the Target Group as at 31 December 2017, 2018, 2019 and 31 October 2020, without taking into account of any collateral held or other credit enhancements attached.

Currency Risk

As the Group's principal activities are carried out in the PRC, the Target Group's transactions are mainly denominated in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the PBOC or other institutions authorised to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that are determined largely by supply and demand.

The Target Group's directors are of the view that the Target Group's exposure to foreign currency risk was not significant during the Track Record Period.

Interest Rate Risk

The Target Group's exposure to the risk of changes in market interest rate primarily relates to its finance lease receivables, loans and receivables, and bank borrowings which are generally based on a floating interest rate.

The Group did not use any interest rate swaps to hedge its exposure to interest rate risk during the Track Record Period.

The following table demonstrates the sensitivity to a reasonably possible change in benchmark interest rates, with all other variables held constant, of the Target Group's net profit.

| Impact on net profit | FY2017 (RMB'000) | FY2018 (RMB'000) | FY2019 (RMB'000) | 10M2020 (RMB'000) |
|-------------------------------|---------------------|---------------------|---------------------|----------------------|
| Interest rates | | | | |
| – increase by 50 basis points | 9,032 | 7,021 | 11,865 | 20,749 |
| Interest rates | | | | |
| – decrease by 50 basis points | (9,032) | (7,021) | (11,865) | (20,749) |

Please refer to Note 4.1(a) to the Accountant's Report set out in Appendix IV to this circular for further details.

Liquidity Risk

Please refer to the paragraph headed “– Liquidity – Liquidity Risk” in this section for further disclosure. Please also refer to “Appendix III – Accountant's Report” to this circular for the table detailing the remaining contractual maturities at the end of the Track Record Period of the Target Group's financial assets and financial liabilities.

FINANCIAL INFORMATION OF THE TARGET GROUP

NO ADDITIONAL DISCLOSURE REQUIRED UNDER THE LISTING RULES

The Target Group's directors have confirmed that, as at the Latest Practicable Date, there were no circumstances which would have given rise to any disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

MATERIAL ADVERSE CHANGE

The Target Group's directors confirm that since 31 October 2020 and up to the date of this circular, there had not, as far as the Directors are aware, been any material adverse change in the Target Group's financial and trading position and no event had occurred that would materially and adversely affect the information as shown in the audited consolidated financial statements included in the Accountant's Report in Appendix III to this circular.

SUBSTANTIAL SHAREHOLDERS OF THE ENLARGED GROUP

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, the following persons (not being a Director or chief executive of the Company) had an interest or short position in the Shares or the underlying Shares which will be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group:

| Name of Shareholder | Nature of interests | Number of Shares held ⁽¹⁾ | Approximate shareholding percentage |
|---------------------|--------------------------------------|--------------------------------------|-------------------------------------|
| QCCIG | Interest of a controlled corporation | 344,621,633 (L) ⁽²⁾ | 69.02% |
| CQDHG | Interest of a controlled corporation | 344,621,633 (L) ⁽²⁾ | 69.02% |
| CQIH | Beneficial owner | 344,621,633 (L) ⁽²⁾ | 69.02% |

Notes:

- (1) The letter "L" denotes a long position in the Shares.
- (2) The 344,621,633 Shares were held by CQIH. As at the Latest Practicable Date, CQIH was wholly owned by CQDHG, which was wholly owned by QCCIG. By virtue of the SFO, QCCIG and CQDHG are deemed to be interested in the Shares held by CQIH.

Save as disclosed hereinabove, as at the Latest Practicable Date, no other persons (not being a Director or chief executive of the Company) had an interest or short position in the Shares or the underlying Shares which will be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group.

SHARE CAPITAL

AUTHORISED SHARE CAPITAL

The authorised share capital of our Company is as follows:

HK\$

| | | |
|----------------|--------|-----------------|
| 20,000,000,000 | Shares | 2,000,000,000.0 |
|----------------|--------|-----------------|

ISSUED SHARE CAPITAL

The following table sets out the issued share capital of the Company (a) as at the Latest Practicable Date; (b) immediately after allotment and issue of the Rights Shares (assuming that (i) all Qualifying Shareholders (including CQIH) take up their respective allotment of Rights Shares in full; and (ii) there is no change in the issued share capital of the Company other than the issue of the Rights Shares since the Latest Practicable Date and up to the Completion); (c) immediately after allotment and issue of the Rights Shares and upon full conversion of the Consideration CB at the Initial Conversion Price (assuming that (i) all Qualifying Shareholders (including CQIH) take up their respective allotment of Rights Shares in full; and (ii) there is no change in the issued share capital of the Company other than the issue of the Rights Shares and the Conversion Shares since the Latest Practicable Date and up to the date of full conversion of the Consideration CB); and (d) immediately after allotment and issue of the Rights Shares and upon full conversion of the Consideration CB at the Base Conversion Price (assuming that (i) all Qualifying Shareholders (including CQIH) take up their respective allotment of Rights Shares in full; and (ii) there is no change in the issued share capital of the Company other than the issue of the Rights Shares and the Conversion Shares since the Latest Practicable Date and up to the date of full conversion of the Consideration CB):

(a) As at the Latest Practicable Date:

HK\$

| | | |
|-------------|--------|--------------|
| 499,276,680 | Shares | 49,927,668.0 |
|-------------|--------|--------------|

(b) Immediately after Allotment and Issue of the Rights Shares:

HK\$

| | | |
|--------------------|--|---------------------|
| 499,276,680 | Shares in issue as at the Latest Practicable Date | 49,927,668.0 |
| 499,276,680 | Rights Shares to be allotted and issued to the Qualifying Shareholders pursuant to the Rights Issue (including CQIH) | 49,927,668.0 |
| 998,553,360 | Shares in issue immediately after Allotment and Issue of the Rights Shares | 99,855,336.0 |

SHARE CAPITAL

(c) Immediately after Allotment and Issue of the Rights Shares and upon Full Conversion of the Consideration CB at the Initial Conversion Price:

HK\$

| | | |
|----------------------|--|----------------------|
| 499,276,680 | Shares in issue as at the Latest Practicable Date | 49,927,668.0 |
| 499,276,680 | Rights Shares to be allotted and issued to the Qualifying Shareholders pursuant to the Rights Issue (including CQIH) | 49,927,668.0 |
| 998,553,360 | Shares in issue immediately after Allotment and Issue of the Rights Shares | 99,855,336.0 |
| 1,189,386,362 | Conversion Shares to be allotted and issued upon full conversion of the Consideration CB at the Initial Conversion Price | 118,938,636.2 |
| 2,187,939,722 | Shares in issue immediately after Allotment and Issue of the Rights Shares and upon Full Conversion of the Consideration CB at the Initial Conversion Price | 218,793,972.2 |

(d) Immediately after Allotment and Issue of the Rights Shares and upon Full Conversion of the Consideration CB at the Base Conversion Price:

HK\$

| | | |
|----------------------|---|----------------------|
| 499,276,680 | Shares in issue as at the Latest Practicable Date | 49,927,668.0 |
| 499,276,680 | Rights Shares to be allotted and issued to the Qualifying Shareholders pursuant to the Rights Issue (including CQIH) | 49,927,668.0 |
| 998,553,360 | Shares in issue immediately after Allotment and Issue of the Rights Shares | 99,855,336.0 |
| 1,486,732,953 | Conversion Shares to be allotted and issued upon full conversion of the Consideration CB at the Base Conversion Price | 148,673,295.3 |
| 2,485,286,313 | Shares in issue immediately after Allotment and Issue of the Rights Shares and upon Full Conversion of the Consideration CB at the Base Conversion Price | 248,528,631.3 |

SHARE CAPITAL

The above table assumes that the Acquisition and the Rights Issue become unconditional and will be completed in accordance with the relevant terms and conditions.

As at the Latest Practicable Date, save as disclosed in this circular, the Company did not have any outstanding options, derivatives, warrants or securities which were convertible or exchangeable into Shares.

RANKING

As at the Latest Practicable Date, the Company had only one class of shares in issue, namely ordinary shares. All the issued Shares are listed on the Stock Exchange and rank *pari passu* in all respects with each other including the rights in respect of dividends, voting and return of capital.

The Rights Shares and the Conversion Shares will rank equally among themselves and *pari passu* in all respects with the Shares in issue on the date of the allotment and issue of the Rights Shares and the Conversion Shares.

PUBLIC FLOAT

Pursuant to Rule 8.08(1)(a) of the Listing Rules, the Company must maintain the “minimum prescribed percentage” of 25% of the issued share capital of the Company in the hands of the public (within the meaning as defined under Rule 8.24 of the Listing Rules). The issue of the Rights Shares will not cause the Company not to comply with the minimum public float requirement under the Listing Rules. In addition, pursuant to the terms of the Consideration CB, the exercise of the conversion right attached to the Consideration CB shall not cause the Company to be unable to meet the public float requirement under the Listing Rules.

GENERAL MANDATES

By the resolutions of the Shareholders passed in the annual general meeting of the Company held on 30 June 2020, the Directors have been granted general and unconditional mandates to exercise the powers of the Company to:

- (a) allot, issue and deal with additional Shares of an amount not exceeding 20% of the total number of Shares then in issue of the Company (the “**Issue Mandate**”);
- (b) repurchase Shares of an amount not exceeding 10% of the total number of Shares then in issue of the Company (the “**Repurchase Mandate**”); and
- (c) extend the Issue Mandate by an amount representing the total number of Shares purchased by the Company pursuant to the Repurchase Mandate.

The Issue Mandate and the Repurchase Mandate will expire at the earlier of: (a) the conclusion of the next annual general meeting of the Company; (b) the expiration of the period

SHARE CAPITAL

within which the next annual general meeting of the Company is required by the Bye-laws or any applicable laws of Hong Kong to be held; or (c) the revocation or variation of the authority given under the relevant resolutions by an ordinary resolution of the Shareholders in general meeting.

SHARE OPTION SCHEME

At the annual general meeting of the Company held on 22 August 2013, the shareholders conditionally adopted the Share Option Scheme, which became effective on 27 August 2013. Since the date of its adoption and up to the Latest Practicable Date, no option had been granted under the Share Option Scheme. As at the Latest Practicable Date, options to subscribe for up to 49,927,668 Shares, representing 10% of the total number of Shares in issue, were available for issue under the Share Option Scheme.

This section contains industry information, including but not limited to statistics, which is derived from a commission report prepared by CIC. CIC is an independent and professional market research and consulting company. We believe the sources of information in this section are appropriate as such information was extracted from the Industry Report and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information and statistics have not been independently verified by the Company, the Target Group, the Financial Advisor or any of our or their respective directors, officers, agents, employees, advisers or representatives or any other persons involved in the very substantial acquisition, excluding CIC, and no representation is given as to their accuracy or completeness. As such, no undue reliance shall be placed on the information and statistics.

Unless otherwise indicated, the market and industry information and data in this section are extracted from the Industry Report. The information in this section may differ from the information from other sources.

This section contains information extracted from the Industry Report prepared independently by CIC, which is commissioned by us, for this circular. CIC is a professional consulting company established in 2014 which provides industry consulting services, commercial due diligence and strategic consulting services for a variety of industries.

CIC carried out both primary and secondary researches in preparing the report. Primary research mainly involves interviews with key industry experts and leading industry participants. Secondary research mainly involves analysis of data from various public available data sources such as the National Bureau of Statistics of China, industry associations, etc. All statistics are reliable and based on information available as at the date of this report. CIC came to the conclusion in Industry Report based on multi-methodologies to ensure data validation and integrity assessment. CIC used data and information collected from a variety of sources and comprehensively analysed and cross-checked such data and information to arrive at the qualitative and quantitative analysis and projections in this circular.

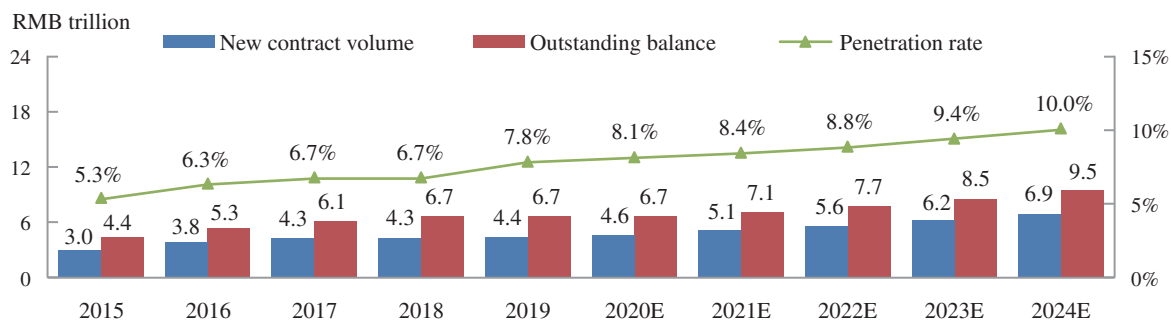
CIC developed its report on the following bases and assumptions for historical data and projections: (i) the overall social, economic, and political environment in China is expected to remain stable during the forecast period; (ii) China's economy is likely to maintain a steady growth trajectory during the forecast period, accompanied by continuing urbanisation; (iii) the major industry drivers are expected to propel the development of the finance leasing industry; and (iv) there is no any extreme force majeure or industry regulation in which the market may be affected dramatically or fundamentally.

OVERVIEW OF THE FINANCIAL LEASING INDUSTRY IN THE PRC

Indirect financing refers to the process of obtaining funds for a business from a third party, such as a bank, rather than directly from investors. The two major channels of indirect financing are bank loans and non-bank lending which includes finance leasing, entrusted loans, usury loans and other informal channels. The finance leasing industry has experienced tremendous growth for the past few years. Penetration rate increased from approximately 5.3% in 2015 to approximately 7.8% in 2019. Outstanding balance of the finance leasing market in the PRC increased from approximately RMB4.4 trillion by the end of 2015 to approximately RMB6.7 trillion by the end of 2019, with a CAGR of approximately 10.6%.

With massive equipment and machinery demand arising from SMEs' manufacturing and restructuring needs, the finance leasing market in the PRC is expected to sustain high growth for the next few years. Outstanding balance is expected to reach approximately RMB9.5 trillion in 2024 with a CAGR of approximately 7.3% from 2019 to 2024. Meanwhile, new contract volume is expected to reach approximately RMB6.9 trillion in 2024 with a CAGR of approximately 9.6% from 2019 to 2024. Penetration rate of finance leasing in the PRC is very low compared with other developed countries, of which the penetration rate is usually around 20% now. It is expected that the finance leasing market will experience tremendous growth and the penetration rate of the finance leasing market in the PRC is expected to reach approximately 10.0% in 2024.

Outstanding balance and new contract volume, PRC, 2015–2024E



Source: Financial Leasing Union of China, CIC

Note 1: Outstanding balance includes all finance lease receivables

Note 2: Penetration rate is the ratio of new volume of finance leasing contract volume divided by total annual fixed assets investment

Drivers for the growth of the finance leasing market in the PRC

- (i) ***The huge demand for equipment by companies with limited funding sources:*** The PRC's banking system is significantly different from that of other major economic entities. Many banks operate under the management of the Chinese government, while the number of small individual banks and other bank-affiliated financial institutions is limited. For SMEs, compared with traditional bank loans, finance leasing usually provides a less stringent application process and a more flexible financing agreement in terms of interest rates and payment schedules. In addition, since finance leasing is mainly based on equipment leasing, with massive equipment demand from SMEs' manufacturing and restructuring needs, finance leasing can provide a time-saving financing solution for the SMEs without increasing companies' leverage ratio largely. The massive equipment demand is expected to continually drive the finance leasing market in the coming decades.
- (ii) ***Tremendous potential market growth with increasing capital investment:*** Finance leasing penetration rate in developed countries is generally around 20% to 30% while that of the PRC is comparatively low, approximately 7.8% in 2019. Many new finance leasing companies have been established and the companies are putting more capital into registration. With massive capitals from various systems of ownership flowing into the market which is far from saturated in terms of penetration rate, it is expected that the market will experience tremendous growth in the next few years. Penetration rate of the PRC is also expected to reach more than 10.0% by 2024.
- (iii) ***Favorable government policy support:*** According to Interim Measures for the General Office of the State Council on Promoting the Sound Development of Finance Leasing Industry (《國務院辦公廳關於促進金融租賃行業健康發展的指導意見》), the PRC government has listed some major objectives for the finance leasing industry in the PRC. These objectives include: (a) expecting a much higher penetration rate and wider coverage in downstream industries by 2020; (b) making finance leasing one of the major tools for equipment investment and technology upgrades; (c) speeding up the development of finance leasing market in major industries and promoting their transformation and upgrading; (d) promoting overseas equipment finance leasing and finance leasing service for SMEs; (e) reforming the industry regulatory system to make it more unified, effective and comprehensive; (f) streamlining administration to enhance the development of finance leasing market and delegating administrative power to the lower level government; (g) developing a number of finance leasing companies that have competitiveness in the international finance leasing market; (h) establishing a more comprehensive and detailed tax system for finance leasing industry. These objectives demonstrate the Chinese government's efforts on making finance leasing industry an important finance channel for companies with different financing needs. For instance, tax incentives, government-led finance leasing projects, and comprehensive regulatory systems, are expected to drive the finance leasing market in the PRC in the future.
- (iv) ***The rapid growth of downstream industry:*** With the economic growth of China, the development of downstream industries, including medical and healthcare, public infrastructure, water supplies and energy, is expected to accelerate. This calls for massive capital to flow in and will drive the development of finance leasing market.

Medical and healthcare industry in the PRC

Medical and healthcare industry is one of the promising industries for finance leasing. Fixed assets investment of medical and healthcare industry increased from RMB581.2 billion in 2015 to RMB772.6 billion in 2019 with a CAGR of 7.4%.

The aging population, growing number of private medical institutions as well as public hospitals in small lower tier cities or towns which are short of medical sources and facilities in general, are likely to drive the demand of healthcare industry. Fixed assets investment of healthcare industry is expected to further reach RMB927.4 billion in 2024 with a CAGR of 3.7% from 2019 to 2024. Finance leasing, being a flexible financing tool, is likely to be used more often in the healthcare industry and therefore benefit from the growing fixed assets investment.

Public infrastructure industry in the PRC

Public infrastructure is one of the promising downstream industries for finance leasing. Fixed assets investment of urban infrastructure increased from RMB10,127.1 billion in 2015 to RMB15,273.7 billion in 2019 with a CAGR of 10.8%.

Notice of the State Council on Strengthening the Capital Management of Fixed Asset Investment Projects (《國務院關於加強固定資產投資項目資本金管理的通知》) has been actively encouraging Public-Private-Partnership (PPP) system between local government and private capital in urban infrastructure industry. Through finance leasing, local governments are able to obtain ownership of the urban infrastructure projects at end of the lease while reducing their financing pressure from directly constructing projects at the beginning. There have been an increasing number of urban infrastructure PPP projects involving finance leasing in the past few years. A more frequent usage of finance leasing is expected in the next few years, especially for governments of Tier 3 and Tier 4 cities.

With increasing urbanisation rate, upgrade as well as expansion of public infrastructures such as water, electricity, gas and heat supply facilities requires a large amount of investment. Urban infrastructure industry is expected to have a steady growth in the next few years. Fixed assets investment of public infrastructure is expected to further reach RMB20,469.0 billion in 2024 with a CAGR of 6.0% from 2019 to 2024.

Water supplies industry in the PRC

Water supply industry has received an increasing level of fixed asset investment over the years. Between 2015 and 2019, China's fixed asset investment in water supply industry increased significantly at a CAGR of 12.7% and is expected to continue increasing at a CAGR of 11.5% over the next five years. The increase in capital investments from both social funds and governmental funds will provide strong support for the continued construction of water transportation, purification treatment and recycling infrastructure in the future.

In recent years, PPP model has become the mainstream development method for newly-constructed domestic wastewater treatment facilities. As the main method for social capital to participate in public utilities, PPP model has experienced a rapid growth in the past few years. In October 2014, the introduction of the Guiding Opinions of the State Council on Innovation of Investment and Financing Mechanisms in Key Fields to Encourage Social Investment (《國務院關於創新重點領域投融資機制鼓勵社會投資的指導意見》) and other policies has promoted the development of the PPP model in China. As at December 2019, the total value of PPP projects related to wastewater treatment reached RMB8,838 billion. The implementation of compliant PPP will provide strong support for water supply infrastructure investment, and the finance leasing industry will benefit from the increasing trend.

Energy industry in the PRC

For renewable energy industry, total installed capacity increased from 480.0 million kilowatt in 2015 to 794.0 million kilowatt in 2019. To reduce air pollution and save energy resources, more installed capacity of renewable energy is expected, total installed capacity of renewable energy in China is projected to reach 967.4 million kilowatt in 2024.

Continuous penetration of renewable energy in energy structure is ongoing under the encouragement of government policy such as 《Energy law of the People's Republic of China (Draft)》 (《中華人民共和國能源法(徵求意見稿)》) published in April 2020, which requires to optimise energy structure and improve energy efficiency.

Key success factors of finance leasing industry in the PRC

- (i) **Consistent and stringent risk management:** The finance leasing market is a highly capital-intensive market, involving a large amount of cash flow every month. Companies need a consistent and strict risk system and experienced professionals to identify potential risks. The average non-performing assets ratio of finance leasing companies in the PRC is 2.1%. For small finance leasing companies, a single risk project may damage the entire cash flow and may cause the company to fall into the capital chain. A sound risk management system stems from years of market experience and a deep understanding of upstream and downstream companies, which is difficult for new entrants to obtain.
- (ii) **Access to diversified and low-cost financing channels:** Financing channel is relatively limited in the PRC where the majority of the money that a company receives comes from bank loans. Most of the revenue of a finance leasing project is driven by the interest rate spread from its financing and leasing operations. The access to adequate and relatively low-cost capital is essential to the profitability and project accessibility of finance leasing companies. Finance leasing companies backed by large parent companies with sufficient capital and good credit ratings generally have lower financing interest rate and easier access to resources or channels such as Overseas Loan under Domestic Guarantee, P2P lending platform, asset securitisation, private equity, etc. The difference of financing cost

between market leader and market average may vary from 2% to 4%. Thus, access to diversified and low-cost financing channel is vitally important for a company's success in the finance leasing market.

- (iii) ***Maintaining an experienced professional team:*** There has been a shortage of experienced professionals in the finance leasing market of the PRC. An experienced professional is a person with profound understanding in several areas, including but not limited to industrial chain, risk control, transaction authenticity, fund operation and macro-economy. An experienced and professional team comes from a well-organised company structure and effective incentive plans. An experienced and professional team can help a company to avoid risks and seize opportunities, which contributes to the success of the company.

Entry barriers of finance leasing industry in the PRC

- (i) ***High capital requirement:*** For initial license registration, the PRC government has set up a minimal capital requirement for different finance leasing companies. For bank-affiliated companies, minimal capital requirement is RMB100 million and commercial bank has to meet the 8% capital adequacy ratio. For domestic-funded companies, minimal capital requirement is RMB170 million. For foreign-funded companies, minimal capital requirement is USD10 million. In addition, the finance leasing market is highly capital intensive which involves massive amount of equipment purchasing and lending. Having a sufficient amount of cash prepared for daily operation, delayed payments and potential default is crucial for operation management and risk management.
- (ii) ***Requirement for finance leasing professionals:*** The finance leasing market is relatively new compared with the traditional sectors, such as bank loans and operating lease, in the PRC. In addition, finance leasing involves not only financial knowledge but also a throughout understanding of downstream industries and close relationships with companies along the value chain. There has been a lack of finance leasing professionals for risk control and project management in the industry. Instead of hiring people from other companies in the market, many professionals need to be trained by their own companies to develop a consistent risk control management and project screening process. For new entrants, it is hard to attract market professionals and develop a consistent and effective business model in a short time.
- (iii) ***High credit rating and extensive industry experience:*** Credit rating is directly related to a company's financing interest rate, which is vitally important for the profitability and project accessibility of a company. Moreover, companies' past leasing experience will be taken into account when bidding for a project. If a new entrant does not have a good credit rating or is not backed by a large company with a good credit rating, the interest rate is likely to be very unfavorable which makes the new entrant less competitive. Even if the new entrant has a good rating, a lack of leasing experience is expected to become another entry barrier for the new entrant.

Future development trend of finance leasing industry in the PRC

- (i) ***Diversification of direct leasing and sale-and-leaseback:*** In China, most finance leasing projects are operated through sale-and-leaseback. In 2019, leaseback accounted for more than 80% of the total number of projects. Compared with direct leasing, sale-and-leaseback only involves the leasing company and the lessee. Since leasing companies do not need to contact equipment manufacturers, compared with direct leasing, the leasing process is simpler and has less expertise in product management and quality control. Many new market entrants and small leasing companies usually conduct business through sale-and-leaseback. As China's finance leasing market matures, more companies are expected to diversify their leasing models. It is expected that direct leasing will be used more frequently because it usually has a higher profit margin than sale-and-leaseback.
- (ii) ***More capital investments from different market participants:*** In the past few years, the huge growth of the finance leasing market has attracted different types of companies from various industries. Many listed companies have begun to establish subsidiaries of finance leasing business by using "overseas loans under domestic guarantees", which usually reduces their financial costs and makes their leasing business more competitive. In addition, in order to overcome the problem of overcapacity in China's manufacturing industry, many equipment manufacturers have established their own subsidiary finance leasing companies to indirectly sell their products through the finance leasing business. In addition, companies in the financial sector are also actively expanding their finance leasing business. With the support of sufficient capital and good ratings, companies in the financial sector are also expected to become important players in the market. With the rapid development of China's finance leasing market, various market participants may invest more capital investment.
- (iii) ***Expansion to more downstream industries:*** In addition to finance leasing for transportation, construction, plants, medical equipment, etc., the leasing business is expected to penetrate new emerging and upgrade industries such as new energy, mechanised agriculture and robot industry. Huge needs for manufacturing equipment plants in these industries are expected to attract more finance leasing businesses in the coming years.
- (iv) ***Lease and investment business model:*** Lease and investment model is an enhancement of the traditional direct leasing model and sale-and-leaseback model. Some of the finance leasing companies have already adopted this business model and it is becoming more and more widely and frequently used by finance leasing companies in the industry. Under this model, finance lease companies, the lessors, can offer options of both equity and debt financing to the lessees. For lessors, this model allows them to exert greater control on the leased assets, earn higher investment return and enhance competitiveness in the industry. Lease and investment model grants the lessors opportunities to enjoy upside of the lessees by generating greater revenue from the leased assets, instead of merely the lease interest income. In contrast, the traditional models normally generate only fixed amount of interest income to lessors. For lessees, this model allows them to obtain access to a low-cost financing channel sustainably.

COMPETITIVE LANDSCAPE OF THE FINANCIAL LEASING INDUSTRY IN THE PRC

Classification of finance leasing companies in the PRC

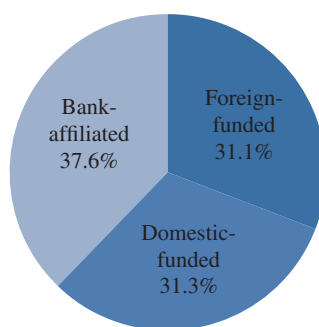
There are three types of finance leasing companies in the PRC, namely bank-affiliated, foreign-funded and domestic-funded. The table below summarises their characteristics.

| Type | Regulation institution | Registered capital requirement | Related business operation |
|-----------------|---|--|--|
| Bank-affiliated | China Banking and Insurance Regulatory Commission | <ul style="list-style-type: none"> Minimal capital: RMB100 million Commerce bank has to meet the 8% capital adequacy ratio | <ul style="list-style-type: none"> Finance leasing Absorb shareholders' deposit Collect security deposits from lessees Sale of finance lease asset to commercial banks Interbank borrowing Sale of residual value and maintenance of lease asset Issue finance bonds under approval Overseas foreign currency borrowing Lending from other finance institutions |
| Foreign-funded | China Banking and Insurance Regulatory Commission | <ul style="list-style-type: none"> Minimal capital: USD10 million | <ul style="list-style-type: none"> Finance leasing General leasing Deal with residual value and maintenance of lease asset Purchase leasing asset from domestic and overseas |
| Domestic-funded | China Banking and Insurance Regulatory Commission | <ul style="list-style-type: none"> Minimal capital: RMB170 million | <ul style="list-style-type: none"> Finance leasing General leasing Deal with residual value and maintenance of lease asset Purchase leasing asset from domestic and overseas |

The finance leasing market in the PRC is very fragmented given the large number of market participants in 2019, which totalled over 12,130 registered companies. Many of the non-banking foreign funded finance leasing companies are located in Shanghai Free Trade Zones due to the favorable policies and strong government support.

Outstanding balance of foreign-funded finance leasing market was approximately 31.1% of the total finance leasing market, with an outstanding balance of approximately RMB2,070.0 billion as at 31 December 2019. Foreign-funded finance leasing market in the PRC is very fragmented given the large number of market participants in 2019, which totalled over 11,657 registered foreign-funded finance leasing companies.

Outstanding balance of finance leasing market, PRC, 2019



Source: Financial Leasing Union of China, CIC

Ranking of foreign-funded medical device finance leasing companies in the PRC

The Target Group's medical and healthcare customers are mainly public hospitals, who are considered to have more stable and transparent cashflow and better credibility than private hospitals. Therefore, the Target Group can better manage its risks by targeting public hospitals.

In 2019, the foreign-funded medical device finance leasing companies represented approximately 75.0% of the overall medical device finance leasing market in terms of finance lease receivables, and approximately 76.9% in terms of revenue. The group had finance lease receivables of RMB3.3 billion as at 31 December 2019 and a revenue of RMB0.33 billion for FY2019 in medical device finance leasing industry. Among the foreign-funded medical device finance leasing market, the Target Group ranked the fifth and occupied a market share of 1.3% in terms of finance lease receivables. In terms of revenue, the Target Group ranked fourth and occupied a market share of 1.6% among the foreign-funded medical device finance leasing companies.

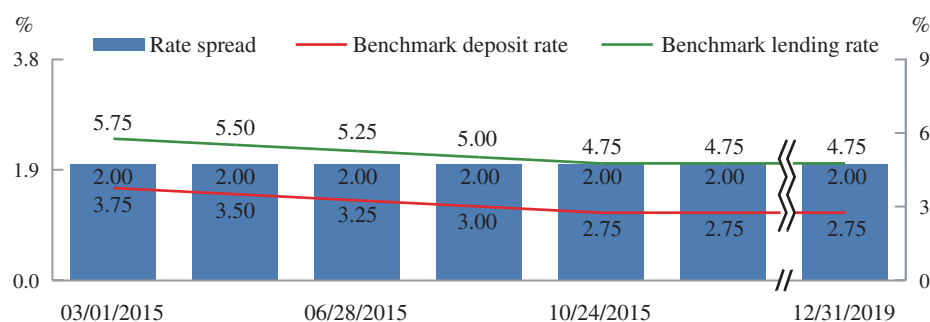
| Ranking | Name of Company | Medical device finance lease receivables as at 31 December 2019 (RMB billion) | Market share among foreign-funded medical device finance leasing market | Market share among overall medical device finance leasing market |
|--|------------------|--|--|--|
| 1 | Company A | 27.0 | 10.6% | 8.0% |
| 2 | Company B | 23.9 | 9.4% | 7.1% |
| 3 | Company C | 12.0 | 4.7% | 3.5% |
| 4 | Company D | 4.2 | 1.7% | 1.2% |
| 5 | The Target Group | 3.3 | 1.3% | 1.0% |
| Subtotal | | 70.4 | 27.7% | 20.8% |
| Other foreign-funded companies | | 183.5 | 72.3% | 54.2% |
| Market size for foreign-funded companies | | 253.9 | 100.0% | 75.0% |
| Overall market size | | 338.6 | | 100.0% |

Source: CIC

| Ranking | Name of Company | Revenue in medical device finance leasing, 2019 (RMB billion) | Market share among foreign-funded medical device finance leasing market | Market share among overall medical device finance leasing market |
|--|------------------|---|--|--|
| 1 | Company B | 2.80 | 13.3% | 10.2% |
| 2 | Company A | 2.20 | 10.4% | 8.0% |
| 3 | Company C | 0.58 | 2.7% | 2.1% |
| 4 | The Target Group | 0.33 | 1.6% | 1.2% |
| 5 | Company D | 0.31 | 1.4% | 1.1% |
| Subtotal | | 6.22 | 29.4% | 22.6% |
| Other foreign-funded companies | | 14.94 | 70.6% | 54.3% |
| Market size for foreign-funded companies | | 21.16 | 100.0% | 76.9% |
| Overall market size | | 27.53 | | 100.0% |

Cost analysis of finance leasing market in the PRC

Three-year benchmark deposit and lending rate, PRC, 2015–2019



Source: The People's Bank of China, CIC

Benchmark interest rate has experienced decreasing for three times in 2015 and remained stable from 2015 to 2019. The three-year benchmark lending rate in China has decreased from 5.75% in January 2015 to 4.75% in October 2015. Since October 2015, the benchmark interest rate has been remained low to stimulate economy. In general, the significant decrease of interest rate has lowered the funding cost for finance leasing in recent years.

REGULATIONS ON FINANCIAL LEASING

Measures on Supervision of Financial Leasing Enterprises

The *Administrative Measures on Supervision of Financial Leasing Enterprises* (《融資租賃企業監督管理辦法》) (the “**Measures for Financial Leasing Enterprises**”) were promulgated by the Ministry of Commerce of the PRC (the “**MOFCOM**”) on 18 September 2013 and came into effect on 1 October 2013 with a view to enhancing regulation over both domestic and foreign-invested financial leasing enterprises registered in China.

Pursuant to the Measures for Financial Leasing Enterprises, the MOFCOM and the provincial-level commerce authorities are in charge of the supervision and administration of financial leasing companies. A financial leasing company shall, according to the requirements of the MOFCOM, report the relevant data in a timely and truthful manner through the National Financial Leasing Enterprise Management Information System. Specifically, a financial leasing company shall, within 15 working days after the end of each quarter, submit the statistics on and a summary of its operations for the preceding quarter, and prior to 30 April of each year, submit the statistics on and a summary of its operations for the preceding year as well as its financial and accounting report (including the notes appended thereto) audited by an audit body for the preceding year. In the event of a change of name, relocation to another region, increase or decrease of registered capital, change in organisational form, adjustment of ownership structure or other changes, a financial leasing company shall report to the competent provincial-level commerce authority in advance. A foreign-invested financial leasing company that undergoes the said changes shall go through the approval or filing procedures in compliance with the relevant provisions. A financial leasing company shall, within five working days after completing the registration changes with the administration of industry and commerce authority, log into the National Financial Leasing Enterprise Management Information System to modify the relevant information.

The Measures for Financial Leasing Enterprises explicitly stipulate the business scope of a financial leasing company. A financial leasing company may conduct its financial leasing activities by way of a direct lease, sub-lease, leaseback, leveraged lease, trusted lease and joint lease subject to the applicable laws, regulations and rules. A financial leasing company shall operate financial leasing and other leasing businesses as its main business, and may engage in the purchase of leased properties, disposal of residual value of leased properties, maintenance of leased properties, lease transaction consultancy and guarantee services, assignment of accounts receivable to a third party institution, receiving lease deposits and other businesses approved by the competent authority. A financial leasing company shall not engage in deposit taking, lending, entrusted lending, and without the approval of the competent authority, shall not engage in inter-bank borrowing without the approval of the competent authority. A financial leasing company is prohibited from carrying out illegal fund-raising activities under the disguise of financial leasing in any circumstances.

The Measures for Financial Leasing Enterprises also require the financial leasing companies to strengthen their internal risk controls, establish good systems for classifying

at-risk assets, and adopt a credit appraisal system for the lessee, an ex-post recovery and disposal system and a risk alert mechanism. A financial leasing company shall also establish an affiliated transaction management system, and exclude related parties from the voting or decision-making process of affiliated transactions. In the event of a purchase of equipment from an affiliated production enterprise, the settlement price for such equipment shall not be evidently lower than the price offered by such enterprise to any third party for such equipment or for equipment of the same batch. A financial leasing company shall manage its assets under trust lease and sub-lease separately and keep separate accounts therefor. A financial leasing company shall strengthen the management of its major lessees, limit the proportion of business with a single lessee and with lessees that are affiliates, and pay attention to the prevention and diversification of operational risks. The Measures for Financial Leasing Enterprises also stipulate that risky assets of a financial leasing company shall not exceed 10 times of its total net assets.

The Measures for Financial Leasing Enterprises also contain regulatory provisions specifically on sale-and-leaseback transactions. The subject matter of a sale-and-leaseback transaction shall be properties that can give play to their economic functions and produce continuous economic benefits. A financial leasing company shall not accept any properties to which a lessee has no title, or on which any mortgage has been created, or which has been sealed or seized by any judicial organ, or whose ownership has any other defects as the subject matter of a sale-and-leaseback transaction. A financial leasing company shall give adequate consideration to and objectively evaluate assets leased back, set purchase prices at reasonable basis for them in compliance with accounting principles, and shall not purchase any asset at a price in excess of its value.

Interim Measures for the Supervision and Administration of Finance Leasing Companies

The *Interim Measures for the Supervision and Administration of Finance Leasing Companies* (《融資租賃公司監督管理暫行辦法》) (the “**Interim Measures for Financial Leasing Companies**”) were promulgated by the China Banking and Insurance Regulatory Commission (the “**CBIRC**”) and came into effect on 26 May 2020 with a view to further enhancing regulation over financial leasing companies registered in China.

Pursuant to the Interim Measures for Financial Leasing Companies, the CBIRC shall be responsible for the formulation of business operation and supervision and administration rules for finance leasing companies and the local financial regulatory authorities at the provincial level are in charge of the supervision and administration of financial leasing companies. Financial leasing companies shall regularly submit information and materials to the local financial regulatory authorities and the branches of the People’s Bank of China (the “**PBOC**”) at the same level.

The Interim Measures for Financial Leasing Companies explicitly stipulate a series of regulatory indicators. The proportion of financial leasing and other leasing assets of financial leasing companies shall not be lower than 60% of the total assets. The total amount of risk assets of financial leasing companies shall not exceed eight times of their net assets.

Fixed-income securities investment business undertaken by finance leasing companies shall not exceed 20% of their net assets. The Interim Measures for Financial Leasing Companies also provide the requirements for the concentration of financing to a single client or a single group client, relevancy degree with a single client, relevancy degree of all affiliated parties and relevancy degree with a single shareholder.

Pursuant to the Interim Measures for Financial Leasing Companies, a financial leasing company shall also establish a related party transaction management system. The related party transactions shall comply with commercial principles, be carried out independently and fairly priced, and shall not be more preferential than non-related party transactions of the same type. When the financial leasing companies vote or make decisions on the transactions in which the lessee is an affiliated enterprise, any person who is related to such related party transactions shall recuse himself/herself from the voting or decision making. Major related party transactions of financial leasing companies shall be approved by shareholders' (general) meeting, the board of directors or their authorised organs. The regulatory requirements of the Measures on related party transactions shall not apply to transactions between financial leasing companies and their holding subsidiaries and project companies.

The Interim Measures for Financial Leasing Companies also contain regulatory provisions specifically on the subject matter of a financial leasing transaction. Financial leasing companies shall not accept any property that has been mortgaged, whose ownership is in dispute, or that has been sealed up or detained by any judicial authority, or whose ownership is defective as leased property.

Measures on the Administration of Foreign-invested Lease Industry

The *Measures on the Administration of Foreign-invested Lease Industry* (《外商投資租賃業管理辦法》) (the “**Measures for Foreign-invested Lease Industry**”) were promulgated by the MOFCOM on 3 February 2005 (last amended on 28 October 2015) to regulate the operation of foreign-invested leasing business and financial leasing business. The Measures for Foreign-invested Lease Industry were abolished on 22 February 2018.

The Measures for Foreign-invested Lease Industry apply to the establishment of foreign-invested companies in the form of Sino-foreign equity joint ventures, Sino-foreign cooperative joint ventures and WFOEs in China to engage in the leasing or financial leasing business. Under the Measures for Foreign-invested Lease Industry, the total assets of the foreign investors of a foreign-invested financial leasing company shall not be less than US\$5 million. A foreign-invested financial leasing company shall satisfy the following conditions: (i) the term of operation of a foreign-invested financial leasing company in the form of a limited liability company shall not normally exceed 30 years; and (ii) it shall be staffed by appropriate professionals and its senior management personnel shall possess the appropriate professional qualifications and shall have no less than three years' experience in the relevant business.

Pursuant to the Measures for Foreign-invested Lease Industry, foreign-invested financial leasing companies may conduct the following businesses: (i) financial leasing business; (ii)

leasing business; (iii) purchasing domestic and overseas leased assets; (iv) disposal of residual value of and maintenance of leased assets; (v) consultancy and guarantee services of lease transactions; and (vi) other businesses approved by the competent authorities. Foreign-invested financial leasing companies may engage in financial leasing activities by way of direct leasing, sub-leasing, sale-and-leaseback, leveraged leasing, entrusted leasing and joint leasing. The Measures for Foreign-invested Lease Industry also require foreign-invested financial leasing companies to submit a report on their business operations and financial statements audited by an accounting firm of the preceding year to the MOFCOM for filing purposes before 31 March of each year. For the purposes of risk management and business protection, the risk assets of a foreign-invested financial leasing company, i.e. the amount after deducting cash, bank deposits, treasury securities and entrusted leased assets from the total assets of the company, shall not exceed 10 times of the total amount of its net assets.

Circular of the General office of the Ministry of Commerce on Adjustment of Regulatory Responsibilities in respect of Financial Leasing Companies, Commercial Factoring Companies and Pawnbrokers

The *Circular of the General Office of the Ministry of Commerce on Adjustment of Regulatory Responsibilities in respect of Financial Leasing Companies, Commercial Factoring Companies and Pawnbrokers* (《商務部辦公廳關於融資租賃公司、商業保理公司和典當行管理職責調整有關事宜的通知》) (the “**Circular No. 165**”) was promulgated by the MOFCOM on 8 May 2018 and came into effect on 20 April 2018. Pursuant to Circular No. 165, the responsibilities of formulating rules in relation to the business operations of and supervision over financial leasing companies shall be transferred from the MOFCOM to the CBIRC.

REGULATIONS ON FOREIGN INVESTMENT

Investment in the PRC by foreign investors and foreign-invested enterprises shall comply with the *Special Administrative Measures (Negative List) for Foreign Investment Access* (《外商投資准入特別管理措施(負面清單)》) (the “**Negative List**”), which was last amended and issued by the MOFCOM and the National Development and Reform Commission (the “**NDRC**”) on 23 June 2020 and became effective since 23 July 2020. Foreign investors shall not invest in any of the prohibited sectors specified in the Negative List. Foreign investors shall obtain an approval for foreign investment access of if they intend to invest in other sectors that are not prohibited in the Negative List, and if they intend to invest in sectors subject to limits on the proportion of foreign investment, their investment shall not exceed such proportion and they are not allowed to make such investment in a form of foreign-invested partnerships.

The finance lease industry is not among the industries on the Negative List and is not subject to the special administrative measures.

PRC CIVIL CODE

The National People's Congress promulgated the *Contract Law of the PRC* (《中華人民共和國合同法》) (the “**PRC Contract Law**”) on 15 March 1999 for regulating the civil contractual relationship among natural persons, legal persons and other organisations. Chapter 14 of the PRC Contract Law sets out the mandatory rules on financial leasing contracts. On 28 May 2020, the *Civil Code of the PRC* (《中華人民共和國民法典》) (the “**PRC Civil Code**”) was adopted by the third session of the 13th National People's Congress, which became effective on 1 January 2021 and simultaneously replace the PRC Contract Law. Chapter 15 of Part III of the PRC Civil Code sets out the mandatory rules on financial leasing contracts.

According to PRC Civil Code, financial leasing contracts shall be in writing and include terms such as the name, quantity, specifications, technical performance and inspection method of the leased object, the lease term, the composition, payment term, payment method and currency of the rent and the ownership of the leased object upon expiration of the lease.

Under the financial leasing contract, the lessor shall conclude a purchase contract based on the lessee's selection in respect of the seller and the leased property, and the seller shall deliver the leased property to the lessee as agreed. The lessee has the rights of a buyer when taking delivery of the leased property. Without the consent of the lessee, the lessor may not modify the relevant particulars relating to the lessee of the purchase contract which has been concluded based on the lessee's selection in respect of the seller and the leased property.

In respect of the usage and maintenance of the leased property, the lessee shall take due care of the leased property and use it properly. The obligation of maintaining and repairing the leased object while in the possession of the lessee shall be performed by the lessee. The lessor is not liable for injury to the body or damage to the property of a third party caused by the leased property while in the possession of the lessee. If the leased property fails to meet the requirements stipulated by the parties or is not fit for the purpose for which it is to be used, the lessor shall not be liable, unless the lessee selected the leased property in reliance on the technical ability of the lessor or the lessor interfered in the selection of the leased property.

The lessor and the lessee may stipulate in which party ownership of the leased property shall vest upon expiration of the lease. If they have not stipulated in which party ownership shall vest upon expiration, if such stipulation is not clear, or if ownership cannot be determined in accordance with the PRC Civil Code, the ownership of the leased object shall vest in the lessor. If the parties have stipulated that ownership of the leased property shall vest upon the lessee upon expiration of the lease, and the lessee has already paid most of the rent but is unable to pay the balance, and if the lessor terminates the contract and repossesses the leased property on those grounds, the lessee may demand a partial refund if the value of the leased property repossessed exceeds the rent and any other expenses owed by the lessee.

Pursuant to the *Interpretation of the Supreme People's Court on Issues concerning the Application of Law in the Trial of Cases Involving Disputes over Financial Leasing Contracts*

(《最高人民法院關於審理融資租賃合同糾紛案件適用法律問題的解釋》), which was last amended on 29 December 2020, where no legal relationship of finance leasing actually exists under a contract titled finance leasing contract, a people's court shall handle cases according to the actual legal relationships. Where the lessee sells its own property to the lessor and then leases back the property from the lessor under a finance leasing contract, the people's court shall not determine that there is no legal relationship of finance leasing simply because the lessee and the seller are the same party.

REGULATIONS ON MEDICAL EQUIPMENT

The State Council promulgated the *Regulations on Supervision and Administration of Medical Devices* (《醫療器械監督管理條例》) (the “**Regulations on Medical Devices**”) on 4 January 2000 to regulate the research, production, operation and use of medical devices, which has been amended on 4 May 2017 and 9 February 2021. According to the Regulations on Medical Devices, to engage in business operation of medical devices, a business operator shall have business premises and storage conditions appropriate for its scale and scope of business, as well as the quality control system and quality control body or staff appropriate for the medical devices. Business deals in category two medical devices shall be filed for record with the food and drug administrations at the municipal level. Business deals in category three medical devices shall be filed for review and approval with the food and drug administrations at the municipal level and a license for business deals in medical devices shall be obtained. The license remains valid for five years. Where it is necessary to renew the permit upon its expiry, the formalities for renewal shall be completed pursuant to the relevant laws on administrative licensing.

The State Food and Drug Administration promulgated the *Comments in Response to Some Regulatory Issues about Medical Device Finance Leasing* (《關於融資租賃醫療器械監管問題的答覆意見》) on 1 June 2005. Accordingly, medical device finance leasing conducted by finance leasing companies shall be categorised as business deals in medical devices and a license for business deals in medical devices shall be obtained in accordance with the Regulations on Medical Devices.

REGULATIONS ON DISTRIBUTED PHOTOVOLTAIC POWER GENERATION PROJECT

Pursuant to the *Renewable Energy Law of the PRC* (《中華人民共和國可再生能源法》), the *Electric Power Law of the PRC* (《中華人民共和國電力法》), the *Several Opinions on Promoting the Healthy Development of the Photovoltaic Industry* (《國務院關於促進光伏產業健康發展的若干意見》) promulgated by the State Council and coming into effect on 4 July 2013, *Interim Measures of Distributed Power Generation Administration* (《分佈式發電管理暫行辦法》) promulgated by the NDRC and coming into effect on 18 July 2013 and the *Interim Measures for the Administration of Distributed Photovoltaic Power Generation Projects* (《分佈式光伏發電項目管理暫行辦法》) promulgated by the National Energy Administration and coming into effect on 18 November 2013, competent energy authorities below the provincial level shall subject distributed photovoltaic power generation projects to filing administration and exempt the distributed photovoltaic power generation business license in accordance with the investment project administration regulations of the State Council and the annual guiding scale and

indicator for local distributed photovoltaic power generation issued by the competent energy authority of the State Council.

REGULATIONS ON TAX

PRC Enterprise Income Tax

The *PRC Enterprise Income Tax Law* (《中華人民共和國企業所得稅法》) (the “**EIT Law**”), which was promulgated on 16 March 2007 and took effect on 1 January 2008, and further amended on 24 February 2017 and 29 December 2018, imposes a uniform enterprise income tax rate of 25% on all PRC resident enterprises, including foreign-invested enterprises, unless they qualify for certain exceptions. The enterprise income tax is calculated based on the PRC resident enterprise’s global income as determined under PRC tax laws and accounting standards. If a non-resident enterprise sets up an organisation or establishment in the PRC, it will be subject to enterprise income tax for the income derived from such organisation or establishment in the PRC and for the income derived from outside the PRC but with an actual connection with such organisation or establishment in the PRC.

According to the *Notice on Implementing the Inclusive Tax Relief Policy for Small and Micro Enterprises* (《關於實施小微企業普惠性稅收減免政策的通知》) promulgated by the Ministry of Finance (the “**MOF**”) and the State Administration of Taxation (the “**SAT**”), from 1 January 2019 to 31 December 2021, in respect of small and micro enterprises, the taxable income not exceeding RMB1,000,000 shall be subject to a reduced taxable income rate of 25%, and subject to enterprise income tax at a rate of 20%; the portion of the annual taxable income exceeding RMB1,000,000 but not exceeding RMB3,000,000 shall be subject to a reduced taxable income rate of 50%, and is subject to enterprise income tax at a rate of 20%.

According to the *Notice of the Ministry of Finance and the State Administration of Taxation on Issues Relevant to Implementation of the List of Public Infrastructure Projects Enjoying Enterprise Income Tax Preferences* (Cai Shui [2008] No. 46) (《財政部、國家稅務總局關於執行公共基礎設施項目企業所得稅優惠目錄有關問題的通知》(財稅[2008]46號)), if enterprises have engaged in public infrastructure projects subject to conditions and technology standards provided in the *List of Public Infrastructure Projects Enjoying Enterprise Income Tax Preferences* (《公共基礎設施項目企業所得稅優惠目錄》) with approval since 1 January 2008, their income from investments and operations can be exempted from tax in the first, second and third year and halved in the fourth, fifth and sixth year from the taxable year of earning the first operating income.

PRC Value Added Tax

The *Provisional Regulations on Value-added Tax of the PRC* (《中華人民共和國增值稅暫行條例》) were promulgated by the State Council on 13 December 1993, came into effect on 1 January 1994, and amended on 10 November 2008, 6 February 2016 and 19 November 2017, and the *Detailed Implementing Rules of the Temporary Regulations on Value-added Tax of the PRC* (《中華人民共和國增值稅暫行條例實施細則》) were promulgated by the MOF and came into

effect on 15 December 1993, and amended on 15 December 2008 and 28 October 2011. According to above value-added tax regulations, taxpayers engaging in the sales of goods or labor services, the leasing of tangible movable properties and the import of goods within the PRC shall pay value-added tax (the “VAT”) at the tax rate of 17%, 11% or 6%.

Pursuant to the *Trial Scheme for the Conversion of Business Tax to Value-added Tax* (《營業稅改徵增值稅試點方案》) promulgated by the MOF and the SAT, the State began to launch taxation reforms in a gradual manner with effect from 16 November 2011, whereby the collection of VAT in lieu of business tax items was implemented on a trial basis in regions showing significant radiating effects in economic development and providing outstanding reform examples, beginning with production service industries such as transportation and certain modern service industries. According to the *Circular on Comprehensively Promoting the Pilot Programme of the Collection of Value-added Tax in Lieu of Business Tax* (《關於全面推開營業稅改徵增值稅試點的通知》) (the “**Circular No. 36**”), which was promulgated on 23 March 2016 and came into effect on 1 May 2016, the VAT pilot programme will be extended to the whole country. Business tax payers in the industries of construction, real estate and financial and life services will be included within the scope of the VAT pilot programme. Entities and individuals that engage in the sales of services, intangible assets or immovable properties in the territory of China are taxpayers of VAT and shall pay VAT instead of business tax. The VAT rate to be imposed on (i) taxable activities of taxpayers shall be 6%, except as otherwise specified below; (ii) the provision of services relating to transportation, mail, basic telecommunications, construction, leasing of real estate and sales of real estate and transfer of land use rights shall be 11%; (iii) the provision of leasing services for tangible movables assets shall be 17%; and (iv) cross-border taxable activities conducted by domestic entities and individuals shall be nil. The specific scopes shall be further provided by the MOF and the SAT. The VAT levy rate shall be 3% unless otherwise specified by the MOF and the SAT.

According to the Circular No. 36, if the actual VAT burden on a pilot general taxpayer engaging in financial leasing upon approval of the PBOC, the China Banking Regulatory Commission (later superseded by the CBIRC) or the Ministry of Commerce for the tangible personal property financial leasing and sale-and-leaseback services provided by it is more than 3%, such VAT will be refunded upon collection thereof.

According to the *Notice of the MOF and the SAT on Adjusting Value-added Tax Rates* (《財政部、國家稅務總局關於調整增值稅稅率的通知》) issued on 4 April 2018 and came into effect on 1 May 2018, a taxpayer who is previously subject to the rates of 17% and 11%, respectively, for VAT-taxable sales activities or imported goods shall have the applicable tax rates adjusted to 16% and 10%, respectively.

According to the *Announcement of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs on Relevant Policies for Deepening the Value-Added Tax Reform* (《財政部、稅務總局、海關總署關於深化增值稅改革有關政策的公告》) the 16% tax rate applicable to the VAT taxable sales or import of goods by a general VAT taxpayer shall be adjusted to 13% and the 10% tax rate applicable thereto shall be adjusted to 9%.

PRC Dividend Withholding Tax

Under the PRC tax laws effective prior to 1 January 2008, dividends paid to foreign investors by foreign-invested enterprises were exempt from PRC withholding tax. Pursuant to the EIT Law and the Implementation Rules, dividends generated after 1 January 2008 and payable by a foreign-invested enterprise in China to its foreign enterprise investors are subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. Under the China-HK Taxation Arrangement, income tax on dividends payable to a company resident in Hong Kong that holds more than a 25% equity interest in a PRC resident enterprise may be reduced to a rate of 5%. In February 2018, the SAT issued the *Announcement on Issues concerning Beneficial Owners in Tax Treaties* (《國家稅務總局關於稅收協定中「受益所有人」有關問題的公告》) (the “**Circular No. 9**”), effective on 1 April 2018, to replace the *Circular of the State Administration of Taxation on the Interpretation and the Determination of the Beneficial Owners in the Tax Treaties* (《國家稅務總局關於如何理解和認定稅收協定中「受益所有人」的通知》), effective from October 2009. Circular No. 9 provides a more elastic guidance to determine whether the applicant engages in substantive business activities. Furthermore, under the *Administrative Measures for Non-Resident Taxpayers to Enjoy Treatments under Tax Treaties* (《非居民納稅人享受稅收協定待遇管理辦法》) (the “**SAT Circular No. 60**”), non-resident taxpayers who satisfy the criteria for entitlement to tax treaty benefits may, at the time of tax declaration or withholding declaration through a withholding agent, enjoy the tax treaty benefits, and be subject to follow-up administration by the tax authorities. Where the non-resident taxpayer does not apply to the withholding agent to claim the tax treaty benefits, or the materials and the information stated in the relevant reports and statements provided to the withholding agent do not satisfy the criteria for entitlement to tax treaty benefits, the withholding agent shall withhold tax pursuant to the provisions of PRC tax laws. The SAT issued the *Announcement of State Taxation Administration on Promulgation of the Administrative Measures on Non-resident Taxpayers Enjoying Treaty Benefits* (《國家稅務總局關於發佈〈非居民納稅人享受協定待遇管理辦法〉的公告》), or SAT Circular No. 35, on 14 October 2019, which became effective on 1 January 2020. The SAT Circular No. 35 further simplified the procedures for enjoying treaty benefits and replaced the SAT Circular No. 60. According to the SAT Circular No. 35, no approvals from the tax authorities are required for a non-resident taxpayer to enjoy treaty benefits, where a non-resident taxpayer self-assesses and concludes that it satisfies the criteria for claiming treaty benefits, it may enjoy treaty benefits at the time of tax declaration or at the time of withholding through the withholding agent, but it shall gather and retain the relevant materials as required for future inspection, and accept follow-up administration by the tax authorities. In addition, according to a tax circular issued by SAT in February 2009, if the main purpose of an offshore arrangement is to obtain a preferential tax treatment, the PRC tax authorities have the discretion to adjust the preferential tax rate enjoyed by the relevant offshore entity.

PRC Stamp Tax

The *Circular on the Stamp Tax Policies relating to Financial Leasing Contracts* (《財政部、國家稅務總局關於融資租賃合同有關印花稅政策的通知》) was promulgated by the MOF and the SAT and came into effect on 24 December 2015. Pursuant to the above circular, financial leasing contracts on financial leasing businesses, including sale-and-leaseback transactions for financing purposes, stamp duty will be calculated at the rate of 0.005% according to the taxable item “loan contract” based on the total rental indicated in the contracts. For sales contracts between the lessor and the lessee in respect of sale-and-leaseback financing businesses, stamp duty will be exempted.

REGULATIONS ON FOREIGN EXCHANGE

The principal regulations governing foreign currency exchange in China are the *Foreign Exchange Administration Regulations of the PRC* (《中華人民共和國外匯管理條例》), most recently amended on 5 August 2008. Under the Foreign Exchange Administration Regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions can be made in foreign currencies without prior approval from SAFE, by complying with certain procedural requirements. However, approval from or registration with appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of foreign currency-denominated loans.

On 29 August 2008, SAFE issued the *Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises* (《關於完善外商投資企業外匯資金支付結匯管理有關業務操作問題的通知》) (the “**SAFE Circular No. 142**”) regulating the conversion by a foreign-invested enterprise of foreign currency-registered capital into Renminbi by restricting how the converted Renminbi may be used. SAFE Circular No. 142 provides that the Renminbi capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable government authority and may not be used for equity investments within China. SAFE also strengthened its oversight of the flow and use of the Renminbi capital converted from foreign currency registered capital of foreign-invested enterprises. The use of such Renminbi capital may not be changed without SAFE’s approval, and such Renminbi capital may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used. On 30 March 2015, SAFE issued the *Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises* (《國家外匯管理局關於改革外商投資企業外匯資金結匯管理方式的通知》) (the “**SAFE Circular No. 19**”), which took effective and replaced SAFE Circular No. 142 on 1 June 2015. Although SAFE Circular No. 19 allows for the use of Renminbi converted from the foreign currency-denominated capital for equity investments in China, the restrictions continue to apply as to foreign-invested enterprises’ use of the converted Renminbi for purposes beyond the business scope, for entrusted loans or for inter-company Renminbi loans. SAFE promulgated the *Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the*

Foreign Exchange Settlement Management Policy of Capital Account (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (the “SAFE Circular No. 16”), effective on 9 June 2016, which reiterates some of the rules set forth in Circular No. 19, but changes the prohibition against using Renminbi capital converted from foreign currency-denominated registered capital of a foreign-invested company to issue Renminbi entrusted loans to a prohibition against using such capital to issue loans to non-associated enterprises. Violations of SAFE Circular No. 19 or SAFE Circular No. 16 could result in administrative penalties. On 23 October 2019, SAFE issued the *Circular Regarding Further Promotion of the Facilitation of Cross-Border Trade and Investment* (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》), pursuant to which all foreign-invested enterprises are allowed to make domestic equity investments with their capital funds in accordance with relevant laws and regulations.

On 19 November 2012, SAFE promulgated the *Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment* (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》) which substantially amends and simplifies the current foreign exchange procedure. Pursuant to this circular, the opening of various special purpose foreign exchange accounts (e.g. pre-establishment expenses accounts, foreign exchange capital accounts and guarantee accounts), the reinvestment of lawful incomes derived by foreign investors in China (e.g. profit, proceeds of equity transfer, capital reduction, liquidation and early repatriation of investment), and purchase and remittance of foreign exchange as a result of capital reduction, liquidation, early repatriation or share transfer in a foreign-invested enterprise no longer require SAFE approval, and multiple capital accounts for the same entity may be opened in different provinces, which was not possible before. In addition, SAFE promulgated the *Circular on Printing and Distributing the Provisions on Foreign Exchange Administration over Domestic Direct Investment by Foreign Investors and the Supporting Documents* (《國家外匯管理局關於印發〈外國投資者境內直接投資外匯管理規定〉及配套文件的通知》) in May 2013, which specifies that the administration by SAFE or its local branches over direct investment by foreign investors in the PRC shall be conducted by way of registration and banks shall process foreign exchange business relating to the direct investment in China based on the registration information provided by SAFE and its branches.

The SAFE promulgated the SAFE Circular No. 37 in July 2014. The SAFE Circular No. 37 requires PRC residents (including PRC institutions and individuals) must register with local branches of SAFE in connection with their direct or indirect offshore investment in an overseas special purpose vehicle (the “SPV”) directly established or indirectly controlled by PRC residents for the purposes of offshore investment and financing with their legally owned assets or interests in domestic enterprises, or their legally owned offshore assets or interests. Such PRC residents are also required to amend their registrations with SAFE when there is a change to the basic information of the SPV, such as changes of a PRC resident individual shareholder, the name or operating period of the SPV, or when there is a significant change to the SPV, such as changes of the PRC individual resident’s increase or decrease of its capital contribution in the SPV, or any share transfer or exchange, merger, division of the SPV.

On 13 February 2015, SAFE promulgated the *Circular on Further Simplifying and Improving the Policies Concerning Foreign Exchange Control on Direct Investment* (《國家外匯

管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “SAFE Circular No. 13”), which took effect on 1 June 2015. SAFE Circular No. 13 delegates the authority to enforce the foreign exchange registration in connection with the inbound and outbound direct investment under relevant SAFE rules to certain banks and therefore further simplifies the foreign exchange registration procedures for inbound and outbound direct investment.

REGULATIONS ON EMPLOYMENT

The *Labor Law of the PRC* (《中華人民共和國勞動法》), effective on 1 January 1995 and subsequently amended on 27 August 2009 and 29 December 2018, the *Employment Contract Law of the PRC* (《中華人民共和國勞動合同法》), effective on 1 January 2008 and subsequently amended on 28 December 2012 and the *Implementing Regulations of the Labor Contract Law of the PRC* (《中華人民共和國勞動合同法實施條例》), effective on 18 September 2008, provide requirements concerning employment contracts between an employer and its employees. If an employer fails to enter into a written employment contract with an employee within one year from the date on which the employment relationship is established, the employer must rectify the situation by entering into a written employment contract with the employee and pay the employee twice the employee’s salary for the period from the day following the lapse of one month from the date of establishment of the employment relationship to the day prior to the execution of the written employment contract. The Labor Contract Law of the PRC and its implementation rules also require compensation to be paid upon certain terminations, which significantly affects the cost of reducing workforce for employers. In addition, if an employer intends to enforce a non-compete provision in an employment contract or non-competition agreement with an employee, it has to compensate the employee on a monthly basis during the term of the restriction period after the termination or expiry of the labor contract. Employers in most cases are also required to provide severance payment to their employees after their employment relationships are terminated.

Enterprises in China are required by PRC laws and regulations to participate in certain employee benefit plans, including social insurance funds, namely a pension plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan and a maternity insurance plan, and a housing provident fund, and contribute to the plans or funds in amounts equal to certain percentages of salaries, including bonuses and allowances, of the employees as specified by the local government from time to time at locations where they operate their businesses or where they are located. According to the *Social Insurance Law of the PRC* (《中華人民共和國社會保險法》), an employer that fails to make social insurance contributions may be ordered to pay the required contributions within a stipulated deadline and be subject to a late fee. If the employer still fails to rectify the failure to make social insurance contributions within the stipulated deadline, it may be subject to a fine ranging from one to three times the amount overdue. According to the *Regulations on Management of Housing Fund* (《住房公積金管理條例》), an enterprise that fails to make housing fund contributions may be ordered to rectify the noncompliance and pay the required contributions within a stipulated deadline; otherwise, an application may be made to a local court for compulsory enforcement.

The following is the text of a report set out on pages III-1 to III-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF QINGDAO HOLDINGS INTERNATIONAL LIMITED

Introduction

We report on the historical financial information of Qingdao Urban and Rural Development Financial Leasing Co., Ltd. (the "Target") and its subsidiaries (together, the "Target Group") set out on pages III-4 to III-80, which comprises the consolidated and company statements of financial position as at 31 December 2017, 2018 and 2019 and 31 October 2020, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2017, 2018 and 2019 and the ten months ended 31 October 2020 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages III-4 to III-80 forms an integral part of this report, which has been prepared for inclusion in the circular of Qingdao Holdings International Limited (the "Company") dated 24 March 2021 (the "Circular") in connection with the proposed acquisition of the Target by the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The consolidated financial statements of the Target Group for the Track Record Period ("Underlying Financial Statements"), on which the Historical Financial Information is based, were prepared by the directors of the Target. The directors of the Target are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and for such internal control as the directors

determine is necessary to enable the preparation of Underlying Financial Statements that are free from material misstatement, whether due to fraud or error.

Reporting accountant’s responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants’ Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant’s judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant’s report, a true and fair view of the financial positions of the Target as at 31 December 2017, 2018 and 2019 and 31 October 2020, the consolidated financial positions of the Target Group as at 31 December 2017, 2018 and 2019 and 31 October 2020 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Target Group which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the ten months ended 31 October 2019 and other explanatory information (the “Stub Period Comparative

Financial Information”). The directors of the Company are responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant’s report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements have been made.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

24 March 2021

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

I HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The consolidated financial statements of the Target Group for the Track Record period (Underlying Financial Statements), on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in Renminbi except when otherwise indicated.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED 31 DECEMBER 2017, 2018, 2019 AND TEN MONTHS ENDED 31 OCTOBER 2019 AND 2020

(All amounts in RMB unless otherwise stated)

| | | Year ended 31 December | | | Ten months ended 31 October | |
|---|-------|------------------------|---------------|---------------|-----------------------------|---------------|
| | | 2017 | 2018 | 2019 | 2019 | 2020 |
| | Notes | RMB | RMB | RMB | RMB | RMB |
| | | | | | (Unaudited) | |
| Revenue | | | | | | |
| Interest income from sale and leaseback transactions | 5 | 588,571,189 | 860,801,371 | 1,147,067,173 | 933,897,510 | 1,110,983,252 |
| Interest income from factoring | 5 | – | – | 6,396,639 | 2,393,033 | 56,250,637 |
| Finance lease income | 5 | 3,441,561 | 3,286,906 | 3,479,268 | 2,556,346 | 7,384,230 |
| Others | 5 | 2,451,565 | 2,451,565 | 369,398 | – | 7,997,817 |
| | | 594,464,315 | 866,539,842 | 1,157,312,478 | 938,846,889 | 1,182,615,936 |
| Depreciation | 6 | (3,415,891) | (3,124,498) | (3,788,764) | (3,002,149) | (4,839,131) |
| Interest expenses | 7 | (344,260,234) | (477,824,029) | (607,764,588) | (465,031,660) | (551,266,788) |
| Other income, gains or losses | 8 | 168,138,336 | 57,193,406 | 39,800,386 | 22,483,451 | 14,996,703 |
| Administrative expenses | 9 | (63,330,827) | (67,220,534) | (84,122,408) | (44,624,294) | (43,347,433) |
| Credit impairment losses | 10 | (56,350,631) | (24,735,746) | (50,527,675) | (85,463,599) | (101,736,754) |
| Profit before income tax | | 295,245,068 | 350,828,441 | 450,909,429 | 363,208,638 | 496,422,533 |
| Income tax expenses | 12 | (73,998,535) | (90,259,185) | (113,984,362) | (90,861,930) | (123,171,395) |
| Net profit attributable to shareholders of the Company | | 221,246,533 | 260,569,256 | 336,925,067 | 272,346,708 | 373,251,138 |
| Other comprehensive income | | – | – | – | – | – |
| Total comprehensive income attributable to shareholders of the Company | | 221,246,533 | 260,569,256 | 336,925,067 | 272,346,708 | 373,251,138 |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2017, 2018, 2019 AND 31 OCTOBER 2020 (All amounts in RMB unless otherwise stated)

| | | As at 31 December | | | As at 31 October |
|--|-------|-----------------------|-----------------------|-----------------------|-----------------------|
| | | 2017 | 2018 | 2019 | 2020 |
| | Notes | RMB | RMB | RMB | RMB |
| Assets | | | | | |
| Non-current assets | | | | | |
| Property and equipment | 14 | 2,048,947 | 1,860,350 | 67,237,887 | 112,897,968 |
| Investment properties | 15 | 36,468,072 | 34,485,560 | – | – |
| Intangible assets | | 585,213 | 679,553 | 703,673 | 350,872 |
| Loans and receivables | 16 | 6,670,219,979 | 8,415,197,814 | 10,116,351,625 | 9,843,592,676 |
| Finance lease receivables | 17 | 29,588,260 | 21,254,594 | 11,010,142 | 14,836,764 |
| Deferred income tax assets | 19 | 99,970,038 | 127,120,616 | 142,068,262 | 135,277,030 |
| Other assets | 20 | 17,930,283 | 17,726,446 | 22,105,944 | 35,210,416 |
| Cash and bank balances | 21 | – | – | 154,000,000 | 204,000,000 |
| Total non-current assets | | 6,856,810,792 | 8,618,324,933 | 10,513,477,533 | 10,346,165,726 |
| Current assets | | | | | |
| Loans and receivables | 16 | 2,468,425,358 | 3,058,763,270 | 5,032,311,950 | 5,470,956,317 |
| Finance lease receivables | 17 | 10,108,257 | 11,368,260 | 42,494,893 | 136,945,636 |
| Financial assets at fair value through profit or loss | 18 | 775,000,000 | – | 4,440,000 | – |
| Other assets | 20 | 4,548,249 | 2,065,708 | 20,416,608 | 41,422,870 |
| Cash and bank balances | 21 | 444,561,069 | 691,794,124 | 459,681,926 | 412,307,525 |
| Total current assets | | 3,702,642,933 | 3,763,991,362 | 5,559,345,377 | 6,061,632,348 |
| Total assets | | 10,559,453,725 | 12,382,316,295 | 16,072,822,910 | 16,407,798,074 |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

| | | As at 31 December | | | As at 31 October |
|--------------------------------------|----|-----------------------|-----------------------|-----------------------|-----------------------|
| | | 2017 | 2018 | 2019 | 2020 |
| | | RMB | RMB | RMB | RMB |
| Notes | | | | | |
| Liabilities | | | | | |
| Non-current liabilities | | | | | |
| Borrowings | 22 | 5,841,014,750 | 3,335,433,708 | 2,473,969,304 | 1,656,690,260 |
| Bonds payable | 23 | 304,523,919 | 571,504,098 | 2,779,755,589 | 6,430,861,014 |
| Other liabilities | 24 | 568,676,143 | 830,848,990 | 1,059,880,738 | 1,154,552,300 |
| Total non-current liabilities | | 6,714,214,812 | 4,737,786,796 | 6,313,605,631 | 9,242,103,574 |
| Current liabilities | | | | | |
| Borrowings | 22 | 951,486,675 | 3,952,112,317 | 4,335,521,969 | 2,074,167,715 |
| Bonds payable | 23 | 207,865,327 | 918,164,595 | 2,390,481,383 | 1,932,285,363 |
| Other liabilities | 24 | 858,611,397 | 716,673,222 | 639,238,105 | 415,098,225 |
| Income tax payable | | 61,542,011 | 31,276,606 | 30,747,996 | 7,664,233 |
| Total current liabilities | | 2,079,505,410 | 5,618,226,740 | 7,395,989,453 | 4,429,215,536 |
| Total liabilities | | 8,793,720,222 | 10,356,013,536 | 13,709,595,084 | 13,671,319,110 |
| Equity | | | | | |
| Paid-in Capital | 25 | 1,312,274,413 | 1,312,274,413 | 1,312,274,413 | 1,312,274,413 |
| Capital reserve | 25 | 241,732,062 | 241,732,062 | 241,732,062 | 241,732,062 |
| Statutory surplus reserves | 26 | 57,493,724 | 85,881,156 | 118,913,435 | 118,913,435 |
| Retained earnings | | 154,233,304 | 386,415,128 | 690,307,916 | 1,063,559,054 |
| Total equity | | 1,765,733,503 | 2,026,302,759 | 2,363,227,826 | 2,736,478,964 |
| Total equity and liabilities | | 10,559,453,725 | 12,382,316,295 | 16,072,822,910 | 16,407,798,074 |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

STATEMENTS OF FINANCIAL POSITION OF THE TARGET AS AT 31 DECEMBER 2017, 2018, 2019 AND 31 OCTOBER 2020 (All amounts in RMB unless otherwise stated)

| | | As at 31 December | | | As at 31 October |
|--|-------|-----------------------|-----------------------|-----------------------|-----------------------|
| | | 2017 | 2018 | 2019 | 2020 |
| | Notes | RMB | RMB | RMB | RMB |
| Assets | | | | | |
| Non-current assets | | | | | |
| Investment in subsidiaries | 13 | 882,928,445 | 882,928,445 | 912,908,445 | 912,908,445 |
| Property and equipment | 14 | 1,115,600 | 986,718 | 1,082,689 | 884,160 |
| Intangible assets | | 585,213 | 679,553 | 703,673 | 350,872 |
| Loans and receivables | 16 | 5,162,377,461 | 7,068,295,357 | 9,189,689,610 | 8,905,365,602 |
| Finance lease receivables | 17 | 29,588,260 | 21,254,594 | 9,838,534 | 2,200,163 |
| Deferred income tax assets | 19 | 75,528,891 | 106,843,480 | 120,649,348 | 122,233,115 |
| Other assets | 20 | 15,998,429 | 915,567,487 | 159,728,619 | 241,034,872 |
| Cash and bank balances | 21 | – | – | 154,000,000 | 204,000,000 |
| Total non-current assets | | 6,168,122,299 | 8,996,555,634 | 10,548,600,918 | 10,388,977,229 |
| Current assets | | | | | |
| Loans and receivables | 16 | 1,977,815,897 | 2,597,377,342 | 4,123,572,384 | 4,331,777,606 |
| Finance lease receivables | 17 | 10,108,257 | 11,368,260 | 11,497,944 | 10,272,266 |
| Financial assets at fair value through profit or loss | 18 | 775,000,000 | – | – | – |
| Other assets | 20 | 1,007,380,376 | 16,894,285 | 554,770,643 | 712,634,211 |
| Cash and bank balances | 21 | 433,302,042 | 547,862,821 | 352,175,539 | 348,047,300 |
| Total current assets | | 4,203,606,572 | 3,173,502,708 | 5,042,016,510 | 5,402,731,383 |
| Total assets | | 10,371,728,871 | 12,170,058,342 | 15,590,617,428 | 15,791,708,612 |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

| | | As at 31 December | | | As at 31 October |
|--------------------------------------|-------|-----------------------|-----------------------|-----------------------|-----------------------|
| | | 2017 | 2018 | 2019 | 2020 |
| | Notes | RMB | RMB | RMB | RMB |
| Liabilities | | | | | |
| Non-current liabilities | | | | | |
| Borrowings | 22 | 5,840,842,126 | 3,230,392,302 | 2,399,969,305 | 1,577,830,148 |
| Bonds payable | 23 | 304,523,919 | 571,504,098 | 2,779,755,589 | 6,430,861,014 |
| Other liabilities | 24 | 486,793,359 | 745,016,966 | 993,131,616 | 1,050,529,503 |
| Total non-current liabilities | | 6,632,159,404 | 4,546,913,366 | 6,172,856,510 | 9,059,220,665 |
| Current liabilities | | | | | |
| Borrowings | 22 | 951,366,988 | 3,896,712,350 | 4,213,135,229 | 1,894,248,521 |
| Bonds payable | 23 | 207,865,327 | 918,164,595 | 2,390,481,383 | 1,932,285,363 |
| Other liabilities | 24 | 817,764,460 | 865,345,356 | 564,640,494 | 386,748,625 |
| Income tax payable | | 40,799,672 | 26,071,059 | 25,628,703 | 7,287,026 |
| Total current liabilities | | 2,017,796,447 | 5,706,293,360 | 7,193,885,809 | 4,220,569,535 |
| Total liabilities | | 8,649,955,851 | 10,253,206,726 | 13,366,742,319 | 13,279,790,200 |
| Equity | | | | | |
| Paid-in Capital | 25 | 1,312,274,413 | 1,312,274,413 | 1,312,274,413 | 1,312,274,413 |
| Capital reserve | 25 | 241,732,063 | 241,732,063 | 241,732,063 | 241,732,063 |
| Statutory surplus reserves | 26 | 57,493,724 | 85,881,155 | 118,913,435 | 118,913,435 |
| Retained earnings | | 110,272,820 | 276,963,985 | 550,955,198 | 838,998,501 |
| Total equity | | 1,721,773,020 | 1,916,851,616 | 2,223,875,109 | 2,511,918,412 |
| Total equity and liabilities | | 10,371,728,871 | 12,170,058,342 | 15,590,617,428 | 15,791,708,612 |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2017, 2018, 2019 AND TEN MONTHS ENDED 31 OCTOBER 2019 AND 2020

(All amounts in RMB unless otherwise stated)

| | Paid-in capital RMB | Capital reserve RMB | Statutory surplus reserve RMB | Retained earnings RMB | Total RMB |
|---|---------------------------|---------------------------|--|-----------------------------|----------------------|
| As at 1 January 2017 | 1,312,274,413 | 241,732,062 | 37,132,213 | 153,348,282 | 1,744,486,970 |
| Total comprehensive income | | | | | |
| – Profit for the year | – | – | – | 221,246,533 | 221,246,533 |
| Profit distribution | | | | | |
| – Profit distribution to shareholders | – | – | – | (200,000,000) | (200,000,000) |
| – Appropriation to statutory surplus reserves | – | – | 20,361,511 | (20,361,511) | – |
| As at 31 December 2017 | <u>1,312,274,413</u> | <u>241,732,062</u> | <u>57,493,724</u> | <u>154,233,304</u> | <u>1,765,733,503</u> |
| As at 1 January 2018 | 1,312,274,413 | 241,732,062 | 57,493,724 | 154,233,304 | 1,765,733,503 |
| Total comprehensive income | | | | | |
| – Profit for the year | – | – | – | 260,569,256 | 260,569,256 |
| Profit distribution | | | | | |
| –Appropriation to surplus reserves | – | – | 28,387,432 | (28,387,432) | – |
| As at 31 December 2018 | <u>1,312,274,413</u> | <u>241,732,062</u> | <u>85,881,156</u> | <u>386,415,128</u> | <u>2,026,302,759</u> |
| As at 1 January 2019 | 1,312,274,413 | 241,732,062 | 85,881,156 | 386,415,128 | 2,026,302,759 |
| Total comprehensive income | | | | | |
| –Profit for the year | – | – | – | 336,925,067 | 336,925,067 |
| Profit distribution | | | | | |
| –Appropriation to surplus reserves | – | – | 33,032,279 | (33,032,279) | – |
| As at 31 December 2019 | <u>1,312,274,413</u> | <u>241,732,062</u> | <u>118,913,435</u> | <u>690,307,916</u> | <u>2,363,227,826</u> |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

| | Paid-in capital <i>RMB</i> | Capital reserve <i>RMB</i> | Statutory surplus reserve <i>RMB</i> | Retained earnings <i>RMB</i> | Total <i>RMB</i> |
|-------------------------------------|----------------------------------|----------------------------------|---|------------------------------------|----------------------|
| As at 1 January 2019 | 1,312,274,413 | 241,732,062 | 85,881,156 | 386,415,128 | 2,026,302,759 |
| Total comprehensive income | | | | | |
| – Profit for the period (unaudited) | – | – | – | 272,346,708 | 272,346,708 |
| As at 31 October 2019 (unaudited) | <u>1,312,274,413</u> | <u>241,732,062</u> | <u>85,881,156</u> | <u>658,761,836</u> | <u>2,298,649,467</u> |
| As at 1 January 2020 | 1,312,274,413 | 241,732,062 | 118,913,435 | 690,307,916 | 2,363,227,826 |
| Total comprehensive income | | | | | |
| – Profit for the period | – | – | – | 373,251,138 | 373,251,138 |
| As at 31 October 2020 | <u>1,312,274,413</u> | <u>241,732,062</u> | <u>118,913,435</u> | <u>1,063,559,054</u> | <u>2,736,478,964</u> |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER 2017, 2018, 2019 AND TEN MONTHS ENDED 31 OCTOBER 2019 AND 2020

(All amounts in RMB unless otherwise stated)

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|------------------------|------------------------|------------------------|-----------------------------|----------------------|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB | RMB |
| | | | | (unaudited) | |
| Profit before income tax | 295,245,068 | 350,828,441 | 450,909,429 | 363,208,638 | 496,422,533 |
| Adjustments for: | | | | | |
| Interest expenses | 344,260,234 | 477,824,029 | 607,764,588 | 465,031,660 | 551,266,788 |
| Investment gains on financial investment | (141,263,471) | (48,336,603) | (4,200,564) | (3,818,575) | (1,577,807) |
| Depreciation and amortisation | 3,415,891 | 3,124,498 | 3,788,764 | 3,002,149 | 4,839,131 |
| Impairment losses recognised | 56,350,631 | 24,735,746 | 50,527,675 | 85,463,599 | 101,736,754 |
| Foreign exchange losses/(gains), net | (1,440,554) | 77,004 | 87,844 | 72,100 | 55,413 |
| Operating cash flows before movements in working capital | <u>556,567,799</u> | <u>808,253,115</u> | <u>1,108,877,736</u> | <u>912,959,571</u> | <u>1,152,742,812</u> |
| Decrease/(increase) in finance lease receivables | 879,094 | 7,073,663 | (20,882,181) | (21,518,486) | (98,277,365) |
| Increase in loans and receivables | (4,406,192,766) | (2,335,315,747) | (3,674,702,491) | (3,382,499,542) | (165,885,418) |
| Decrease/(increase) in accounts receivable | 88,936,279 | (579,745) | 335,528 | (4,043,876) | (23,858,719) |
| Decrease/(increase) in other operating assets | 4,246,450 | 3,566,967 | (7,825,022) | (5,868,767) | (17,511,514) |
| Increase/(decrease) in other operating liabilities | <u>150,275,774</u> | <u>384,518,985</u> | <u>292,240,210</u> | <u>100,458,732</u> | <u>(120,601,521)</u> |
| Cash (used in)/generated from operations | <u>(3,605,287,370)</u> | <u>(1,132,482,762)</u> | <u>(2,301,956,220)</u> | <u>(2,400,512,368)</u> | <u>726,608,275</u> |
| Income taxes paid, net | (102,290,180) | (142,332,286) | (121,709,144) | (121,709,144) | (139,458,772) |
| Net cash (outflow)/inflow from operating activities | <u>(3,707,577,550)</u> | <u>(1,274,815,048)</u> | <u>(2,423,665,364)</u> | <u>(2,522,221,512)</u> | <u>587,149,503</u> |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

| | Year ended 31 December | | | Ten months ended 31 October | |
|--|------------------------|--------------------|----------------------|-----------------------------|----------------------|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB | RMB |
| | | | | (unaudited) | |
| Investing activities | | | | | |
| Redemption of financial investments | 7,766,860,000 | 6,629,000,000 | 6,851,450,000 | 5,786,900,000 | 3,193,610,000 |
| Income received from financial investments | 243,531,695 | 11,039,912 | 4,452,598 | 4,047,690 | 1,672,476 |
| Disposal of property and equipment | – | – | 880 | 80 | 317,147 |
| Purchase and construction of property and equipment | (1,322,164) | (587,254) | (1,177,794) | (1,094,448) | (22,440,178) |
| Purchase of financial investments | (6,809,860,000) | (5,855,000,000) | (6,856,890,000) | (5,843,900,000) | (3,189,170,000) |
| Net cash inflow/(outflow) from investing activities | 1,199,209,531 | 784,452,658 | (2,164,316) | (54,046,678) | (16,010,555) |
| Financing activities | | | | | |
| Proceeds from borrowings and bonds | 4,801,221,569 | 3,201,088,731 | 10,266,091,741 | 6,570,554,381 | 9,201,343,340 |
| Amounts borrowed from related parties | 1,800,000,000 | 300,000,000 | 2,900,000,000 | 2,750,000,000 | 2,725,000,000 |
| Repayment of borrowings and bonds | (2,627,040,780) | (2,218,492,157) | (7,903,118,033) | (4,620,520,019) | (9,646,323,138) |
| Dividends paid | (54,285,921) | – | – | – | – |
| Amounts repaid to related parties | (1,300,000,000) | (500,000,000) | (3,092,756,250) | (1,643,794,128) | (2,838,533,500) |
| Net cash inflow/(outflow) from financing activities | 2,619,894,868 | 782,596,574 | 2,170,217,458 | 3,056,240,234 | (558,513,298) |
| Net increase/(decrease) in cash and cash equivalents | 111,526,849 | 292,234,184 | (255,612,222) | 479,972,044 | 12,625,650 |
| Cash and cash equivalents at the beginning of the financial year/period | 251,536,248 | 363,061,069 | 655,294,124 | 655,294,124 | 399,681,926 |
| Effects of exchange rate changes on cash and cash equivalents | (2,028) | (1,129) | 24 | 39 | (51) |
| Cash and cash equivalents at the end of the financial year/period | 363,061,069 | 655,294,124 | 399,681,926 | 1,135,266,207 | 412,307,525 |

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(All amounts in RMB unless otherwise stated)

1 GENERAL INFORMATION

Qingdao Urban and Rural Development Financial Leasing Co., Limited (the “Target”) was incorporated in Qingdao, the People’s Republic of China (the “PRC”) on 11 June 2014 as a limited liability company. The Target obtained the business license issued by Qingdao Administration of Industry and Commerce of the People’s Republic of China on 11 June 2014. The Target carries out business as approved by the Ministry of Commerce of the PRC according to the Administrative Measures on Supervision of Financial Leasing Companies. The Target’s approved scope of business includes financial leases and factoring, operating lease, economic information consulting service, and sales of Class III medical devices. In order to further strengthen the supervision and management of leasing companies for financing purpose, standardise their business conduct, prevent and mitigate risks, and promote the orderly development of the industry, the China Banking and Insurance Regulatory Commission (the “CBIRC”) issued the Provisional Rules on Leasing Companies for Financing Purpose (hereinafter referred to as the “Rules”). The Rules came into effect on 26 May 2020.

The Target established a wholly owned subsidiary, Qingdao Rongsheng New Energy Co. Ltd (“Rongsheng”) on 24 September 2019. Rongsheng’s approved scope of business is new energy technology development, equity investment, development, construction, operation and maintenance of photovoltaic power generation projects, small hydropower projects, geothermal energy generation projects and related equipment trade, installation services. During the year ended 31 December 2019 and ten months ended 31 October 2020, Rongsheng acquired 100% paid-in capital of four companies, namely Jiangmen Jieyang New Energy Investment Co., Ltd (“Jiangmen”), Changzhou Lanhuang New Energy Technology Co., Ltd. (“Changzhou”), Ningbo Andi Power Development Co., Ltd. (“Ningbo”) and Weifang Yuhwang New Energy Co., Ltd. (“Weifang”). The detailed information of the acquisition is provided in Note 13.

The address of the Target’s registered office is Room 410, Tower 3, No. 20 Shangqing Road, Shi Bei District, Qingdao, Shandong Province, the PRC.

The ultimate parent of the Target is Qingdao City Construction Investment (Group) Company Limited, a company established in the PRC with limited liability and wholly owned by the State-owned Assets Supervision & Administration Commission of Qingdao Municipal Government (青島市人民政府國有資產監督管理委員會).

The Target and its subsidiaries are collectively referred to as “the Target Group”. The information of the Target’s subsidiaries is provided in Note 13.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the years/periods presented, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information of the Target Group has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), issued by the Hong Kong Institution of Certified Public Accountants (“HKICPA”) and requirements of the Hong Kong Companies Ordinance Cap 622.

The Historical Financial Information has been prepared on a historical cost basis, except for certain financial assets which have been measured at fair value.

The preparation of the Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 3.

The Target Group has applied all effective standards and amendments to HKFRS for 31 October 2020 financial period, including HKFRS 9 “Financial instruments” (“HKFRS 9”), HKFRS 15 “Revenue from Contracts with Customers” (“HKFRS 15”) and HKFRS 16 “Leases” (“HKFRS 16”) consistently throughout the Track Record Period.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 October 2020 financial period and have not been early adopted by the Target Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Principles of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Target Group has control. The Target Group controls an entity where the Target Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Target Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Target Group.

(b) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred,
- liabilities incurred to the former owners of the acquired business,
- equity interests issued by the Target Group,
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Target on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiaries in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the Historical Financial Information of the investee's net assets including goodwill.

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the Historical Financial Information of the Target Group are measured using the currency of the primary economic environment in which the Target Group operates (the "functional currency"). The Historical Financial Information are presented in Renminbi ("RMB"), which is the Target's functional and presentation currency.

(b) *Translation and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other gains/(losses).

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

Currently, the Target Group operates its business as one single segmentation. No separate segment information is necessary to be disclosed.

2.6 Revenue

Revenue comprises the fair value of the consideration received or receivable. The Target Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Target Group's activities as described below:

(i) *Finance lease income*

The Target Group's accounting policy for recognition of revenue from finance leases is described in the accounting policy for leases (Note 2.19).

(ii) Interest income

Interest income from a financial asset at amortised cost is accrued on a timely basis using the effective interest method, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

(iii) Rental income

The Target Group's accounting policy for recognition of rental income is described in the accounting policy for lease (Note 2.19).

2.7 Property and equipment

The Target Group's property and equipment mainly comprise buildings, furniture and office equipment, solar photovoltaic power station and motor vehicles.

Buildings are recognised at fair value based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. A revaluation surplus is credited to other reserves in shareholders' equity.

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated on the straight-line method to allocate the cost of such assets, net of their residual values over their estimated useful lives. For the assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, depreciation rate and estimated residual value rate of property and equipment are as follows:

| Type of assets | Estimated net residual rate | Estimated useful lives of the assets | Depreciation rate |
|----------------------------------|------------------------------------|---|--------------------------|
| Buildings | 5% | 20 years | 4.75% |
| Furniture and office equipment | 5% | 3–5 years | 19.00%–31.67% |
| Solar photovoltaic power station | 5% | 20 years | 4.75% |
| Motor vehicles | 5% | 5–10 years | 9.50%–19.00% |

The estimated useful life, the estimated residual value and the depreciation method applied to an asset are reviewed, and adjusted as appropriate by the Target Group at the end of each reporting period.

Property and equipment are derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of property and equipment net of their carrying amount and related taxes and expenses is recognised in the profit or loss. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount as set out in Note 2.10.

2.8 Investment properties

Investment property is property held to earn rental income. Investment property is initially measured at its acquisition cost and subsequently measured using the cost model. Depreciation and amortisation is recognised the same way as buildings in property and equipment. The accounting policies of impairment of investment property are included in Note 2.10. When an investment property is sold, transferred, retired or damaged, the Target Group recognises the amount of any proceeds on disposal, net of the carrying amount and related expenses, in the consolidated income statement.

2.9 Intangible assets

Intangible assets comprise of computer software, which are initially recognised at cost. The cost less estimated residual values (if any) of the intangible assets is amortised on a straight-line basis over their useful lives, and charged to the profit or loss. Impaired intangible assets are amortised net of accumulated impairment losses. The estimated useful lives of computer software are 2 years. Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 2.10.

2.10 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.11 Financial assets

(a) Classification and measurement

The Target Group classifies its financial assets in the following measurement categories, which depends on the Target Group's business model for managing the financial assets and the contractual terms of the cash flows:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer’s perspective, such as loans and receivables. Subsequent measurement of debt instruments depends on the Target Group’s business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Target Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (“SPPI”), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in Note 4.1 (b).
- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets’ cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument’s amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses).
- **Fair value through profit or loss:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within other gains/(losses) in the period in which it arises.

Business model: the business model reflects how the Target Group manages the assets in order to generate cash flows. That is, whether the Target Group’s objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of other business model and measured at FVPL.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Target Group assesses whether the financial instruments’ cash flows represent solely payments of principal and interest (the “SPPI test”). In making this assessment, the Target Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Target Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Target Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Target Group has transferred substantially all the risks and rewards of ownership.

(c) Impairment

The Target Group assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost and FVOCI. The Target Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 4.1(b) provides more detail of how the expected credit loss allowance is measured.

(d) Derecognition

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Target Group transfers substantially all the risks and rewards of ownership, or (ii) the Target Group neither transfers nor retains substantially all the risks and rewards of ownership and the Target Group has not retained control.

2.12 Financial liabilities

Financial liabilities are classified into the following categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities carried at amortised cost. The Target Group only has financial liabilities in the following category: other financial liabilities carried at amortised cost.

A financial liability is recognised on trade-date, the date when the Target Group becomes a party to the contractual provisions of the instrument.

Financial liabilities are derecognised when they are extinguished, that is, when the obligation is discharged, cancelled or expires. The difference between the carrying amount of a financial liability derecognised and the consideration paid is recognised in profit or loss.

Other financial liabilities carried at amortised cost are initially recognised at fair value less transaction costs, and are subsequently measured at amortised cost using the effective interest method. Transaction costs and fees of other financial liabilities carried at amortised cost are included in calculating amortised cost using the effective interest method.

The Target Group's other financial liabilities carried at amortised cost mainly comprise "Borrowings", "Bonds Payable" and "Other liabilities" in the statement of financial position. Other financial liabilities carried at amortised cost are classified as current liabilities unless the Target Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.15 Paid-in capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, from the proceeds.

2.16 Borrowings and borrowing costs

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as cost.

Borrowings are classified as current liabilities unless the Target Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

2.17 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Target and its subsidiary operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) *Deferred income tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Target is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.18 Employee benefits

Employee benefits mainly include salaries, bonus, allowances and subsidies, staff welfare benefits, social security contributions and housing funds, labour union funds, employee education funds and other expenditures incurred in exchange for service rendered by employees. Salary and welfare are expensed in operating expenses in the accounting period of services rendered.

A defined contribution scheme is a pension or social security plan under which the Target Group pays fixed contributions into a separate entity. The Target Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. During the year, the Target Group's post-employment schemes mainly include basic pension insurance.

In accordance with the relevant laws and regulations, domestic employees of the Target Group participate in various social insurance schemes such as basic pension insurance, medical insurance, housing fund schemes and other social security schemes. Insurance expenses and pensions are calculated based on certain percentage of gross salary and are paid to the Labour and Social Security Bureau, and insurance companies, etc. The contribution ratios are defined by stipulating regulations or commercial contracts, which should be no higher than statutory upper ceilings. Contributions are recognised in the profit or loss for the current period.

2.19 Leases

(a) *The Target Group as lessor*

Leases where the lessor has transferred substantially all the risks and rewards of ownership are classified as finance leases. All leases other than finance leases are classified as operating leases. Rental income under an operating lease is recognised on a straight-line basis over the period of the lease in profit or loss.

On the beginning date of the lease term, the Target Group, as the lessor of the finance lease, recognises the aggregate of the minimum lease receipts and initial direct costs on the lease inception date, and record the unguaranteed residual value at the same time. The difference between the aggregate of the minimum lease receipts, the initial direct costs and the unguaranteed residual value and their present value shall be recognised as unrealised finance income.

Finance lease receivables are derecognised when the contractual rights of receiving the cash from the finance lease receivables have expired or have been transferred, and all substantial risks and rewards regarding the lease have been transferred.

The Target Group periodically reviews the unguaranteed residual values. If there is evidence of a reduction in the unguaranteed residual value, the interest rate implicit in the lease will be re-calculated and the finance income for subsequent periods will be recognised on the basis of the revised net investment in the lease and the recalculated implicit interest rate.

The unrealised finance income is recognised in the finance income for the current period during the lease term by using the effective interest rate method.

(b) The Target Group as lessee

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Target Group. Each lease payment is allocated between the liability and cost. The cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the implicit interest rate in the leases. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;

- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

As at 31 December 2017, 2018, 2019 and 31 October 2020, the Target Group does not provide residual value guarantees in relation to property leases.

2.20 Sale and leaseback transactions

The Target Group applies the requirements of HKFRS 15 to assess whether sale and leaseback transaction constitutes a sale by the Target Group.

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

For a transfer of asset that satisfies the requirements of HKFRS 15 to be accounted for as a sale of asset, the Target Group as a buyer-lessor accounts for the purchase of the asset applying applicable standards, and for the lease applying the lessor accounting requirements in accordance with HKFRS 16.

2.21 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Target Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.22 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Target Group makes estimates concerning the future. The resulting accounting estimates will, by definition, rarely equal to the related actual results. The estimates that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

(a) Credit impairment of financial assets

The measurement of the ECL allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 4.1 (b).

A number of significant judgements and estimates are also required in applying the accounting requirements for measuring ECL, such as:

- Selection of appropriate model and determination of relevant key measurement parameters;
- Criteria for determining whether or not there was a significant increase in credit risk, or a default or credit-impaired was incurred;
- Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings;
- The estimated future cash flows for loans and receivables in stage 3.

(b) Sale and leaseback transactions

The Target Group enters into certain sale and leaseback transactions with sellers, whereby an asset is transferred to the Target Group and then leased back by the same seller. The transfer of an asset qualifies as a sale if the Target Group obtains control of the asset. As the Target Group does not obtain control of the assets in transfer, the transfer does not qualify as sale. The transactions are, in substance, financing arrangements. Transfer proceeds are recognised as a financial asset and HKFRS 9 is applied to account for lease receipts. The determination of whether the Target Group obtains control of the assets in transfer involves critical judgements by management.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Target Group's activities expose it to a variety of financial risks: market risk (mainly including interest rate risk), credit risk and liquidity risk. The Target Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance.

Risk management is carried out by finance department, commerce department etc. under policies approved by the board of directors. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as credit risk and investment of excess liquidity.

(a) Interest rate risk

The Target Group's exposure to the risk of changes in market interest rate primarily relates to its finance lease receivables, loans and receivables, and bank borrowings with a floating interest rate to the Target Group.

The Target Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

The Target Group conducts most of its businesses including loans and receivables and finance lease receivables at benchmark interest rates published by the People's Bank of China ("PBOC"). On 20 August 2019, the first quoted price established according to the new mechanism of the Loan Prime Rate ("LPR") was formally launched. The newly launched loans and receivables, finance lease receivables were mainly priced with reference to the LPR since 1 January 2020.

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

The table below presents the contractual re-pricing dates or the residual maturities of the financial assets and liabilities (whichever are earlier):

| | Less than 3 months <i>RMB</i> | Between 3 and 12 months <i>RMB</i> | Between 1 and 5 years <i>RMB</i> | Over 5 years <i>RMB</i> | Non-interest bearing <i>RMB</i> | Total <i>RMB</i> |
|--|-------------------------------------|--|--|----------------------------|---------------------------------------|-----------------------|
| At 31 October 2020 | | | | | | |
| Loans and receivables | 14,007,614,515 | 702,691,647 | 604,242,831 | – | – | 15,314,548,993 |
| Finance lease receivables | 151,782,400 | – | – | – | – | 151,782,400 |
| Other assets | – | – | – | – | 25,073,052 | 25,073,052 |
| Cash and bank balances | 412,284,517 | – | 204,000,000 | – | 23,008 | 616,307,525 |
| Sub-total | 14,571,681,432 | 702,691,647 | 808,242,831 | – | 25,096,060 | 16,107,711,970 |
| Borrowings | 1,295,171,545 | 1,018,767,822 | 1,416,918,608 | – | – | 3,730,857,975 |
| Bonds payable | 495,319,591 | 1,399,008,490 | 6,468,818,296 | – | – | 8,363,146,377 |
| Other liabilities | – | – | – | – | 1,140,128,918 | 1,140,128,918 |
| Sub-total | 1,790,491,136 | 2,417,776,312 | 7,885,736,904 | – | 1,140,128,918 | 13,234,133,270 |
| Interest rate gap | 12,781,190,296 | (1,715,084,665) | (7,077,494,073) | – | (1,115,032,858) | 2,873,578,700 |
| At 31 December 2019 | | | | | | |
| Loans and receivables | 13,249,522,195 | 851,969,309 | 1,047,172,071 | – | – | 15,148,663,575 |
| Finance lease receivables | 53,505,035 | – | – | – | – | 53,505,035 |
| Financial assets at fair value through profit or loss | 4,440,000 | – | – | – | – | 4,440,000 |
| Other assets | – | – | – | – | 32,332,551 | 32,332,551 |
| Cash and bank balances | 399,670,892 | 60,000,000 | 154,000,000 | – | 11,034 | 613,681,926 |
| Sub-total | 13,707,138,122 | 911,969,309 | 1,201,172,071 | – | 32,343,585 | 15,852,623,087 |
| Borrowings | 4,349,021,153 | 1,441,389,396 | 1,019,080,724 | – | – | 6,809,491,273 |
| Bonds payable | 438,872,928 | 1,951,608,455 | 2,779,755,589 | – | – | 5,170,236,972 |
| Other liabilities | 110,000,000 | – | – | – | 1,076,007,085 | 1,186,007,085 |
| Sub-total | 4,897,894,081 | 3,392,997,851 | 3,798,836,313 | – | 1,076,007,085 | 13,165,735,330 |
| Interest rate gap | 8,809,244,041 | (2,481,028,542) | (2,597,664,242) | – | (1,043,663,500) | 2,686,887,757 |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

| | Less than 3 months <i>RMB</i> | Between 3 and 12 months <i>RMB</i> | Between 1 and 5 years <i>RMB</i> | Over 5 years <i>RMB</i> | Non-interest bearing <i>RMB</i> | Total <i>RMB</i> |
|--|-------------------------------------|--|--|----------------------------|---------------------------------------|-----------------------|
| At 31 December 2018 | | | | | | |
| Loans and receivables | 9,020,982,044 | 604,586,745 | 1,833,583,684 | 14,808,611 | – | 11,473,961,084 |
| Finance lease receivables | 32,622,854 | – | – | – | – | 32,622,854 |
| Other assets | – | – | – | – | 17,091,647 | 17,091,647 |
| Cash and bank balances | 655,273,997 | 36,500,000 | – | – | 20,127 | 691,794,124 |
| Sub-total | 9,708,878,895 | 641,086,745 | 1,833,583,684 | 14,808,611 | 17,111,774 | 12,215,469,709 |
| Borrowings | 2,630,860,267 | 2,756,364,856 | 1,900,320,902 | – | – | 7,287,546,025 |
| Bonds payable | 386,711,772 | 531,452,823 | 571,504,098 | – | – | 1,489,668,693 |
| Other liabilities | 300,000,000 | – | – | – | 783,535,010 | 1,083,535,010 |
| Sub-total | 3,317,572,039 | 3,287,817,679 | 2,471,825,000 | – | 783,535,010 | 9,860,749,728 |
| Interest rate gap | 6,391,306,856 | (2,646,730,934) | (638,241,316) | 14,808,611 | (766,423,236) | 2,354,719,981 |
| At 31 December 2017 | | | | | | |
| Loans and receivables | 6,257,279,075 | 546,752,332 | 2,290,246,232 | 44,367,698 | – | 9,138,645,337 |
| Finance lease receivables | 39,696,517 | – | – | – | – | 39,696,517 |
| Financial assets at fair value through profit or loss | 775,000,000 | – | – | – | – | 775,000,000 |
| Other assets | – | – | – | – | 16,790,803 | 16,790,803 |
| Cash and bank balances | 363,041,777 | 81,500,000 | – | – | 19,292 | 444,561,069 |
| Sub-total | 7,435,017,369 | 628,252,332 | 2,290,246,232 | 44,367,698 | 16,810,095 | 10,414,693,726 |
| Borrowings | 2,355,539,419 | 182,558,865 | 4,254,403,141 | – | – | 6,792,501,425 |
| Bonds payable | 50,067,336 | 157,797,991 | 304,523,919 | – | – | 512,389,246 |
| Other liabilities | 500,000,000 | – | – | – | 538,872,452 | 1,038,872,452 |
| Sub-total | 2,905,606,755 | 340,356,856 | 4,558,927,060 | – | 538,872,452 | 8,343,763,123 |
| Interest rate gap | 4,529,410,614 | 287,895,476 | (2,268,680,828) | 44,367,698 | (522,062,357) | 2,070,930,603 |

The following table demonstrates the sensitivity to a reasonably possible change in benchmark interest rates, with all other variables held constant, of the Target Group's net profit.

| Impact on net profit | Year ended 31 December | | | Ten months ended 31 October |
|---|------------------------|--------------------|--------------------|-----------------------------------|
| | 2017 <i>RMB</i> | 2018 <i>RMB</i> | 2019 <i>RMB</i> | 2020 <i>RMB</i> |
| Interest rates – increase by 50 basis points | 9,032,449 | 7,021,080 | 11,865,404 | 20,748,948 |
| Interest rates – decrease by 50 basis points | (9,032,449) | (7,021,080) | (11,865,404) | (20,748,948) |

(b) Credit risk

Credit risk is the risk of loss arising from customer's inability to meet its obligations. In accordance with the policy of the Target Group, the Target Group examines and verifies the credit risk of all customers that the Target Group has credit transactions with. Besides, the Target Group monitors and controls finance lease receivables and the loans and receivables, regularly to mitigate the risk of significant exposure from bad debts.

(i) Maximum credit risk exposure

The credit risk of the Target Group's financial assets arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments without taking account of any collateral held or other credit enhancements. The maximum credit risk exposure is as follows:

| | 31 December | | 31 October | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2017 | 2018 | 2019 | 2020 |
| | <i>RMB</i> | <i>RMB</i> | <i>RMB</i> | <i>RMB</i> |
| Loans and receivables | 9,138,645,337 | 11,473,961,084 | 15,148,663,575 | 15,314,548,993 |
| Finance lease receivables | 39,696,517 | 32,622,854 | 53,505,035 | 151,782,400 |
| Financial assets at fair value through profit or loss | 775,000,000 | – | 4,440,000 | – |
| Cash and bank balances | 444,561,069 | 691,794,124 | 613,681,926 | 616,307,525 |
| Other assets | 16,790,803 | 17,091,647 | 32,332,551 | 25,073,052 |
| | <u>10,414,693,726</u> | <u>12,215,469,709</u> | <u>15,852,623,087</u> | <u>16,107,711,970</u> |

(ii) Impairment assessment

HKFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Target Group.
- If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to Note 4.1(b)(ii)(1) for a description of how the Target Group determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to Note 4.1(b)(ii)(2) for a description of how the Target Group defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to Note 4.1(b)(ii)(3) for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with HKFRS 9 is that it should consider forward-looking information. Note 4.1(b)(ii)(4) includes an explanation of how the Target Group has incorporated this in its ECL model.

The impairment requirement under HKFRS 9:

- Stage 1 (initial recognition): 12-month expected credit losses;
- Stage 2 (significant increase in credit risk since initial recognition): lifetime expected credit losses;
- Stage 3 (credit-impaired assets): lifetime expected credit losses.

The key judgements and assumptions adopted by the Target Group in addressing the requirements of the standard are discussed below:

(1) Significant increase in credit risk (“SICR”)

The Target Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

The borrower is more than 30 days past due on its contractual payments.

Qualitative criteria

If the instrument meets one or more of the following criteria:

- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates;
- Actual or expected forbearance or restructuring;
- Actual or expected significant adverse change in operating results of the borrower;
- Early signs of cashflow/liquidity problems such as delay in servicing of trade creditors/loans.

The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the Credit Risk team.

(2) Definition of default and credit-impaired assets

The Target Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance;
- The borrower is deceased;

- The borrower is insolvent;
- An active market for that financial asset has disappeared because of financial difficulties;
- It is becoming probable that the borrower will enter bankruptcy; or
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Target Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default ("PD"), Exposure at Default ("EAD") and Loss given Default ("LGD") throughout the Target Group's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

(3) Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month ("12M") or lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL are the discounted product of the PD, EAD, and LGD, defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months ("12M PD"), or over the remaining lifetime ("Lifetime PD") of the obligation.
- EAD is based on the amounts the Target Group expects to be owed at the time of default, over the next 12 months ("12M EAD") or over the remaining lifetime ("Lifetime EAD").
- LGD represents the Target Group's expectation of the extent of loss on a defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default ("EAD").

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Target Group determines the credit ratings of the borrowers with reference to the external credit ratings of publicly issued bonds of issuers with similar interest rate, duration and shareholders background as the borrowers, then derived 12M PD by mapping the external credit ratings to the ratio of possibility of default published by reputable external rating agency. The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans.

The 12-month and lifetime EADs are determined based on the expected payment profile.

Loss given default (LGD) represents the percentage of amount of loss to be incurred in the event of default to the total risk exposure. It is expressed as the loss percentage per unit of exposure which typically varies by nature of debtor, type and seniority of claim and the availability of collaterals or other credit enhancements. The Target Group's LGD are determined with reference to external data as the Target Group has limited historical credit loss data.

Forward-looking economic information is also included in determining the 12-month and lifetime PD. Refer to Note 4.1(b)(ii)(4) for an explanation of forward-looking information and its inclusion in ECL calculations.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

(4) Forward-looking information incorporated in the ECL model

The calculation of ECL incorporates forward-looking information. The Target Group has performed historical analysis and identified the key economic variables impacting credit risk and ECL.

The Target Group selects a series of macroeconomic indicators, including Board Money ("M2"), Producer Price Index, Industrial Value Added and GDP, based on industry practices and management judgment, and then establishes a statistical relationship between the actual default probability and macroeconomic factors for model exposures. The result of macroeconomic indicators forecasts will form the basis for impairment calculation and represent "forward looking" elements of credit risk allowance in different scenarios.

The Target Group provides three possible scenarios along with scenario weightings to ensure non-linearities are captured. The number of scenarios and their attributes are reassessed at each reporting date. At 31 December 2017, 2018, 2019 and 31 October 2020, for all portfolios, the Target Group concluded that three scenarios appropriately captured non-linearities. The scenario weightings are determined by a combination of statistical analysis and management judgement, taking account of the range of possible outcomes each chosen scenario is representative of. These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Target Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Target Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Economic variable assumptions

The results of macroeconomic indicators forecast for the next year as at 31 December 2017, 2018, 2019 and 31 October 2020 are set out below. The scenarios “base”, “upside” and “downside” were used for all portfolios. The weightings assigned to each economic scenario at 31 December 2017, 2018, 2019 and 31 October 2020 were 80%, 10% and 10%.

| Item | Range (2017) | Range (2018) | Range (2019) | Range (31 October 2020)* |
|------------------------|--------------|--------------|--------------|--------------------------------|
| | | | | |
| M2 | 7.74%–9.24% | 7.07%–9.00% | 8.00%–9.13% | 9.00%–12.00% |
| Producer Price Index | 1.38%–4.29% | 0.00%–2.76% | -1.65%–1.40% | -4.77%–0.83% |
| Industrial Value Added | 6.17%–7.21% | 5.55%–6.24% | 4.73%–6.11% | 3.17%–9.95% |
| GDP | 6.52%–7.00% | 6.11%–6.68% | 5.80%–6.19% | 4.41%–5.82% |

* As a result of the outbreak of COVID-19, management believes that the economic environment has changed significantly as at 31 October 2020, compared to 31 December 2019, so management has updated its economic variable assumptions by referencing economists' reforecasts of economic indicators for the next twelve months since 31 October 2020.

Sensitivity analysis

The ECL outcome is sensitive to judgement and estimations made with regards to the formulation and incorporation of multiple forward-looking economic conditions described above. As a result, management assessed and considered the sensitivity of the ECL outcome against the forward-looking economic conditions as part of the ECL governance process by recalculating the ECL for selected portfolios where 100% weighting is assigned to each of the three scenarios described above. The weighting is reflected in the measurement of the resulting ECL. Further details on management adjustment is provided below.

The three economic scenarios are generated to capture the Target Group's view of a range of possible forecast economic conditions that is sufficient for the calculation of unbiased and probability-weighted ECL. Therefore, the ECLs calculated for each of the scenarios represent a range of possible outcomes that is being evaluated while arriving at the ECL. As a result, the ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible actual ECL outcomes. The ECL sensitivity below represents an estimate based on the underlying point-in-time distribution of economic scenarios which have the potential to change rapidly as economic conditions evolve where we operate. The recalculated ECLs for each of the scenarios should be read in the context of the sensitivity analysis as a whole.

| | 31 December 2017 | | 31 December 2018 | | 31 December 2019 | | 31 October 2020 | |
|-----------------------|-----------------------|---------------------------|-----------------------|---------------------------|-----------------------|---------------------------|-----------------------|---------------------------|
| | Loans and receivables | Finance lease receivables | Loans and receivables | Finance lease receivables | Loans and receivables | Finance lease receivables | Loans and receivables | Finance lease receivables |
| | RMB | RMB | RMB | RMB | RMB | RMB | RMB | RMB |
| ECL weighted exposure | 108,764,378 | 576,305 | 133,651,039 | 449,261 | 183,405,971 | 1,221,304 | 285,217,849 | 1,146,180 |
| Base scenario | 108,580,882 | 575,312 | 132,959,938 | 446,960 | 183,626,256 | 1,223,117 | 280,172,121 | 1,115,701 |
| Upside scenario | 96,871,046 | 500,234 | 117,202,998 | 390,186 | 160,167,558 | 1,053,984 | 216,611,733 | 742,269 |
| Downside scenario | 122,125,680 | 660,326 | 155,627,884 | 526,744 | 204,882,107 | 1,374,122 | 394,189,798 | 1,793,928 |

The following table shows the changes of ECL impairment provision related to ECL assuming the financial assets in stage 2 reclassified to stage 1 due to significant change in credit risk.

(5) Sensitivity analysis

| | As at 31 December | | As at 31 October | |
|--|-------------------|-------------|---------------------|--------------|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB |
| The total amounts of ECL impairment provision under assumption of reclassification of financial assets from stage 2 to stage 1 | 109,366,254 | 134,102,000 | 181,184,543 | 249,448,527 |
| ECL impairment provision related to ECL recognised in the consolidated balance sheet | 109,366,254 | 134,102,000 | 184,629,675 | 286,366,430 |
| Difference-amounts | – | – | (3,445,132) | (36,917,903) |
| Difference-percentage | 0.00% | 0.00% | -1.87% | -12.89% |

As at 31 December 2017 and 2018, there were no financial assets classified as stage 2.

The following table demonstrates the sensitivity to a reasonably possible change in LGD:

| | 31 December | | 31 October | |
|------------------------------------|-------------|--------------|--------------|--------------|
| Impact on ECL | 2017 | 2018 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB |
| LGD – increase by 500 basis points | 9,554,963 | 13,064,328 | 18,177,809 | 23,815,675 |
| LGD – decrease by 500 basis points | (9,554,963) | (13,064,328) | (18,177,809) | (23,815,675) |

(iii) Concentration

Concentrations of credit risk are managed by counterparty, by geographical region and by industry sector. The Target Group structures the levels of credit risk it undertakes by placing limits in relation to one borrower, or group of borrowers. Such risks are monitored on a regular basis and subject to annual or more frequent review, whenever necessary.

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

Industry analysis for loans and receivables and finance lease receivables (before expected credit loss) are as follows:

| | As at 31 October 2020 | | | |
|--|---------------------------------|---------|-------------------------------------|---------|
| | Loans and receivables RMB | Ratio | Finance lease receivables RMB | Ratio |
| Production and supply of water | 4,173,751,272 | 26.76% | – | – |
| Infrastructure construction | 2,882,103,292 | 18.48% | – | – |
| Tourism | 2,867,707,285 | 18.38% | – | – |
| Medical | 2,564,914,271 | 16.44% | – | – |
| Production and supply of heat | 1,179,641,479 | 7.56% | – | – |
| Transportation | 808,684,688 | 5.18% | – | – |
| Production and supply of new energy sources | 139,839,489 | 0.90% | 152,928,580 | 100.00% |
| Aviation | 90,411,768 | 0.58% | – | – |
| Production and supply of gas | 59,951,173 | 0.38% | – | – |
| Production and supply of coal | 40,051,702 | 0.26% | – | – |
| Others | 792,710,423 | 5.08% | – | – |
| Total | 15,599,766,842 | 100.00% | 152,928,580 | 100.00% |

| | As at 31 December 2019 | | | |
|--|---------------------------------|---------|-------------------------------------|---------|
| | Loans and receivables RMB | Ratio | Finance lease receivables RMB | Ratio |
| Production and supply of water | 3,794,299,263 | 24.75% | – | – |
| Medical | 3,345,884,802 | 21.82% | – | – |
| Infrastructure construction | 2,828,880,159 | 18.45% | – | – |
| Tourism | 2,413,293,938 | 15.74% | – | – |
| Transportation | 1,222,079,765 | 7.97% | – | – |
| Production and supply of heat | 937,179,436 | 6.11% | – | – |
| Production and supply of new energy sources | 162,845,281 | 1.06% | 53,155,728 | 97.13% |
| Aviation | 84,279,326 | 0.55% | – | – |
| Production and supply of coal | 80,997,826 | 0.53% | – | – |
| Production and supply of gas | 73,284,858 | 0.48% | – | – |
| Education | 5,899,313 | 0.04% | – | – |
| Others | 383,145,579 | 2.50% | 1,570,611 | 2.87% |
| Total | 15,332,069,546 | 100.00% | 54,726,339 | 100.00% |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

| | As at 31 December 2018 | | | |
|---|------------------------|---------|---------------|---------|
| | Loans and | Ratio | Finance lease | Ratio |
| | receivables | | receivables | |
| | RMB | | RMB | |
| Medical | 4,183,120,154 | 36.04% | — | — |
| Production and supply of water | 2,119,021,523 | 18.26% | — | — |
| Infrastructure construction | 1,850,128,363 | 15.94% | — | — |
| Transportation | 1,267,624,276 | 10.92% | — | — |
| Tourism | 744,300,287 | 6.41% | — | — |
| Production and supply of heat | 485,155,779 | 4.18% | — | — |
| Production and supply of coal | 121,496,739 | 1.05% | — | — |
| Production and supply of new energy sources | 102,146,671 | 0.88% | 30,013,716 | 90.75% |
| Aviation | 91,883,954 | 0.79% | — | — |
| Production and supply of gas | 84,861,362 | 0.73% | — | — |
| Education | 17,268,682 | 0.15% | — | — |
| Others | 540,604,333 | 4.65% | 3,058,399 | 9.25% |
| Total | 11,607,612,123 | 100.00% | 33,072,115 | 100.00% |

| | As at 31 December 2017 | | | |
|---|------------------------|---------|---------------|---------|
| | Loans and | Ratio | Finance lease | Ratio |
| | receivables | | receivables | |
| | RMB | | RMB | |
| Medical | 3,130,233,489 | 33.85% | — | — |
| Infrastructure construction | 1,785,764,128 | 19.31% | — | — |
| Production and supply of water | 1,440,981,171 | 15.58% | — | — |
| Transportation | 928,571,991 | 10.04% | — | — |
| Production and supply of heat | 469,967,614 | 5.08% | — | — |
| Tourism | 385,801,009 | 4.17% | — | — |
| Production and supply of coal | 161,995,652 | 1.75% | — | — |
| Aviation | 92,361,755 | 1.00% | — | — |
| Education | 73,855,135 | 0.80% | — | — |
| Production and supply of gas | 43,569,720 | 0.47% | — | — |
| Production and supply of new energy sources | 27,727,689 | 0.30% | 40,272,822 | 100.00% |
| Others | 706,580,362 | 7.65% | — | — |
| Total | 9,247,409,715 | 100.00% | 40,272,822 | 100.00% |

(iv) Collaterals and other credit enhancements

The Target Group employs a range of policies and practices to mitigate credit risk. The most useful practice is to accept collaterals or pledges. The Target Group implements guidelines on the acceptability of specific classes of collaterals and pledges. The principal types of collaterals and pledges for loans and advances to customers are:

- For sale and leaseback arrangements and finance lease receivables, the ownership of the lease asset belongs to the Target Group before the term of lease expires, while the risks and rewards in operational use and maintenance belong to the lessee; in addition, the Target Group requests a third party guarantee or collateral from certain lessees, depending on the lessee's credit status and credit risk degree;
- For receivables from factoring, collaterals are trade receivables.

(c) Liquidity risk

Liquidity risk refers to the risk that the Target Group is unable to meet the obligation to settle its due liabilities or meet the immediate demand of capital. Based on the Target Group's business features, its liquidity risk management framework comprises:

- Daily fund management through monthly monitoring future cash flows and making liquidity gap analysis report;
- Monitoring of assets liquidity ratio to meet the internal requirements;
- Management of the degree of concentration of maturities of liabilities;
- Establishment of liquidity contingent plan through agreements with banks;
- Dealing with liquidity gap through borrowings from financial institutions and other institutions, related companies, as well as asset-backed securities and bond issuances.

Management are of the opinion that the Target Group are able to meet in full their financial obligations as and when they fall due for the foreseeable future with the available sources of funds including operating cash flow, unutilised banking facilities, and other financing sources such as bond offering and issuing asset-backed securities, etc.

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The maturity profile of the Target Group's financial assets and liabilities as at the end of the reporting period, based on the contractual undiscounted cash flow, is as follows:

| | Overdue RMB | On demand RMB | Less than 3 months RMB | Between 3 and 12 months RMB | Between 1 and 5 years RMB | Over 5 years RMB | Total RMB |
|--|--------------------|--------------------|------------------------------|-----------------------------------|---------------------------------|---------------------|-----------------------|
| At 31 October 2020 | | | | | | | |
| Loans and receivables | 158,760,300 | – | 1,796,413,933 | 4,416,956,064 | 11,149,388,278 | 17,699,210 | 17,539,217,785 |
| Finance lease receivables | – | – | 14,182,719 | 155,284,020 | 2,551,438 | – | 172,018,177 |
| Other assets | – | – | 6,840,722 | 4,638,000 | 13,594,330 | – | 25,073,052 |
| Cash and bank balances | – | 412,307,525 | – | – | 227,676,000 | – | 639,983,525 |
| Sub-total | 158,760,300 | 412,307,525 | 1,817,437,374 | 4,576,878,084 | 11,393,210,046 | 17,699,210 | 18,376,292,539 |
| | | | | | | | |
| Borrowings | – | – | 690,267,983 | 1,345,855,161 | 1,850,091,906 | – | 3,886,215,050 |
| Bonds payable | – | – | 567,358,797 | 1,661,447,267 | 6,651,097,538 | – | 8,879,903,602 |
| Other liabilities | – | – | 47,687,867 | 202,818,321 | 772,120,801 | 117,501,930 | 1,140,128,919 |
| Sub-total | – | – | 1,305,314,647 | 3,210,120,749 | 9,273,310,245 | 117,501,930 | 13,906,247,571 |
| Liquidity rate gap | 158,760,300 | 412,307,525 | 512,122,727 | 1,366,757,335 | 2,119,899,801 | (99,802,720) | 4,470,044,968 |
| | | | | | | | |
| At 31 December 2019 | | | | | | | |
| Loans and receivables | 52,554,722 | – | 1,411,523,775 | 4,425,079,064 | 11,643,389,879 | 32,462,263 | 17,565,009,703 |
| Finance lease receivables | – | – | 3,315,995 | 46,200,825 | 10,514,675 | – | 60,031,495 |
| Financial assets at fair value through profit or loss | – | – | 95,669 | 4,587,940 | 1,015,510 | – | 5,699,119 |
| Other assets | – | – | 391,221 | 9,936,000 | 22,005,330 | – | 32,332,551 |
| Cash and bank balances | – | 399,681,926 | – | 61,260,000 | 171,886,000 | – | 632,827,926 |
| Sub-total | 52,554,722 | 399,681,926 | 1,415,326,660 | 4,547,063,829 | 11,848,811,394 | 32,462,263 | 18,295,900,794 |
| | | | | | | | |
| Borrowings | – | – | 955,482,733 | 3,594,409,795 | 2,736,336,145 | – | 7,286,228,673 |
| Bonds payable | – | – | 585,684,015 | 2,238,280,637 | 2,653,184,989 | – | 5,477,149,641 |
| Other liabilities | – | – | 275,787,171 | 95,136,729 | 807,720,595 | 8,908,990 | 1,187,553,485 |
| Sub-total | – | – | 1,816,953,919 | 5,927,827,161 | 6,197,241,729 | 8,908,990 | 13,950,931,799 |
| Liquidity rate gap | 52,554,722 | 399,681,926 | (401,627,259) | (1,380,763,332) | 5,651,569,665 | 23,553,273 | 4,344,968,995 |
| | | | | | | | |
| At 31 December 2018 | | | | | | | |
| Loans and receivables | 39,915,544 | – | 953,422,457 | 3,048,701,919 | 9,210,717,212 | 37,704,014 | 13,290,461,146 |
| Finance lease receivables | – | – | 3,521,745 | 10,256,609 | 23,469,929 | – | 37,248,283 |
| Other assets | – | – | 259,101 | – | 16,832,546 | – | 17,091,647 |
| Cash and bank balances | – | 655,294,124 | – | 38,121,875 | – | – | 693,415,999 |
| Sub-total | 39,915,544 | 655,294,124 | 957,203,303 | 3,097,080,403 | 9,251,019,687 | 37,704,014 | 14,038,217,075 |
| | | | | | | | |
| Borrowings | – | – | 826,387,726 | 3,332,622,224 | 3,565,023,655 | – | 7,724,033,605 |
| Bonds payable | – | – | 421,780,159 | 556,436,568 | 588,828,171 | – | 1,567,044,898 |
| Other liabilities | – | – | 441,664,596 | 25,680,900 | 611,939,814 | 4,425,000 | 1,083,710,310 |
| Sub-total | – | – | 1,689,832,481 | 3,914,739,692 | 4,765,791,640 | 4,425,000 | 10,374,788,813 |
| Liquidity rate gap | 39,915,544 | 655,294,124 | (732,629,178) | (817,659,289) | 4,485,228,047 | 33,279,014 | 3,663,428,262 |

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| | Overdue RMB | On demand RMB | Less than 3 months RMB | Between 3 and 12 months RMB | Between 1 and 5 years RMB | Over 5 years RMB | Total RMB |
|--|-------------------|--------------------|------------------------------|-----------------------------------|---------------------------------|---------------------|-----------------------|
| At 31 December 2017 | | | | | | | |
| Loans and receivables | 80,309,188 | – | 821,045,399 | 2,211,238,498 | 7,381,498,377 | 64,812,747 | 10,558,904,209 |
| Finance lease receivables | – | – | 3,584,280 | 9,660,375 | 34,012,225 | – | 47,256,880 |
| Financial assets at fair value through profit or loss | – | – | 11,122,084 | 828,513,359 | – | – | 839,635,443 |
| Other assets | – | – | 315,717 | – | 16,475,086 | – | 16,790,803 |
| Cash and bank balances | – | 363,061,069 | – | 91,036,270 | – | – | 454,097,339 |
| Sub-total | 80,309,188 | 363,061,069 | 836,067,480 | 3,140,448,502 | 7,431,985,688 | 64,812,747 | 11,916,684,674 |
| Borrowings | – | – | 306,249,903 | 899,611,704 | 6,314,677,440 | – | 7,520,539,047 |
| Bonds payable | – | – | 63,052,918 | 173,724,304 | 436,195,388 | – | 672,972,610 |
| Other liabilities | – | – | 648,963,496 | 20,709,110 | 370,694,846 | 1,900,000 | 1,042,267,452 |
| Sub-total | – | – | 1,018,266,317 | 1,094,045,118 | 7,121,567,674 | 1,900,000 | 9,235,779,109 |
| Liquidity rate gap | 80,309,188 | 363,061,069 | (182,198,837) | 2,046,403,384 | 310,418,014 | 62,912,747 | 2,680,905,565 |

4.2 Capital management

The Target Group's objectives for managing capital are to safeguard the Target Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Target Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Target Group may adjust the dividend payment to shareholders, return capital to shareholders or sell assets to reduce debt. No changes in the objectives, policies or processes for managing capital were made during the years ended 31 December 2017, 2018, 2019 and ten months ended 31 October 2019 and 2020.

The Target Group monitors capital risk using gearing ratio, which is calculated as interest-bearing debts included in total liabilities divided by total assets, and asset-liability ratio, which is calculated as total liabilities divided by total assets. The ratios are as follows:

| | As at 31 December | | | As at 31 October |
|------------------------------------|-------------------|----------------|----------------|---------------------|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB |
| Interest-bearing debts included in | | | | |
| total liabilities | 7,804,890,671 | 9,077,214,718 | 12,089,728,245 | 12,094,004,352 |
| Total Liabilities | 8,793,720,222 | 10,356,013,536 | 13,709,595,084 | 13,671,319,110 |
| Total Assets | 10,559,453,725 | 12,382,316,295 | 16,072,822,910 | 16,407,798,074 |
| Gearing Ratio | 73.91% | 73.31% | 75.22% | 73.71% |
| Asset-liability Ratio | 83.28% | 83.64% | 85.30% | 83.32% |

4.3 Fair value estimation

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Regarding financial instruments, for which there is an active market, the Target Group employs the quotations in the active market to determine the fair value thereof. If there is no active market for an instrument, the Target Group estimates fair value using valuation techniques, which include discounted cash flow analysis.

Financial instruments carried at fair value are measured using different valuation techniques. The inputs to valuation techniques used are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

(a) Financial assets and financial liabilities measured at fair values

The following table presents the Target Group's financial assets that were measured at fair values.

| | Level 1 <i>RMB</i> | Level 2 <i>RMB</i> | Level 3 <i>RMB</i> | Total <i>RMB</i> |
|--|------------------------------|------------------------------|------------------------------|----------------------------|
|--|------------------------------|------------------------------|------------------------------|----------------------------|

As at 31 December 2017

| | | | | |
|------|---|---|-------------|-------------|
| FVPL | – | – | 775,000,000 | 775,000,000 |
|------|---|---|-------------|-------------|

| Level 1 <i>RMB</i> | Level 2 <i>RMB</i> | Level 3 <i>RMB</i> | Total <i>RMB</i> |
|------------------------------|------------------------------|------------------------------|----------------------------|
|------------------------------|------------------------------|------------------------------|----------------------------|

As at 31 December 2018

| | | | | |
|------|---|---|---|---|
| FVPL | – | – | – | – |
|------|---|---|---|---|

| Level 1 <i>RMB</i> | Level 2 <i>RMB</i> | Level 3 <i>RMB</i> | Total <i>RMB</i> |
|------------------------------|------------------------------|------------------------------|----------------------------|
|------------------------------|------------------------------|------------------------------|----------------------------|

As at 31 December 2019

| | | | | |
|------|---|---|-----------|-----------|
| FVPL | – | – | 4,440,000 | 4,440,000 |
|------|---|---|-----------|-----------|

| Level 1 <i>RMB</i> | Level 2 <i>RMB</i> | Level 3 <i>RMB</i> | Total <i>RMB</i> |
|------------------------------|------------------------------|------------------------------|----------------------------|
|------------------------------|------------------------------|------------------------------|----------------------------|

As at 31 October 2020

| | | | | |
|------|---|---|---|---|
| FVPL | – | – | – | – |
|------|---|---|---|---|

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The following table presents the changes in level 3 items for the years ended 31 December 2017, 2018, 2019 and ten months ended 31 October 2020:

| | Trust plan products <i>RMB</i> | Wealth management products <i>RMB</i> | Total <i>RMB</i> |
|---------------------------|--------------------------------------|--|---------------------|
| As at 1 January 2017 | 1,553,707,524 | 232,000,000 | 1,785,707,524 |
| Acquisitions | – | 6,809,860,000 | 6,809,860,000 |
| Disposals/due on maturity | (803,707,524) | (7,016,860,000) | (7,820,567,524) |
| As at 31 December 2017 | <u>750,000,000</u> | <u>25,000,000</u> | <u>775,000,000</u> |
| As at 1 January 2018 | 750,000,000 | 25,000,000 | 775,000,000 |
| Acquisitions | – | 5,854,000,000 | 5,854,000,000 |
| Disposals/due on maturity | (750,000,000) | (5,879,000,000) | (6,629,000,000) |
| As at 31 December 2018 | <u>–</u> | <u>–</u> | <u>–</u> |
| As at 1 January 2019 | – | – | – |
| Acquisitions | – | 6,855,890,000 | 6,855,890,000 |
| Disposals/due on maturity | – | (6,851,450,000) | (6,851,450,000) |
| As at 31 December 2019 | <u>–</u> | <u>4,440,000</u> | <u>4,440,000</u> |
| As at 1 January 2020 | – | 4,440,000 | 4,440,000 |
| Acquisitions | – | 3,189,170,000 | 3,189,170,000 |
| Disposals/due on maturity | – | (3,193,610,000) | (3,193,610,000) |
| As at 31 October 2020 | <u>–</u> | <u>–</u> | <u>–</u> |

| Description | Fair value at 31 December | | Unobservable inputs | Range of inputs (probability-weighted average) | |
|----------------------------|---------------------------|-------------|-------------------------|---|-------------|
| | 2019 | 2017 | | 2019 | 2017 |
| Trust plan products | – | 750,000,000 | Expected Rate of Return | not applicable | 10% |
| Wealth management products | 4,440,000 | 25,000,000 | Expected Rate of Return | 2.7%–2.88% | 2.05%–2.25% |

Profit or loss for the years arising from the Level 3 financial instruments held at the end of the years are as follows:

| | Year ended 31 December 2017 | | |
|---------------------|-------------------------------|------------------------------------|---------------------|
| | Realised income <i>RMB</i> | Unrealised income <i>RMB</i> | Total <i>RMB</i> |
| Trust plan products | <u>72,675,980</u> | <u>–</u> | <u>72,675,980</u> |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

The Target Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. During the years ended 31 December 2017, 2018, 2019 and ten months ended 31 October 2020, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into or out of Level 3 fair value measurements.

The Target Group did not have any financial liabilities measured at fair value as at 31 December 2017, 2018, 2019 and 31 October 2020.

(b) Financial assets and financial liabilities carried at amortised cost

The Directors of the Target consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the statements of financial position approximate their fair values.

5 REVENUE

| | Year ended 31 December | | | Ten months ended 31 October | |
|--|------------------------|--------------------|----------------------|-----------------------------|----------------------|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB | RMB |
| Interest income from sale and leaseback transactions | 588,571,189 | 860,801,371 | 1,147,067,173 | 933,897,510 | 1,110,983,252 |
| Finance lease income | 3,441,561 | 3,286,906 | 3,479,268 | 2,556,346 | 7,384,230 |
| Rental income (Note 28.2(b)) | 2,451,565 | 2,451,565 | — | — | — |
| Interest income from factoring | — | — | 6,396,639 | 2,393,033 | 56,250,637 |
| Others | — | — | 369,398 | — | 7,997,817 |
| | <u>594,464,315</u> | <u>866,539,842</u> | <u>1,157,312,478</u> | <u>938,846,889</u> | <u>1,182,615,936</u> |

6 DEPRECIATION

| | Year ended 31 December | | | Ten months ended 31 October | |
|------------------------|------------------------|------------------|------------------|-----------------------------|------------------|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB | RMB |
| Investment properties | 1,982,512 | 1,982,512 | — | — | — |
| Property and equipment | <u>1,433,379</u> | <u>1,141,986</u> | <u>3,788,764</u> | <u>3,002,149</u> | <u>4,839,131</u> |
| | <u>3,415,891</u> | <u>3,124,498</u> | <u>3,788,764</u> | <u>3,002,149</u> | <u>4,839,131</u> |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

7 INTEREST EXPENSES

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|------------------------|--------------------|--------------------|-----------------------------|--------------------|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB | RMB |
| Borrowings from bank and other financial institutions | 282,741,830 | 408,156,256 | 405,183,163 | 329,856,207 | 301,498,829 |
| Borrowings from related parties (Note 28.2(d)) | 35,158,270 | 3,395,000 | 72,035,900 | 53,794,128 | 13,366,083 |
| Bonds payable | 26,360,134 | 66,272,773 | 130,545,525 | 81,381,325 | 236,401,876 |
| | <u>344,260,234</u> | <u>477,824,029</u> | <u>607,764,588</u> | <u>465,031,660</u> | <u>551,266,788</u> |

8 OTHER INCOME, GAINS OR LOSSES

| | Year ended 31 December | | | Ten months ended 31 October | |
|--|------------------------|-------------------|-------------------|-----------------------------|-------------------|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB | RMB |
| Investment gains on financial instruments, net | 141,263,471 | 48,336,603 | 4,200,564 | 3,818,575 | 1,577,807 |
| Government grants (i) | 24,168,661 | 4,015,701 | 28,584,642 | 14,068,744 | 5,328,019 |
| Exchange gain/(loss) | 1,440,554 | (77,004) | (87,844) | (72,100) | (55,413) |
| Bank interest income | 1,265,650 | 11,458,106 | 7,060,935 | 4,644,330 | 7,469,799 |
| Others | – | (6,540,000) | 42,089 | 23,902 | 676,491 |
| | <u>168,138,336</u> | <u>57,193,406</u> | <u>39,800,386</u> | <u>22,483,451</u> | <u>14,996,703</u> |

- (i) Government grants represent the fiscal support from the local governments to enterprises and refund of value added tax.

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

9 ADMINISTRATIVE EXPENSES

| | Year ended 31 December | | | Ten months ended 31 October | |
|--|------------------------|-------------------|-------------------|-----------------------------|-------------------|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB | RMB |
| Employee benefit expenses (<i>Note 11</i>) | 41,153,176 | 49,446,118 | 62,380,348 | 28,434,688 | 27,275,302 |
| Tax and surcharges | 7,664,007 | 4,901,371 | 6,298,282 | 5,218,920 | 5,698,657 |
| Rental expenses for short-term lease | 4,856,238 | 4,550,047 | 4,250,114 | 3,304,471 | 3,297,759 |
| Business traveling expenses | 4,473,126 | 4,043,551 | 3,542,440 | 2,472,546 | 1,946,884 |
| Professional service expenses | 2,036,922 | 1,359,210 | 3,651,948 | 2,316,580 | 2,872,890 |
| Marketing and distribution expenses | 1,243,083 | 1,038,558 | 1,166,075 | 737,154 | 408,638 |
| Property maintenance fee | 515,445 | 622,208 | 1,220,162 | 1,027,477 | 796,831 |
| Auditor's fee | 53,886 | 212,212 | 139,545 | 24,337 | 16,485 |
| Other expenses | 1,334,944 | 1,047,259 | 1,473,494 | 1,088,121 | 1,033,987 |
| | <u>63,330,827</u> | <u>67,220,534</u> | <u>84,122,408</u> | <u>44,624,294</u> | <u>43,347,433</u> |

10 CREDIT IMPAIRMENT LOSSES

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|------------------------|-------------------|-------------------|-----------------------------|--------------------|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB | RMB |
| Impairment loss recognised/(reversed) on: | | | | | |
| Loans and receivables | 56,416,990 | 24,886,661 | 49,754,932 | 85,616,092 | 101,811,878 |
| Finance lease receivables | (73,710) | (127,044) | 772,043 | (152,493) | (75,124) |
| Other receivables | 7,351 | (23,871) | 700 | – | – |
| | <u>56,350,631</u> | <u>24,735,746</u> | <u>50,527,675</u> | <u>85,463,599</u> | <u>101,736,754</u> |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

11 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTOR'S EMOLUMENTS)

| | Year ended 31 December | | | Ten months ended 31 October | |
|-----------------------------|------------------------|-------------------|-------------------|-----------------------------|-------------------|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB | RMB |
| Wages, salaries and bonuses | 38,051,560 | 41,445,495 | 52,101,613 | 21,979,167 | 21,228,042 |
| Pension costs | 727,152 | 4,206,948 | 3,516,918 | 1,903,467 | 1,408,177 |
| Other social securities | 2,374,464 | 3,793,675 | 6,657,537 | 4,447,774 | 4,639,083 |
| Termination benefits | — | — | 104,280 | 104,280 | — |
| | <u>41,153,176</u> | <u>49,446,118</u> | <u>62,380,348</u> | <u>28,434,688</u> | <u>27,275,302</u> |

12 INCOME TAX EXPENSES

| | Year ended 31 December | | | Ten months ended 31 October | |
|---------------------|------------------------|-------------------|--------------------|-----------------------------|--------------------|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB | RMB |
| Current income tax | 140,540,247 | 117,409,763 | 128,932,008 | 98,776,491 | 116,380,163 |
| Deferred income tax | (66,541,712) | (27,150,578) | (14,947,646) | (7,914,561) | 6,791,232 |
| | <u>73,998,535</u> | <u>90,259,185</u> | <u>113,984,362</u> | <u>90,861,930</u> | <u>123,171,395</u> |

The Target and its subsidiaries were established in Mainland China and are subject to the PRC corporate income tax at 25%.

The difference between the actual income tax charged in the profit or loss and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

| | Year ended 31 December | | | Ten months ended 31 October | |
|--|------------------------|-------------------|--------------------|-----------------------------|--------------------|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB | RMB |
| Profit before income tax | 295,245,068 | 350,828,441 | 450,909,429 | 363,208,638 | 496,422,533 |
| Tax at the statutory tax rate of 25% | 73,811,267 | 87,707,111 | 112,727,358 | 90,802,160 | 124,105,633 |
| Tax effect of expenses and losses not deductible for tax purpose | 187,268 | 2,552,074 | 1,349,354 | 59,770 | 32,850 |
| Tax effect of tax-exemption income | — | — | (92,350) | — | (967,088) |
| | <u>73,998,535</u> | <u>90,259,185</u> | <u>113,984,362</u> | <u>90,861,930</u> | <u>123,171,395</u> |

13 SUBSIDIARIES

The following is a list of the subsidiaries at 31 December 2017, 2018, 2019 and 31 October 2020:

The Target Group

| Name | Date and place of establishment | Principal activities | Issued and fully paid up paid-in capital | Interest held by the Target | | | 31 October 2020 |
|--|---------------------------------|-----------------------------------|--|-----------------------------|------|------|-----------------|
| | | | | 2017 | 2018 | 2019 | |
| Qingdao Yulinyuan Investment Co., Ltd. | The PRC, 16 September 2013 | Asset management and investment | RMB500,000 | 100% | 100% | 100% | 100% |
| Shanghai Qingtou Financial Leasing Co., Ltd. | The PRC, 12 January 2017 | Financial Leasing | RMB879,745,065 | 75% | 75% | 75% | 100% |
| Qingdao Rongsheng New Energy Co., Ltd. | The PRC, 24 September 2019 | New energy-technology development | RMB29,980,000 | N/A | N/A | 100% | 100% |
| Jiangmen Jieyang New Energy Investment Co., Ltd. | The PRC, 17 December 2018 | Photovoltaic power generation | RMB0 | N/A | N/A | 100% | 100% |
| Changzhou Lanhuang New Energy Technology Co., Ltd. | The PRC, 25 July 2019 | Photovoltaic power generation | RMB0 | N/A | N/A | N/A | 100% |
| Ningbo Andi Power Development Co., Ltd. | The PRC, 12 December 2018 | Photovoltaic power generation | RMB0 | N/A | N/A | N/A | 100% |
| Weifang Yuhwang New Energy Co., Ltd. | The PRC, 3 May 2018 | Photovoltaic power generation | RMB0 | N/A | N/A | N/A | 100% |

(a) Summary of acquisition

There were no acquisitions during the years ended 31 December 2017 and 2018.

During the year ended 31 December 2019 and ten months ended 31 October 2020, the Target Group acquired 100% equity interests of 4 companies. The details are as follows:

The Target Group

| Acquired party | Equity interests acquired | Principal business | Acquisition date |
|--|---------------------------|-------------------------------|------------------|
| Jiangmen Jieyang New Energy Investment Co., Ltd. ("Jiangmen") | 100% | photovoltaic power generation | 27 December 2019 |
| Changzhou Lanhuang New Energy Technology Co., Ltd. ("Changzhou") | 100% | photovoltaic power generation | 21 May 2020 |
| Ningbo Andi Power Development Co., Ltd. ("Ningbo") | 100% | photovoltaic power generation | 24 June 2020 |
| Weifang Yuhwang New Energy Co., Ltd. ("Weifang") | 100% | photovoltaic power generation | 21 August 2020 |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

Purchase consideration and net assets acquired

The Target Group

| | Jiangmen (i) <i>RMB</i> | Changzhou (ii) <i>RMB</i> | Ningbo (iii) <i>RMB</i> | Weifang (iv) <i>RMB</i> |
|---|-----------------------------------|-------------------------------------|-----------------------------------|-----------------------------------|
| Total purchase consideration | – | – | – | – |
| Less: fair value of identified net assets | 17,878 | 8,196 | 5,820 | 4,473 |
| Bargain purchase | (17,878) | (8,196) | (5,820) | (4,473) |

Above bargain purchase was recognised as other gains. The assets and liabilities recognised as a result of the acquisition are as follows:

(i) Jiangmen

| | 27 December 2019 | |
|----------------------------------|---------------------------------|---------------------------------|
| | Book value <i>RMB</i> | Fair value <i>RMB</i> |
| Cash | 3,250 | 3,250 |
| Trade receivables | 432,433 | 432,433 |
| Plant and equipment | 32,300,428 | 32,506,872 |
| Other receivables | 4,181,119 | 4,181,119 |
| Trade payables | (9,834,250) | (9,834,250) |
| Tax payable | (83,938) | (83,938) |
| Other payable | (170,000) | (170,000) |
| Long term payable | (27,017,608) | (27,017,608) |
| Net identifiable assets acquired | (188,566) | 17,878 |

(ii) Changzhou

| | 21 May 2020 | |
|----------------------------------|---------------------------------|---------------------------------|
| | Book value <i>RMB</i> | Fair value <i>RMB</i> |
| Trade receivables | 420,687 | 420,687 |
| Plant and equipment | 18,132,170 | 18,154,400 |
| Other receivables | 2,314,473 | 2,314,473 |
| Trade payables | (4,596,308) | (4,596,308) |
| Tax payable | (61,815) | (61,815) |
| Other payable | (617) | (617) |
| Long term payable | (16,222,624) | (16,222,624) |
| Net identifiable assets acquired | (14,034) | 8,196 |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

(iii) Ningbo

| | 24 June 2020 | |
|----------------------------------|---------------------|-------------------|
| | Book value | Fair value |
| | <i>RMB</i> | <i>RMB</i> |
| Cash | 108,032 | 108,032 |
| Trade receivables | 371,273 | 371,273 |
| Plant and equipment | 13,208,589 | 13,226,569 |
| Other receivables | 1,639,746 | 1,639,746 |
| Trade payables | (4,540,400) | (4,540,400) |
| Tax payable | (49,654) | (49,654) |
| Other payable | (441) | (441) |
| Long term payable | (10,749,305) | (10,749,305) |
| | <hr/> | <hr/> |
| Net identifiable assets acquired | (12,160) | 5,820 |
| | <hr/> | <hr/> |

(iv) Weifang

| | 21 August 2020 | |
|----------------------------------|-----------------------|-------------------|
| | Book Value | Fair value |
| | <i>RMB</i> | <i>RMB</i> |
| Cash | 1 | 1 |
| Trade receivables | 321,220 | 321,220 |
| Plant and equipment | 18,945,056 | 18,962,020 |
| Other receivables | 2,346,843 | 2,346,843 |
| Trade payables | (5,604,336) | (5,604,336) |
| Tax payable | (49,446) | (49,446) |
| Other payable | (1) | (1) |
| Long term payable | (15,971,828) | (15,971,828) |
| | <hr/> | <hr/> |
| Net identifiable assets acquired | (12,491) | 4,473 |
| | <hr/> | <hr/> |

There was no material difference between the fair value and book value of most assets and liabilities of the acquired companies.

(a.1) Acquired receivables

For Jiangmen, Changzhou, Ningbo and Weifang, the fair value of acquired trade receivables is RMB432,433, RMB420,687, RMB371,273 and RMB321,220 respectively, the gross contractual amount for trade receivables due is RMB432,433, RMB420,687, RMB371,273 and RMB321,220 respectively, with no loss allowance recognised on acquisition respectively.

(a.2) Revenue and profit contribution

The revenue and net profit contributed by the acquired subsidiaries to the respective accounting period are immaterial.

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

(b) Purchase consideration – cash outflow

The Target Group

| | Jiangmen | Changzhou | Ningbo | Weifang |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2019 | 2020 | 2020 | 2020 |
| | <i>RMB</i> | <i>RMB</i> | <i>RMB</i> | <i>RMB</i> |
| Outflow of cash to acquire subsidiary, net of cash acquired | | | | |
| Cash consideration | – | – | – | – |
| Less: Balances acquired cash | 3,250 | – | 108,032 | 1 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net inflow of cash – investing activities | 3,250 | – | 108,032 | 1 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

(c) Investment accounted for using the cost method

The amounts recognised in the balance sheet of the Target are as follows:

The Target

| | 31 December | | 31 October |
|---|--------------------|-------------------|-------------------|
| | 2017 | 2018 | 2019 |
| | <i>RMB</i> | <i>RMB</i> | <i>RMB</i> |
| | | | 2020 |
| | | | <i>RMB</i> |
| The subsidiaries of the Target | | | |
| Qingdao Yulinyuan Management Consulting Co., Ltd. | 3,183,379 | 3,183,379 | 3,183,379 |
| Shanghai Qingtou Financial Leasing Co., Ltd. | 879,745,066 | 879,745,066 | 879,745,066 |
| Qingdao Rongsheng New Energy Co., Ltd. | – | – | 29,980,000 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | 882,928,445 | 882,928,445 | 912,908,445 |
| | <u> </u> | <u> </u> | <u> </u> |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

14 PROPERTY AND EQUIPMENT

The Target Group

| | Buildings <i>RMB</i> | Furniture and office equipment <i>RMB</i> | Motor vehicles <i>RMB</i> | Solar photovoltaic power station <i>RMB</i> | Total <i>RMB</i> |
|---------------------------------|-------------------------|--|---------------------------------|---|---------------------|
| Cost | | | | | |
| As at 1 January 2017 | – | 1,111,920 | 669,536 | – | 1,781,456 |
| Additions | – | 634,433 | 427,118 | – | 1,061,551 |
| As at 31 December 2017 | – | 1,746,353 | 1,096,654 | – | 2,843,007 |
| Accumulated depreciation | | | | | |
| As at 1 January 2017 | – | (137,379) | (252,504) | – | (389,883) |
| Charge for the year | – | (254,365) | (149,812) | – | (404,177) |
| As at 31 December 2017 | – | (391,744) | (402,316) | – | (794,060) |
| Net carrying amount | | | | | |
| As at 1 January 2017 | – | 974,541 | 417,032 | – | 1,391,573 |
| As at 31 December 2017 | – | 1,354,609 | 694,338 | – | 2,048,947 |
| | | | | | |
| | Buildings <i>RMB</i> | Furniture and office equipment <i>RMB</i> | Motor vehicles <i>RMB</i> | Solar photovoltaic power station <i>RMB</i> | Total <i>RMB</i> |
| Cost | | | | | |
| As at 1 January 2018 | – | 1,746,353 | 1,096,654 | – | 2,843,007 |
| Additions | – | 246,064 | 282,008 | – | 528,072 |
| Disposals | – | – | (282,008) | – | (282,008) |
| As at 31 December 2018 | – | 1,992,417 | 1,096,654 | – | 3,089,071 |
| Accumulated depreciation | | | | | |
| As at 1 January 2018 | – | (391,744) | (402,316) | – | (794,060) |
| Charge for the year | – | (342,361) | (92,300) | – | (434,661) |
| As at 31 December 2018 | – | (734,105) | (494,616) | – | (1,228,721) |
| Net carrying amount | | | | | |
| As at 1 January 2018 | – | 1,354,609 | 694,338 | – | 2,048,947 |
| As at 31 December 2018 | – | 1,258,312 | 602,038 | – | 1,860,350 |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

| | Buildings RMB | Furniture and office equipment RMB | Motor vehicles RMB | Solar photovoltaic power station RMB | Total RMB |
|-------------------------------------|------------------|---|--------------------------|--|--------------|
| Cost | | | | | |
| As at 1 January 2019 | – | 1,992,417 | 1,096,654 | – | 3,089,071 |
| Acquisitions of subsidiaries | – | – | – | 32,932,569 | 32,932,569 |
| Additions | – | 812,978 | – | – | 812,978 |
| Transfer from investment properties | 34,485,560 | – | – | – | 34,485,560 |
| Disposals | – | (538,342) | – | – | (538,342) |
| As at 31 December 2019 | 34,485,560 | 2,267,053 | 1,096,654 | 32,932,569 | 70,781,836 |
| Accumulated depreciation | | | | | |
| As at 1 January 2019 | – | (734,105) | (494,616) | – | (1,228,721) |
| Charge for the year | (1,982,512) | (388,652) | (77,416) | (130,905) | (2,579,485) |
| Disposals | – | 264,257 | – | – | 264,257 |
| As at 31 December 2019 | (1,982,512) | (858,500) | (572,032) | (130,905) | (3,543,949) |
| Net carrying amount | | | | | |
| As at 1 January 2019 | – | 1,258,312 | 602,038 | – | 1,860,350 |
| As at 31 December 2019 | 32,503,048 | 1,408,553 | 524,622 | 32,801,664 | 67,237,887 |
| | | | | | |
| | Buildings RMB | Furniture and office equipment RMB | Motor vehicles RMB | Solar photovoltaic power station RMB | Total RMB |
| Cost | | | | | |
| As at 1 January 2020 | 34,485,560 | 2,267,053 | 1,096,654 | 32,932,569 | 70,781,836 |
| Acquisitions of subsidiaries | – | – | – | 49,943,739 | 49,943,739 |
| Additions | – | 61,389 | 99,700 | – | 161,089 |
| As at 31 October 2020 | 34,485,560 | 2,328,442 | 1,196,354 | 82,876,308 | 120,886,664 |
| Accumulated depreciation | | | | | |
| As at 1 January 2020 | (1,982,512) | (858,500) | (572,032) | (130,905) | (3,543,949) |
| Charge for the year | (1,652,094) | (330,198) | (68,460) | (2,393,995) | (4,444,747) |
| As at 31 October 2020 | (3,634,606) | (1,188,698) | (640,492) | (2,524,900) | (7,988,696) |
| Net carrying amount | | | | | |
| As at 1 January 2020 | 32,503,048 | 1,408,553 | 524,622 | 32,801,664 | 67,237,887 |
| As at 31 October 2020 | 30,850,954 | 1,139,744 | 555,862 | 80,351,408 | 112,897,968 |

There is no indication that property and equipment have suffered an impairment loss during 2017, 2018, 2019 and the ten months ended 31 October 2020.

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

The Target

| | Furniture and office equipment <i>RMB</i> | Motor vehicles <i>RMB</i> | Total <i>RMB</i> |
|---------------------------------|---|-------------------------------------|----------------------------|
| Cost | | | |
| As at 1 January 2017 | 1,111,920 | 669,536 | 1,781,456 |
| Additions | <u>66,479</u> | <u>—</u> | <u>66,479</u> |
| As at 31 December 2017 | <u>1,178,399</u> | <u>669,536</u> | <u>1,847,935</u> |
| Accumulated depreciation | | | |
| As at 1 January 2017 | (137,379) | (252,504) | (389,883) |
| Charge for the year | <u>(216,310)</u> | <u>(126,142)</u> | <u>(342,452)</u> |
| As at 31 December 2017 | <u>(353,689)</u> | <u>(378,646)</u> | <u>(732,335)</u> |
| Net carrying amount | | | |
| As at 1 January 2017 | <u>974,541</u> | <u>417,032</u> | <u>1,391,573</u> |
| As at 31 December 2017 | <u>824,710</u> | <u>290,890</u> | <u>1,115,600</u> |
| | Furniture and office equipment <i>RMB</i> | Motor vehicles <i>RMB</i> | Total <i>RMB</i> |
| Cost | | | |
| As at 1 January 2018 | 1,178,399 | 669,536 | 1,847,935 |
| Additions | 153,560 | 282,008 | 435,568 |
| Disposals | <u>—</u> | <u>(282,008)</u> | <u>(282,008)</u> |
| As at 31 December 2018 | <u>1,331,959</u> | <u>669,536</u> | <u>2,001,495</u> |
| Accumulated depreciation | | | |
| As at 1 January 2018 | (353,689) | (378,646) | (732,335) |
| Charge for the year | <u>(230,718)</u> | <u>(51,724)</u> | <u>(282,442)</u> |
| As at 31 December 2018 | <u>(584,407)</u> | <u>(430,370)</u> | <u>(1,014,777)</u> |
| Net carrying amount | | | |
| As at 1 January 2018 | <u>824,710</u> | <u>290,890</u> | <u>1,115,600</u> |
| As at 31 December 2018 | <u>747,552</u> | <u>239,166</u> | <u>986,718</u> |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

| | Furniture and office equipment <i>RMB</i> | Motor vehicles <i>RMB</i> | Total <i>RMB</i> |
|---------------------------------|---|-------------------------------------|----------------------------|
| Cost | | | |
| As at 1 January 2019 | 1,331,959 | 669,536 | 2,001,495 |
| Additions | 658,634 | — | 658,634 |
| Disposals | (538,342) | — | (538,342) |
| As at 31 December 2019 | <u>1,452,251</u> | <u>669,536</u> | <u>2,121,787</u> |
| Accumulated depreciation | | | |
| As at 1 January 2019 | (584,407) | (430,370) | (1,014,777) |
| Charge for the year | (251,738) | (36,840) | (288,578) |
| Disposals | 264,257 | — | 264,257 |
| As at 31 December 2019 | <u>(571,888)</u> | <u>(467,210)</u> | <u>(1,039,098)</u> |
| Net carrying amount | | | |
| As at 1 January 2019 | <u>747,552</u> | <u>239,166</u> | <u>986,718</u> |
| As at 31 December 2019 | <u>880,363</u> | <u>202,326</u> | <u>1,082,689</u> |
| | Furniture and office equipment <i>RMB</i> | Motor vehicles <i>RMB</i> | Total <i>RMB</i> |
| Cost | | | |
| As at 1 January 2020 | 1,452,251 | 669,536 | 2,121,787 |
| Additions | 31,017 | — | 31,017 |
| As at 31 October 2020 | <u>1,483,268</u> | <u>669,536</u> | <u>2,152,804</u> |
| Accumulated depreciation | | | |
| As at 1 January 2020 | (571,888) | (467,210) | (1,039,098) |
| Charge for the year | (198,846) | (30,700) | (229,546) |
| As at 31 October 2020 | <u>(770,734)</u> | <u>(497,910)</u> | <u>(1,268,644)</u> |
| Net carrying amount | | | |
| As at 1 January 2020 | <u>880,363</u> | <u>202,326</u> | <u>1,082,689</u> |
| As at 31 October 2020 | <u>712,534</u> | <u>171,626</u> | <u>884,160</u> |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

15 INVESTMENT PROPERTIES

The Target Group

| Building | Year ended 31 December | | | Ten months ended |
|---|------------------------|-------------------|--------------|------------------|
| | 2017 | 2018 | 2019 | 31 October |
| | RMB | RMB | RMB | 2020 |
| | | | | RMB |
| Cost | | | | |
| Beginning balance | 41,695,551 | 41,695,551 | 41,695,551 | – |
| Transfer to property, plant and equipment | – | – | (41,695,551) | – |
| Ending balance | 41,695,551 | 41,695,551 | – | – |
| Accumulated depreciation | | | | |
| Beginning balance | (3,244,967) | (5,227,479) | (7,209,991) | – |
| Charge for the year | (1,982,512) | (1,982,512) | – | – |
| Transfer to property, plant and equipment | – | – | 7,209,991 | – |
| Ending balance | (5,227,479) | (7,209,991) | – | – |
| Net carrying amount | | | | |
| Ending balance | 36,468,072 | 34,485,560 | – | – |

16 LOANS AND RECEIVABLES

The Target Group

| | As at 31 December | | | As at |
|--|----------------------|-----------------------|-----------------------|-----------------------|
| | 2017 | 2018 | 2019 | 31 October |
| | RMB | RMB | RMB | 2020 |
| | | | | RMB |
| Receivables arising from sale and leaseback transactions (a) | 9,138,645,337 | 11,473,961,084 | 14,854,650,248 | 14,786,014,176 |
| Receivables from factoring (b) | – | – | 294,013,327 | 528,534,817 |
| | 9,138,645,337 | 11,473,961,084 | 15,148,663,575 | 15,314,548,993 |
| Analysed as: | | | | |
| Current | 2,468,425,358 | 3,058,763,270 | 5,032,311,950 | 5,470,956,317 |
| Non-current | 6,670,219,979 | 8,415,197,814 | 10,116,351,625 | 9,843,592,676 |
| Total | 9,138,645,337 | 11,473,961,084 | 15,148,663,575 | 15,314,548,993 |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

The Target

| | As at 31 December | | | As at 31 October |
|--|----------------------|----------------------|-----------------------|-----------------------|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB |
| Receivables arising from sale and leaseback transactions (a) | <u>7,140,193,358</u> | <u>9,665,672,699</u> | <u>13,313,261,994</u> | <u>13,237,143,208</u> |
| Analysed as: | | | | |
| Current | 1,977,815,897 | 2,597,377,342 | 4,123,572,384 | 4,331,777,606 |
| Non-current | <u>5,162,377,461</u> | <u>7,068,295,357</u> | <u>9,189,689,610</u> | <u>8,905,365,602</u> |
| Total | <u>7,140,193,358</u> | <u>9,665,672,699</u> | <u>13,313,261,994</u> | <u>13,237,143,208</u> |

(a) Receivables arising from sale and leaseback transactions

The Target Group

| | As at 31 December | | | As at 31 October |
|---|----------------------|-----------------------|-----------------------|-----------------------|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB |
| Amount of sale and leaseback arrangements | 9,092,609,245 | 11,449,271,434 | 14,789,064,218 | 14,999,183,423 |
| Add: Interest receivable | <u>154,800,470</u> | <u>158,340,689</u> | <u>246,096,368</u> | <u>66,349,408</u> |
| Gross amount of sale and leaseback arrangements | 9,247,409,715 | 11,607,612,123 | 15,035,160,586 | 15,065,532,831 |
| Less: Loss allowance | <u>(108,764,378)</u> | <u>(133,651,039)</u> | <u>(180,510,338)</u> | <u>(279,518,655)</u> |
| Net carrying amount | <u>9,138,645,337</u> | <u>11,473,961,084</u> | <u>14,854,650,248</u> | <u>14,786,014,176</u> |

The Target

| | As at 31 December | | | As at 31 October |
|---|----------------------|----------------------|-----------------------|-----------------------|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB |
| Amount of sale and leaseback arrangements | 7,094,592,806 | 9,640,373,287 | 13,262,826,388 | 13,358,457,413 |
| Add: Interest receivable | <u>139,019,334</u> | <u>143,419,646</u> | <u>218,336,078</u> | <u>134,630,627</u> |
| Gross amount of sale and leaseback arrangements | 7,233,612,140 | 9,783,792,933 | 13,481,162,466 | 13,493,088,040 |
| Less: Loss allowance | <u>(93,418,782)</u> | <u>(118,120,234)</u> | <u>(167,900,472)</u> | <u>(255,944,832)</u> |
| Net carrying amount | <u>7,140,193,358</u> | <u>9,665,672,699</u> | <u>13,313,261,994</u> | <u>13,237,143,208</u> |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

The table below illustrates the gross amount of receivables arising from sale and leaseback transactions due in the following year:

The Target Group

| | As at 31 December | | | As at |
|--------------------------|----------------------|-----------------------|-----------------------|-----------------------|
| | 2017 | 2018 | 2019 | 31 October |
| | RMB | RMB | RMB | 2020 |
| | | | | RMB |
| Due within 1 year | 2,497,796,366 | 3,094,423,539 | 4,802,493,672 | 5,083,100,419 |
| Due in 1 to 2 years | 2,151,335,555 | 3,285,775,109 | 3,918,971,721 | 4,380,243,708 |
| Due in 2 to 3 years | 2,092,827,382 | 2,540,319,017 | 3,254,100,588 | 3,283,002,948 |
| Due in 3 to 4 years | 1,519,895,136 | 1,896,995,318 | 2,106,297,060 | 1,847,843,389 |
| Due in 4 to 5 years | 923,479,257 | 754,333,863 | 923,383,095 | 454,907,658 |
| Due in 5 years and above | 62,076,019 | 35,765,277 | 29,914,450 | 16,434,709 |
| | <u>9,247,409,715</u> | <u>11,607,612,123</u> | <u>15,035,160,586</u> | <u>15,065,532,831</u> |

The Target

| | As at 31 December | | | As at |
|--------------------------|----------------------|----------------------|-----------------------|-----------------------|
| | 2017 | 2018 | 2019 | 31 October |
| | RMB | RMB | RMB | 2020 |
| | | | | RMB |
| Due within 1 year | 2,001,280,469 | 2,629,150,655 | 4,226,428,917 | 4,311,033,792 |
| Due in 1 to 2 years | 1,723,632,763 | 2,728,848,468 | 3,347,590,580 | 3,866,814,674 |
| Due in 2 to 3 years | 1,655,354,928 | 2,066,264,665 | 2,915,417,740 | 3,106,509,417 |
| Due in 3 to 4 years | 1,115,796,677 | 1,600,566,276 | 2,047,053,929 | 1,765,932,181 |
| Due in 4 to 5 years | 675,471,284 | 723,197,592 | 914,756,850 | 426,363,267 |
| Due in 5 years and above | 62,076,019 | 35,765,277 | 29,914,450 | 16,434,709 |
| | <u>7,233,612,140</u> | <u>9,783,792,933</u> | <u>13,481,162,466</u> | <u>13,493,088,040</u> |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

The movements in the gross amount of sale and leaseback arrangements during the years ended 31 December 2017, 2018, 2019 and ten months ended 31 October 2020 are as follows:

The Target Group

| | Stage 1 RMB | Stage 2 RMB | Stage 3 RMB | Total RMB |
|--|-----------------------|--------------------|-------------------|-----------------------|
| As at 1 January 2017 | 4,696,330,497 | 88,469,462 | – | 4,784,799,959 |
| New financial assets originated or purchased | 6,660,727,031 | – | – | 6,660,727,031 |
| Financial assets derecognised during the year | (2,198,117,275) | – | – | (2,198,117,275) |
| Transfers: | | | | |
| <i>Transfer between Stage 1 and Stage 2, net</i> | 88,469,462 | (88,469,462) | – | – |
| <i>Transfer between Stage 1 and Stage 3, net</i> | (77,846,528) | – | 77,846,528 | – |
| As at 31 December 2017 | <u>9,169,563,187</u> | <u>–</u> | <u>77,846,528</u> | <u>9,247,409,715</u> |
| | Stage 1 RMB | Stage 2 RMB | Stage 3 RMB | Total RMB |
| As at 1 January 2018 | 9,169,563,187 | – | 77,846,528 | 9,247,409,715 |
| New financial assets originated or purchased | 4,958,188,691 | – | – | 4,958,188,691 |
| Financial assets derecognised during the year | (2,547,790,436) | – | (50,195,847) | (2,597,986,283) |
| Transfers: | | | | |
| <i>Transfer between Stage 1 and Stage 3, net</i> | (11,151,352) | – | 11,151,352 | – |
| As at 31 December 2018 | <u>11,568,810,090</u> | <u>–</u> | <u>38,802,033</u> | <u>11,607,612,123</u> |
| | Stage 1 RMB | Stage 2 RMB | Stage 3 RMB | Total RMB |
| As at 1 January 2019 | 11,568,810,090 | – | 38,802,033 | 11,607,612,123 |
| New financial assets originated or purchased | 6,551,251,096 | – | – | 6,551,251,096 |
| Financial assets derecognised during the year | (3,116,081,648) | – | (7,620,985) | (3,123,702,633) |
| Transfers: | | | | |
| <i>Transfer between Stage 1 and Stage 2, net</i> | (124,970,769) | 124,970,769 | – | – |
| <i>Transfer between Stage 1 and Stage 3, net</i> | (19,597,496) | – | 19,597,496 | – |
| As at 31 December 2019 | <u>14,859,411,273</u> | <u>124,970,769</u> | <u>50,778,544</u> | <u>15,035,160,586</u> |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

| | Stage 1 RMB | Stage 2 RMB | Stage 3 RMB | Total RMB |
|--|-----------------------|--------------------|--------------------|-----------------------|
| As at 1 January 2020 | 14,859,411,273 | 124,970,769 | 50,778,544 | 15,035,160,586 |
| New financial assets | | | | |
| originated or purchased | 3,901,508,870 | – | – | 3,901,508,870 |
| Financial assets derecognised | | | | |
| during the year | (3,751,458,830) | (99,648,099) | (20,029,696) | (3,871,136,625) |
| Transfers: | | | | |
| <i>Transfer between Stage 1 and Stage 2, net</i> | (447,968,070) | 447,968,070 | – | – |
| <i>Transfer between Stage 1 and Stage 3, net</i> | (132,952,942) | – | 132,952,942 | – |
| As at 31 October 2020 | <u>14,428,540,301</u> | <u>473,290,740</u> | <u>163,701,790</u> | <u>15,065,532,831</u> |

The Target

| | Stage 1 RMB | Stage 2 RMB | Stage 3 RMB | Total RMB |
|--|----------------------|----------------|-------------------|----------------------|
| As at 1 January 2017 | 4,696,330,497 | 88,469,462 | – | 4,784,799,959 |
| New financial assets | | | | |
| originated or purchased | 4,646,929,458 | – | – | 4,646,929,458 |
| Financial assets derecognised | | | | |
| during the year | (2,198,117,277) | – | – | (2,198,117,277) |
| Transfers: | | | | |
| <i>Transfer between Stage 1 and Stage 2, net</i> | 88,469,462 | (88,469,462) | – | – |
| <i>Transfer between Stage 1 and Stage 3, net</i> | (77,846,528) | – | 77,846,528 | – |
| As at 31 December 2017 | <u>7,155,765,612</u> | <u>–</u> | <u>77,846,528</u> | <u>7,233,612,140</u> |

| | Stage 1 RMB | Stage 2 RMB | Stage 3 RMB | Total RMB |
|--|----------------------|----------------|-------------------|----------------------|
| As at 1 January 2018 | 7,155,765,612 | – | 77,846,528 | 7,233,612,140 |
| New financial assets | | | | |
| originated or purchased | 4,630,530,313 | – | – | 4,630,530,313 |
| Financial assets derecognised | | | | |
| during the year | (2,030,153,673) | – | (50,195,847) | (2,080,349,520) |
| Transfers: | | | | |
| <i>Transfer between Stage 1 and Stage 3, net</i> | (11,151,352) | – | 11,151,352 | – |
| As at 31 December 2018 | <u>9,744,990,900</u> | <u>–</u> | <u>38,802,033</u> | <u>9,783,792,933</u> |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

| | Stage 1 RMB | Stage 2 RMB | Stage 3 RMB | Total RMB |
|--|-----------------------|--------------------|--------------------|-----------------------|
| As at 1 January 2019 | 9,744,990,900 | – | 38,802,033 | 9,783,792,933 |
| New financial assets | | | | |
| originated or purchased | 6,381,353,565 | – | – | 6,381,353,565 |
| Financial assets derecognised | | | | |
| during the year | (2,676,363,047) | – | (7,620,985) | (2,683,984,032) |
| Transfers: | | | | |
| <i>Transfer between Stage 1 and Stage 2, net</i> | (106,115,175) | 106,115,175 | – | – |
| <i>Transfer between Stage 1 and Stage 3, net</i> | (19,597,496) | – | 19,597,496 | – |
| As at 31 December 2019 | <u>13,324,268,747</u> | <u>106,115,175</u> | <u>50,778,544</u> | <u>13,481,162,466</u> |
| | Stage 1 RMB | Stage 2 RMB | Stage 3 RMB | Total RMB |
| As at 1 January 2020 | 13,324,268,747 | 106,115,175 | 50,778,544 | 13,481,162,466 |
| New financial assets | | | | |
| originated or purchased | 3,486,569,683 | – | 61,578,164 | 3,548,147,847 |
| Financial assets derecognised | | | | |
| during the year | (3,443,833,631) | (72,358,947) | (20,029,695) | (3,536,222,273) |
| Transfers: | | | | |
| <i>Transfer between Stage 1 and Stage 2, net</i> | (339,758,755) | 339,758,755 | – | – |
| <i>Transfer between Stage 1 and Stage 3, net</i> | (71,374,777) | – | 71,374,777 | – |
| As at 31 October 2020 | <u>12,955,871,267</u> | <u>373,514,983</u> | <u>163,701,790</u> | <u>13,493,088,040</u> |

The movements in allowance of sale and leaseback arrangements during the years ended 31 December 2017, 2018, 2019 and ten months ended 31 October 2020 are as follows:

The Target Group

| | Stage 1 RMB | Stage 2 RMB | Stage 3 RMB | Total RMB |
|--|-------------------|----------------|-------------------|--------------------|
| As at 1 January 2017 | 50,300,688 | 2,046,700 | – | 52,347,388 |
| New financial assets | | | | |
| originated | | | | |
| or purchased | 56,039,699 | – | – | 56,039,699 |
| Financial assets derecognised | | | | |
| during the year | (22,598,675) | – | – | (22,598,675) |
| Transfers: | | | | |
| <i>Transfer between Stage 1 and Stage 2, net</i> | 2,046,700 | (2,046,700) | – | – |
| <i>Transfer between Stage 1 and Stage 3, net</i> | (2,360,114) | – | 2,360,114 | – |
| Other movements (i) | <u>1,990,068</u> | <u>–</u> | <u>20,985,898</u> | <u>22,975,966</u> |
| As at 31 December 2017 | <u>85,418,366</u> | <u>–</u> | <u>23,346,012</u> | <u>108,764,378</u> |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

| | Stage 1 RMB | Stage 2 RMB | Stage 3 RMB | Total RMB |
|--|--------------------|-------------------|-------------------|--------------------|
| As at 1 January 2018 | 85,418,366 | – | 23,346,012 | 108,764,378 |
| New financial assets | | | | |
| originated or purchased | 56,850,167 | – | – | 56,850,167 |
| Financial assets derecognised | | | | |
| during the year | (25,676,866) | – | (12,530,389) | (38,207,255) |
| Transfers: | | | | |
| <i>Transfer between Stage 1 and Stage 3, net</i> | (108,038) | – | 108,038 | – |
| Other movements (i) | 646,061 | – | 5,597,688 | 6,243,749 |
| As at 31 December 2018 | 117,129,690 | – | 16,521,349 | 133,651,039 |
| As at 1 January 2019 | 117,129,690 | – | 16,521,349 | 133,651,039 |
| New financial assets | | | | |
| originated or purchased | 82,124,315 | – | – | 82,124,315 |
| Financial assets derecognised | | | | |
| during the year | (37,790,850) | – | (245,262) | (38,036,112) |
| Transfers: | | | | |
| <i>Transfer between Stage 1 and Stage 2, net</i> | (2,012,850) | 2,012,850 | – | – |
| <i>Transfer between Stage 1 and Stage 3, net</i> | (144,147) | – | 144,147 | – |
| Other movements (i) | (4,569,315) | 2,733,651 | 4,606,760 | 2,771,096 |
| As at 31 December 2019 | 154,736,843 | 4,746,501 | 21,026,994 | 180,510,338 |
| As at 1 January 2020 | 154,736,843 | 4,746,501 | 21,026,994 | 180,510,338 |
| New financial assets | | | | |
| originated or purchased | 54,972,464 | – | – | 54,972,464 |
| Financial assets derecognised | | | | |
| during the year | (35,670,337) | – | (390,743) | (36,061,080) |
| Transfers: | | | | |
| <i>Transfer between Stage 1 and Stage 2, net</i> | (3,619,705) | 3,619,705 | – | – |
| <i>Transfer between Stage 1 and Stage 3, net</i> | (1,013,150) | – | 1,013,150 | – |
| Other movements (i) | (4,245,967) | 33,969,346 | 50,373,554 | 80,096,933 |
| As at 31 October 2020 | 165,160,148 | 42,355,552 | 72,022,955 | 279,518,655 |

(i) Changes in PDs, EADs, and LGDs in the current year, arising from regular refreshing of inputs to models.

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

The Target

| | Stage 1 RMB | Stage 2 RMB | Stage 3 RMB | Total RMB |
|--|--------------------|-------------------|-------------------|--------------------|
| As at 1 January 2017 | 50,300,687 | 2,046,700 | – | 52,347,387 |
| New financial assets originated or purchased | 40,694,104 | – | – | 40,694,104 |
| Financial assets derecognised during the year | (22,598,675) | – | – | (22,598,675) |
| Transfers: | | | | |
| Transfer between Stage 1 and Stage 2, net | 2,046,700 | (2,046,700) | – | – |
| Transfer between Stage 1 and Stage 3, net | (2,360,114) | – | 2,360,114 | – |
| Other movements (i) | 1,990,068 | – | 20,985,898 | 22,975,966 |
| As at 31 December 2017 | <u>70,072,770</u> | <u>–</u> | <u>23,346,012</u> | <u>93,418,782</u> |
| As at 1 January 2018 | 70,072,770 | – | 23,346,012 | 93,418,782 |
| New financial assets originated or purchased | 53,429,241 | – | – | 53,429,241 |
| Financial assets derecognised during the year | (20,825,513) | – | (12,530,389) | (33,355,902) |
| Transfers: | | | | |
| Transfer between Stage 1 and Stage 3, net | (108,038) | – | 108,038 | – |
| Other movements (i) | (969,575) | – | 5,597,688 | 4,628,113 |
| As at 31 December 2018 | <u>101,598,885</u> | <u>–</u> | <u>16,521,349</u> | <u>118,120,234</u> |
| As at 1 January 2019 | 101,598,885 | – | 16,521,349 | 118,120,234 |
| New financial assets originated or purchased | 80,325,606 | – | – | 80,325,606 |
| Financial assets derecognised during the year | (35,199,955) | – | (245,262) | (35,445,217) |
| Transfers: | | | | |
| Transfer between Stage 1 and Stage 2, net | (1,762,741) | 1,762,741 | – | – |
| Transfer between Stage 1 and Stage 3, net | (144,147) | – | 144,147 | – |
| Other movements (i) | (1,682,950) | 1,976,039 | 4,606,760 | 4,899,849 |
| As at 31 December 2019 | <u>143,134,698</u> | <u>3,738,780</u> | <u>21,026,994</u> | <u>167,900,472</u> |
| As at 1 January 2020 | 143,134,698 | 3,738,780 | 21,026,994 | 167,900,472 |
| New financial assets originated or purchased | 47,279,839 | – | 26,716,442 | 73,996,281 |
| Financial assets derecognised during the year | (33,581,303) | – | (390,743) | (33,972,046) |
| Transfers: | | | | |
| Transfer between Stage 1 and Stage 2, net | (715,261) | 715,261 | – | – |
| Transfer between Stage 1 and Stage 3, net | (702,628) | – | 702,628 | – |
| Other movements (i) | (3,285,985) | 27,338,476 | 23,967,634 | 48,022,125 |
| As at 31 October 2020 | <u>152,129,360</u> | <u>31,792,517</u> | <u>72,022,955</u> | <u>255,944,832</u> |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

- (i) Changes in PDs, EADs, and LGDs in the current year, arising from regular refreshing of inputs to models.

(b) Receivables from factoring

The Target Group

| | As at 31 December | | | As at 31 October |
|----------------------|-------------------|------|-------------|---------------------|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB |
| Gross amount | – | – | 296,908,960 | 534,234,011 |
| Less: Loss allowance | – | – | (2,895,633) | (5,699,194) |
| Net carrying amount | – | – | 294,013,327 | 528,534,817 |

All receivables from factoring are due within 1 year and classified as stage 1.

17 FINANCE LEASE RECEIVABLES

The Target Group

| | As at 31 December | | | As at 31 October |
|--|-------------------|-------------|-------------|---------------------|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB |
| Finance lease receivables | 47,256,879 | 37,248,283 | 60,031,495 | 172,018,177 |
| Less: Unrealised finance income | (6,984,057) | (4,176,168) | (5,305,156) | (19,089,597) |
| Less: Provision for impairment losses | (576,305) | (449,261) | (1,221,304) | (1,146,180) |
| Net value of finance lease receivables | 39,696,517 | 32,622,854 | 53,505,035 | 151,782,400 |
| Analysed as: | | | | |
| Current | 10,108,257 | 11,368,260 | 42,494,893 | 136,945,636 |
| Non-current | 29,588,260 | 21,254,594 | 11,010,142 | 14,836,764 |
| Total | 39,696,517 | 32,622,854 | 53,505,035 | 151,782,400 |

All finance lease receivables were classified as stage 1.

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

The Target

| | As at 31 December | | | As at 31 October |
|--|-------------------|-------------------|-------------------|---------------------|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB |
| Finance lease receivables | 47,256,879 | 37,248,283 | 23,469,929 | 13,271,663 |
| Less: Unrealised finance income | (6,984,057) | (4,176,168) | (1,890,274) | (691,391) |
| Less: Provision for impairment losses | (576,305) | (449,261) | (243,177) | (107,843) |
| Net value of finance lease receivables | <u>39,696,517</u> | <u>32,622,854</u> | <u>21,336,478</u> | <u>12,472,429</u> |
| Analysed as: | | | | |
| Current | 10,108,257 | 11,368,260 | 11,497,944 | 10,272,266 |
| Non-current | <u>29,588,260</u> | <u>21,254,594</u> | <u>9,838,534</u> | <u>2,200,163</u> |
| Total | <u>39,696,517</u> | <u>32,622,854</u> | <u>21,336,478</u> | <u>12,472,429</u> |

All finance lease receivables were classified as stage 1.

The table below analyses the Target Group's gross investment in finance leases by relevant maturity groupings at the end of each reporting period.

The Target Group

| | As at 31 December | | | As at 31 October |
|---------------|-------------------|-------------------|-------------------|---------------------|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB |
| Within 1 year | 13,244,654 | 13,778,354 | 49,516,820 | 169,466,739 |
| 1 to 2 years | 12,160,375 | 12,955,454 | 10,514,675 | 2,551,438 |
| 2 to 3 years | 11,337,375 | 10,514,475 | – | – |
| 3 to 4 years | <u>10,514,475</u> | <u>–</u> | <u>–</u> | <u>–</u> |
| | <u>47,256,879</u> | <u>37,248,283</u> | <u>60,031,495</u> | <u>172,018,177</u> |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

The table below analyses the Target's gross investment in finance leases by relevant maturity groupings at the end of each reporting period.

The Target

| | As at 31 December | | | As at |
|---------------|-------------------|-------------------|-------------------|-------------------|
| | 2017 | 2018 | 2019 | 31 October |
| | RMB | RMB | RMB | 2020 |
| | | | | RMB |
| Within 1 year | 13,244,654 | 13,778,354 | 12,955,254 | 10,720,225 |
| 1 to 2 years | 12,160,375 | 12,955,454 | 10,514,675 | 2,551,438 |
| 2 to 3 years | 11,337,375 | 10,514,475 | – | – |
| 3 to 4 years | 10,514,475 | – | – | – |
| | <u>47,256,879</u> | <u>37,248,283</u> | <u>23,469,929</u> | <u>13,271,663</u> |

The movements in loss allowance of finance lease receivables are summarised as follows:

The Target Group

| | 2017 | 2018 | 2019 | Ten months |
|--|----------------|----------------|------------------|------------------|
| | | | | ended |
| | RMB | RMB | RMB | 31 October |
| | | | | 2020 |
| | | | | RMB |
| As at 1 January | 650,015 | 576,305 | 449,261 | 1,221,304 |
| New financial assets originated or purchased | – | 24,533 | 978,127 | 954,633 |
| Financial assets derecognised during the year/period | (40,164) | (141,728) | (149,905) | (869,697) |
| Other movement (i) | (33,546) | (9,849) | (56,179) | (160,060) |
| As at 31 December/31 October | <u>576,305</u> | <u>449,261</u> | <u>1,221,304</u> | <u>1,146,180</u> |

- (i) Changes in PDs, EADs, and LGDs in the current year, arising from regular refreshing of inputs to models.

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Target Group

| | As at 31 December | | | As at |
|----------------------------|--------------------|----------|------------------|------------|
| | 2017 | 2018 | 2019 | 31 October |
| | RMB | RMB | RMB | 2020 |
| | | | | RMB |
| Trusts | 750,000,000 | – | – | – |
| Wealth management products | 25,000,000 | – | 4,440,000 | – |
| | <u>775,000,000</u> | <u>–</u> | <u>4,440,000</u> | <u>–</u> |
| Analysed as: | | | | |
| Current | 775,000,000 | – | 4,440,000 | – |
| Non-current | – | – | – | – |
| Total | <u>775,000,000</u> | <u>–</u> | <u>4,440,000</u> | <u>–</u> |

The Target

| | As at 31 December | | | As at |
|----------------------------|--------------------|----------|----------|------------|
| | 2017 | 2018 | 2019 | 31 October |
| | RMB | RMB | RMB | 2020 |
| | | | | RMB |
| Trusts | 750,000,000 | – | – | – |
| Wealth management products | 25,000,000 | – | – | – |
| | <u>775,000,000</u> | <u>–</u> | <u>–</u> | <u>–</u> |
| Analysed as: | | | | |
| Current | 775,000,000 | – | – | – |
| Non-current | – | – | – | – |
| Total | <u>775,000,000</u> | <u>–</u> | <u>–</u> | <u>–</u> |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

19 DEFERRED INCOME TAX ASSETS

The following is the analysis of the deferred tax balances:

The Target Group

| | As at 31 December | | | As at |
|---------------------|-------------------|-------------|-------------|-------------|
| | 2017 | 2018 | 2019 | 31 October |
| | RMB | RMB | RMB | 2020 |
| | | | | RMB |
| Deferred tax assets | 99,970,038 | 127,120,616 | 142,068,262 | 135,277,030 |

The Target

| | As at 31 December | | | As at |
|---------------------|-------------------|-------------|-------------|-------------|
| | 2017 | 2018 | 2019 | 31 October |
| | RMB | RMB | RMB | 2020 |
| | | | | RMB |
| Deferred tax assets | 75,528,891 | 106,843,480 | 120,649,348 | 122,233,115 |

The Target Group

| | 2017 | | 2018 | | 2019 | | As at 31 October 2020 | |
|--------------------------------|-------------|------------|-------------|-------------|-------------|-------------|-----------------------|-------------|
| | Deductible | Deferred | Deductible | Deferred | Deductible | Deferred | Deductible | Deferred |
| | temporary | income tax | temporary | income tax | temporary | income tax | temporary | income tax |
| | differences | assets | differences | assets | differences | assets | differences | assets |
| | RMB | RMB | RMB | RMB | RMB | RMB | RMB | RMB |
| Impairment allowance | 109,366,252 | 27,341,563 | 134,102,000 | 33,525,500 | 184,629,676 | 46,157,419 | 286,366,430 | 71,591,608 |
| Employee benefits | 49,768,176 | 12,442,044 | 71,017,910 | 17,754,478 | 26,596,700 | 6,649,175 | 8,218,448 | 2,054,612 |
| Deferred revenue | 240,745,724 | 60,186,431 | 303,362,552 | 75,840,638 | 357,046,672 | 89,261,668 | 246,523,240 | 61,630,810 |
| Net deferred income tax assets | 399,880,152 | 99,970,038 | 508,482,462 | 127,120,616 | 568,273,048 | 142,068,262 | 541,108,118 | 135,277,030 |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

The Target

| | 2017 | | 2018 | | 2019 | | As at 31 October 2020 | |
|---------------------------------------|----------------------------------|----------------------------|----------------------------------|----------------------------|----------------------------------|----------------------------|----------------------------------|----------------------------|
| | Deductible temporary differences | Deferred income tax assets | Deductible temporary differences | Deferred income tax assets | Deductible temporary differences | Deferred income tax assets | Deductible temporary differences | Deferred income tax assets |
| | RMB | RMB | RMB | RMB | RMB | RMB | RMB | RMB |
| Impairment allowance | 94,020,658 | 23,505,165 | 118,571,195 | 29,642,799 | 168,146,049 | 42,036,512 | 256,055,075 | 64,013,769 |
| Employee benefits | 38,542,128 | 9,635,532 | 62,244,688 | 15,561,172 | 16,163,563 | 4,040,891 | 5,490,287 | 1,372,572 |
| Deferred revenue | 169,552,778 | 42,388,194 | 246,558,037 | 61,639,509 | 298,287,780 | 74,571,945 | 227,387,095 | 56,846,774 |
| Net deferred income tax assets | 302,115,564 | 75,528,891 | 427,373,920 | 106,843,480 | 482,597,392 | 120,649,348 | 488,932,458 | 122,233,115 |

The following are the deferred income tax accounts recognised and movements thereon in the years ended 31 December 2017, 2018, 2019 and ten months ended 31 October 2020:

The Target Group

| | Deferred revenue | Impairment allowance | Employee benefits | Total |
|---|------------------|----------------------|-------------------|-------------|
| | RMB | RMB | RMB | RMB |
| As at 1 January 2017 | 13,061,172 | 13,253,906 | 7,113,248 | 33,428,326 |
| Credit to the income statement | 47,125,259 | 14,087,657 | 5,328,796 | 66,541,712 |
| As at 31 December 2017 | 60,186,431 | 27,341,563 | 12,442,044 | 99,970,038 |
| As at 1 January 2018 | 60,186,431 | 27,341,563 | 12,442,044 | 99,970,038 |
| Credit to the income statement | 15,654,207 | 6,183,937 | 5,312,434 | 27,150,578 |
| As at 31 December 2018 | 75,840,638 | 33,525,500 | 17,754,478 | 127,120,616 |
| As at 1 January 2019 | 75,840,638 | 33,525,500 | 17,754,478 | 127,120,616 |
| Credit/(charge) to the income statement | 13,421,030 | 12,631,919 | (11,105,303) | 14,947,646 |
| As at 31 December 2019 | 89,261,668 | 46,157,419 | 6,649,175 | 142,068,262 |
| As at 1 January 2020 | 89,261,668 | 46,157,419 | 6,649,175 | 142,068,262 |
| Credit/(charge) to the income statement | (27,630,858) | 25,434,189 | (4,594,536) | (6,791,232) |
| As at 31 October 2020 | 61,630,810 | 71,591,608 | 2,054,612 | 135,277,030 |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

The Target

| | Deferred revenue <i>RMB</i> | Impairment allowance <i>RMB</i> | Employee benefits <i>RMB</i> | Total <i>RMB</i> |
|---|-----------------------------------|---------------------------------------|------------------------------------|---------------------|
| As at 1 January 2017 | 19,340,665 | 13,253,906 | 7,113,248 | 39,707,819 |
| Credit to the income statement | 23,047,529 | 10,251,259 | 2,522,284 | 35,821,072 |
| As at 31 December 2017 | <u>42,388,194</u> | <u>23,505,165</u> | <u>9,635,532</u> | <u>75,528,891</u> |
| As at 1 January 2018 | 42,388,194 | 23,505,165 | 9,635,532 | 75,528,891 |
| Credit to the income statement | 19,251,315 | 6,137,634 | 5,925,640 | 31,314,589 |
| As at 31 December 2018 | <u>61,639,509</u> | <u>29,642,799</u> | <u>15,561,172</u> | <u>106,843,480</u> |
| As at 1 January 2019 | 61,639,509 | 29,642,799 | 15,561,172 | 106,843,480 |
| Credit/(charge) to the income statement | 12,932,436 | 12,393,713 | (11,520,281) | 13,805,868 |
| As at 31 December 2019 | <u>74,571,945</u> | <u>42,036,512</u> | <u>4,040,891</u> | <u>120,649,348</u> |
| As at 1 January 2020 | 74,571,945 | 42,036,512 | 4,040,891 | 120,649,348 |
| Credit/(charge) to the income statement | (17,725,171) | 21,977,257 | (2,668,319) | 1,583,767 |
| As at 31 October 2020 | <u>56,846,774</u> | <u>64,013,769</u> | <u>1,372,572</u> | <u>122,233,115</u> |

20 OTHER ASSETS

The Target Group

| | As at 31 December | | | As at 31 October |
|--|--------------------|--------------------|--------------------|---------------------|
| | 2017 <i>RMB</i> | 2018 <i>RMB</i> | 2019 <i>RMB</i> | 2020 <i>RMB</i> |
| Deposit for borrowings | 16,790,803 | 17,091,647 | 32,332,551 | 25,073,052 |
| VAT receivables | 3,566,967 | – | 7,825,022 | 25,336,536 |
| Rent receivables (<i>Note 28.2(e)</i>) | 454,178 | 1,544,486 | 1,544,486 | 1,544,486 |
| Foreclosed assets under sale | – | – | – | 21,557,055 |
| Electricity receivables | – | – | – | 1,749,877 |
| Others | 1,692,155 | 1,157,721 | 822,893 | 1,374,680 |
| Total amount | 22,504,103 | 19,793,854 | 42,524,952 | 76,635,686 |
| Less: Loss allowance | (25,571) | (1,700) | (2,400) | (2,400) |
| Net amount | <u>22,478,532</u> | <u>19,792,154</u> | <u>42,522,552</u> | <u>76,633,286</u> |
| Analysed as: | | | | |
| Current | 4,548,249 | 2,065,708 | 20,416,608 | 41,422,870 |
| Non-current | 17,930,283 | 17,726,446 | 22,105,944 | 35,210,416 |
| | <u>22,478,532</u> | <u>19,792,154</u> | <u>42,522,552</u> | <u>76,633,286</u> |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

The Target

| | As at 31 December | | | As at 31 October |
|----------------------------------|----------------------|--------------------|--------------------|---------------------|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB |
| Amounts due from related parties | 1,003,643,267 | 916,673,267 | 683,514,234 | 908,020,283 |
| Deposit for borrowings | 15,264,570 | 15,136,000 | 30,339,497 | 23,248,000 |
| VAT receivables | 3,456,521 | – | – | – |
| Foreclosed assets under sale | – | – | – | 21,557,055 |
| Others | 1,040,018 | 654,205 | 647,931 | 846,145 |
| | <u>1,023,404,376</u> | <u>932,463,472</u> | <u>714,501,662</u> | <u>953,671,483</u> |
| Total amount | 1,023,404,376 | 932,463,472 | 714,501,662 | 953,671,483 |
| Less: Loss allowance | (25,571) | (1,700) | (2,400) | (2,400) |
| | <u>1,023,378,805</u> | <u>932,461,772</u> | <u>714,499,262</u> | <u>953,669,083</u> |
| Net amount | <u>1,023,378,805</u> | <u>932,461,772</u> | <u>714,499,262</u> | <u>953,669,083</u> |
| Analysed as: | | | | |
| Current | 1,007,380,376 | 16,894,285 | 554,770,643 | 712,634,211 |
| Non-current | 15,998,429 | 915,567,487 | 159,728,619 | 241,034,872 |
| | <u>1,023,378,805</u> | <u>932,461,772</u> | <u>714,499,262</u> | <u>953,669,083</u> |

21 CASH AND BANK BALANCES

The Target Group

| | As at 31 December | | | As at 31 October |
|---------------------------------------|--------------------|--------------------|--------------------|---------------------|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB |
| Cash and bank balances | | | | |
| – Cash on hand | 19,292 | 20,127 | 11,034 | 23,008 |
| – Cash at bank | 363,041,777 | 655,273,997 | 399,670,892 | 412,284,517 |
| – Restricted cash (<i>note (i)</i>) | 81,500,000 | 36,500,000 | 214,000,000 | 204,000,000 |
| | <u>444,561,069</u> | <u>691,794,124</u> | <u>613,681,926</u> | <u>616,307,525</u> |
| Total | <u>444,561,069</u> | <u>691,794,124</u> | <u>613,681,926</u> | <u>616,307,525</u> |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the financial year as follows:

| | As at 31 December | | | As at 31 October |
|--------------------------------------|--------------------|--------------------|--------------------|---------------------|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB |
| Balances as above | 444,561,069 | 691,794,124 | 613,681,926 | 616,307,525 |
| Restricted cash (<i>note (i)</i>) | (81,500,000) | (36,500,000) | (214,000,000) | (204,000,000) |
| Balances per statement of cash flows | <u>363,061,069</u> | <u>655,294,124</u> | <u>399,681,926</u> | <u>412,307,525</u> |
| Analysed as: | | | | |
| Current | 444,561,069 | 691,794,124 | 459,681,926 | 412,307,525 |
| Non-current | <u>–</u> | <u>–</u> | <u>154,000,000</u> | <u>204,000,000</u> |
| | <u>444,561,069</u> | <u>691,794,124</u> | <u>613,681,926</u> | <u>616,307,525</u> |

Note (i): Restricted cash represented the pledged deposit held by the Target Group in relation to the borrowings as at 31 December 2017, 2018, 2019 and 31 October 2020.

Cash and bank balances are denominated in the following currencies:

| | As at 31 December | | | As at 31 October |
|-----|--------------------|--------------------|--------------------|---------------------|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB |
| RMB | 444,527,739 | 691,792,731 | 613,680,510 | 616,306,160 |
| HKD | 154 | – | – | – |
| USD | <u>33,176</u> | <u>1,393</u> | <u>1,416</u> | <u>1,365</u> |
| | <u>444,561,069</u> | <u>691,794,124</u> | <u>613,681,926</u> | <u>616,307,525</u> |

The Target

| | As at 31 December | | | As at 31 October |
|---------------------------------------|--------------------|--------------------|--------------------|---------------------|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB |
| Cash and bank balances | | | | |
| – Cash on hand | 17,592 | 18,827 | 9,639 | 22,608 |
| – Cash at bank | 351,784,450 | 537,843,994 | 352,165,900 | 348,024,692 |
| – Restricted cash (<i>note (i)</i>) | <u>81,500,000</u> | <u>10,000,000</u> | <u>154,000,000</u> | <u>204,000,000</u> |
| Total | <u>433,302,042</u> | <u>547,862,821</u> | <u>506,175,539</u> | <u>552,407,330</u> |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the financial year as follows:

| | As at 31 December | | | As at 31 October |
|--------------------------------------|--------------------|--------------------|--------------------|---------------------|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB |
| Balances as above | 433,302,042 | 547,862,821 | 506,175,539 | 552,047,300 |
| Restricted cash (<i>note (i)</i>) | (81,500,000) | (10,000,000) | (154,000,000) | (204,000,000) |
| Balances per statement of cash flows | <u>351,802,042</u> | <u>537,862,821</u> | <u>352,175,539</u> | <u>348,047,300</u> |
| Analysed as: | | | | |
| Current | 433,302,042 | 547,862,821 | 352,175,539 | 348,047,300 |
| Non-current | <u>—</u> | <u>—</u> | <u>154,000,000</u> | <u>204,000,000</u> |
| | <u>433,302,042</u> | <u>547,862,821</u> | <u>506,175,539</u> | <u>552,047,300</u> |

Note (i): Restricted cash represented the pledged deposit held by the Target in relation to the borrowings as at 31 December 2017, 2018, 2019 and 31 October 2020.

Cash and bank balances are denominated in the following currencies:

| | As at 31 December | | | As at 31 October |
|-----|--------------------|--------------------|--------------------|---------------------|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB |
| RMB | 433,268,712 | 547,861,428 | 506,174,123 | 552,045,935 |
| HKD | 154 | — | — | — |
| USD | <u>33,176</u> | <u>1,393</u> | <u>1,416</u> | <u>1,365</u> |
| | <u>433,302,042</u> | <u>547,862,821</u> | <u>506,175,539</u> | <u>552,047,300</u> |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

22 BORROWINGS

The Target Group

| | As at 31 December | | | As at 31 October |
|--|----------------------|----------------------|----------------------|----------------------|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB |
| Bank borrowings | 2,386,290,484 | 2,743,028,209 | 3,297,896,104 | 1,413,453,855 |
| Borrowings from other financial institutions | 4,375,592,890 | 4,468,162,574 | 3,426,512,286 | 2,243,893,343 |
| Interest payable | 30,618,051 | 76,355,242 | 85,082,883 | 73,510,777 |
| | <u>6,792,501,425</u> | <u>7,287,546,025</u> | <u>6,809,491,273</u> | <u>3,730,857,975</u> |
| Analysed as: | | | | |
| Current | 951,486,675 | 3,952,112,317 | 4,335,521,969 | 2,074,167,715 |
| Non-current | <u>5,841,014,750</u> | <u>3,335,433,708</u> | <u>2,473,969,304</u> | <u>1,656,690,260</u> |
| | <u>6,792,501,425</u> | <u>7,287,546,025</u> | <u>6,809,491,273</u> | <u>3,730,857,975</u> |
| Analysed as: | | | | |
| Guaranteed borrowings (i) | 4,819,066,612 | 4,851,463,753 | 3,041,158,173 | 1,006,514,867 |
| Secured borrowings (ii) | 356,187,690 | 540,400,171 | 1,701,654,312 | 1,772,301,976 |
| Both guaranteed and secured borrowings (i)(ii) | 1,586,629,072 | 1,819,326,859 | 1,981,595,905 | 878,530,355 |
| Interest payable | <u>30,618,051</u> | <u>76,355,242</u> | <u>85,082,883</u> | <u>73,510,777</u> |
| | <u>6,792,501,425</u> | <u>7,287,546,025</u> | <u>6,809,491,273</u> | <u>3,730,857,975</u> |

At 31 December, the Target Group's borrowings were repayable as follows:

| | As at 31 December | | | As at 31 October |
|--|----------------------|----------------------|----------------------|----------------------|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB |
| Within one year | 951,486,675 | 3,952,112,318 | 4,335,521,969 | 2,074,167,715 |
| In the second year | 3,135,726,616 | 2,089,011,947 | 979,917,862 | 1,500,343,406 |
| In the third to fifth years, inclusive | <u>2,705,288,134</u> | <u>1,246,421,760</u> | <u>1,494,051,442</u> | <u>156,346,854</u> |
| | <u>6,792,501,425</u> | <u>7,287,546,025</u> | <u>6,809,491,273</u> | <u>3,730,857,975</u> |

- (i) As at 31 December 2017, 2018, 2019 and 31 October 2020, borrowings of RMB6,405,695,684, RMB6,670,790,612, RMB5,022,754,078 and RMB1,885,045,222 were guaranteed by Qingdao City Construction Investment (Group) Co., Ltd. and Qingdao City Construction Finance Holding Group Co., Ltd.

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

- (ii) As at 31 December 2017, 2018, 2019 and 31 October 2020, the secured borrowings were pledged by receivables arising from sale and leaseback transactions amounting to RMB2,719,492,421, RMB2,933,401,654, RMB4,463,113,984, RMB3,763,419,681 respectively and bank deposits amounting to RMB81,500,000, RMB36,500,000, RMB214,000,000 and RMB204,000,000 respectively.

The range of the effective interest rates per annum of borrowings were as follows.

| | Year ended 31 December | | | Ten months ended |
|--|------------------------|----------------------|----------------------|----------------------|
| | 2017 | 2018 | 2019 | 31 October 2020 |
| Effective annual interest rates | 4.98%–6.59% | 4.98%–7.61% | 4.49%–7.95% | 4.49%–7.50% |
| The Target | | | | |
| | As at 31 December | | | As at |
| | 2017 | 2018 | 2019 | 31 October |
| | RMB | RMB | RMB | RMB |
| Bank borrowings | 2,385,998,173 | 2,582,855,585 | 3,192,854,699 | 1,281,743,454 |
| Borrowings from other financial institutions | 4,375,592,890 | 4,468,162,574 | 3,337,512,285 | 2,117,093,138 |
| Interest payable | 30,618,051 | 76,086,493 | 82,737,550 | 73,242,077 |
| | <u>6,792,209,114</u> | <u>7,127,104,652</u> | <u>6,613,104,534</u> | <u>3,472,078,669</u> |
| Analysed as: | | | | |
| Current | 951,366,988 | 3,896,712,350 | 4,213,135,229 | 1,894,248,521 |
| Non-current | <u>5,840,842,126</u> | <u>3,230,392,302</u> | <u>2,399,969,305</u> | <u>1,577,830,148</u> |
| | <u>6,792,209,114</u> | <u>7,127,104,652</u> | <u>6,613,104,534</u> | <u>3,472,078,669</u> |
| Analysed as: | | | | |
| Guaranteed borrowings (i) | 4,819,066,612 | 4,716,476,443 | 2,937,158,172 | 875,804,466 |
| Secured borrowings (ii) | 355,895,379 | 515,214,857 | 1,611,612,907 | 1,772,301,976 |
| Both guaranteed and secured borrowings (i)(ii) | 1,586,629,072 | 1,819,326,859 | 1,981,595,905 | 750,730,150 |
| Interest payable | <u>30,618,051</u> | <u>76,086,493</u> | <u>82,737,550</u> | <u>73,242,077</u> |
| | <u>6,792,209,114</u> | <u>7,127,104,652</u> | <u>6,613,104,534</u> | <u>3,472,078,669</u> |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

At 31 December, the Target's borrowings were repayable as follows:

| | As at 31 December | | | As at 31 October |
|---|----------------------|----------------------|----------------------|----------------------|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB |
| Within one year | 951,366,988 | 3,896,712,350 | 4,213,135,229 | 1,894,248,521 |
| In the second year | 3,135,595,400 | 2,058,970,541 | 950,917,861 | 1,323,340,023 |
| In the third to fifth years, inclusive | 2,705,246,726 | 1,171,421,761 | 1,449,051,444 | 254,490,125 |
| | <u>6,792,209,114</u> | <u>7,127,104,652</u> | <u>6,613,104,534</u> | <u>3,472,078,669</u> |

- (i) As at 31 December 2017, 2018, 2019 and 31 October 2020, borrowings of RMB6,405,695,684, RMB6,535,803,302, RMB4,918,754,077 and RMB1,626,534,616 were guaranteed by Qingdao City Construction Investment (Group) Co., Ltd. and Qingdao City Construction Finance Holding Group Co., Ltd.
- (ii) As at 31 December 2017, 2018, 2019 and 31 October 2020, the secured borrowings were pledged by receivables arising from sale and leaseback transactions amounting to RMB2,719,492,421, RMB2,933,401,654, RMB4,382,485,637, RMB3,642,567,825 respectively and bank deposits amounting to RMB81,500,000, RMB10,000,000, RMB154,000,000 and RMB204,000,000 respectively.

The range of the effective interest rates per annum of borrowings were as follows.

| | Year ended 31 December | | | Ten months ended 31 October |
|---------------------------------|------------------------|-------------|-------------|-----------------------------------|
| | 2017 | 2018 | 2019 | 2020 |
| Effective annual interest rates | 4.98%–6.59% | 4.98%–7.61% | 4.49%–7.95% | 4.49%–7.50% |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

23 BONDS PAYABLE

The Target Group and the Target

| | As at 31 December | | | As at |
|-----------------------------------|--------------------|----------------------|----------------------|----------------------|
| | 2017 | 2018 | 2019 | 31 October |
| | RMB | RMB | RMB | 2020 |
| | | | | RMB |
| Asset-backed securities (Note 26) | 512,389,246 | 1,489,668,693 | 2,860,498,710 | 3,773,759,643 |
| Corporate bonds (i) | – | – | 2,309,738,262 | 4,082,207,005 |
| Private placement notes (ii) | – | – | – | 507,179,729 |
| | <u>512,389,246</u> | <u>1,489,668,693</u> | <u>5,170,236,972</u> | <u>8,363,146,377</u> |
| Analysed as: | | | | |
| Current | 207,865,327 | 918,164,595 | 2,390,481,383 | 1,932,285,363 |
| Non-current | <u>304,523,919</u> | <u>571,504,098</u> | <u>2,779,755,589</u> | <u>6,430,861,014</u> |
| | <u>512,389,246</u> | <u>1,489,668,693</u> | <u>5,170,236,972</u> | <u>8,363,146,377</u> |

As at 31 December 2017, 2018, 2019 and 31 October 2020, bonds payable of RMB512,389,246, RMB364,787,549, RMB2,459,439,980 and RMB3,635,907,498 were guaranteed by Qingdao City Construction Investment (Group) Co., Ltd. and Qingdao City Construction Finance Holding Group Co., Ltd.

(i) Detailed information of the corporate bonds was disclosed as follows:

| | Currency | Coupon rate | Issue date | Maturity | Note | Par value | Balance as at 31 December 2019 | Balance as at 31 October 2020 |
|------------|----------|-------------|------------|----------|------|----------------------|--------------------------------|-------------------------------|
| 19 QURC 01 | RMB | 4.95% | 2019/10/25 | 3 years | (b) | 800,000,000 | 804,946,576 | – |
| 19 QURC 02 | RMB | 4.68% | 2019/11/25 | 5 years | (a) | 1,500,000,000 | 1,504,791,686 | 1,558,418,855 |
| 20 QURC 01 | RMB | 4.02% | 2020/02/24 | 5 years | (a) | 500,000,000 | NA | 512,137,078 |
| 20 QURC 02 | RMB | 4.30% | 2020/06/18 | 5 years | (a) | 1,000,000,000 | NA | 998,746,621 |
| 20 QURC 03 | RMB | 5.50% | 2020/09/17 | 3 years | (c) | 1,000,000,000 | NA | 1,012,904,451 |
| | | | | | | <u>4,800,000,000</u> | <u>2,309,738,262</u> | <u>4,082,207,005</u> |

- (a) The investors have an option to redeem their subscription from the Target Group at the end of the third year.
- (b) The investors have an option to redeem their subscription from the Target Group at the end of each year.
- (c) The investors have an option to redeem their subscription from the Target Group at the end of the second year.

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

Detailed information of the Private placement notes was disclosed as follows:

| | | | | | | | Balance as at 31 October 2020 |
|----------------|----------|----------------|------------|----------|------|-------------|--|
| | Currency | Coupon rate | Issue date | Maturity | Note | Par value | |
| 20 QURC PPN001 | RMB | 3.58% | 2020/4/29 | 5 years | (a) | 500,000,000 | 507,179,729 |

(a) The investors have an option to redeem their subscription from the Target Group at the end of the third year.

24 OTHER LIABILITIES

The Target Group

| | As at 31 December | | | As at 31 October 2020 |
|--|----------------------|----------------------|----------------------|-----------------------------|
| | 2017 | 2018 | 2019 | |
| | RMB | RMB | RMB | RMB |
| Amounts due to related parties (Note 28.2(f)) | 500,000,093 | 300,000,093 | 110,000,093 | – |
| Security deposits from customers (i) | 394,692,356 | 639,354,914 | 924,075,514 | 988,197,347 |
| Fee income to be amortised | 317,140,616 | 372,216,146 | 446,587,099 | 388,416,669 |
| Dividends payable | 144,180,003 | 144,180,003 | 151,931,478 | 151,931,478 |
| Staff payroll and welfare payable | 53,495,074 | 75,783,688 | 26,596,700 | 8,218,448 |
| Other tax payables | 16,321,523 | 13,525,605 | 19,182,578 | 26,041,473 |
| Accounts payable-project funds | – | – | 9,870,857 | 3,607,320 |
| Advance receipt from customers | – | – | 6,998,509 | 789,627 |
| Professional service fee | – | – | – | 977,174 |
| Other payables | 1,457,875 | 2,461,763 | 3,876,015 | 1,470,989 |
| | <u>1,427,287,540</u> | <u>1,547,522,212</u> | <u>1,699,118,843</u> | <u>1,569,650,525</u> |
| Analysed as: | | | | |
| Current | 858,611,397 | 716,673,222 | 639,238,105 | 415,098,225 |
| Non-current | <u>568,676,143</u> | <u>830,848,990</u> | <u>1,059,880,738</u> | <u>1,154,552,300</u> |
| | <u>1,427,287,540</u> | <u>1,547,522,212</u> | <u>1,699,118,843</u> | <u>1,569,650,525</u> |

(i) The deposits were received from customers, which represented the pledged deposit in relation to the receivables from finance lease, sale and lease back transaction and factoring.

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

The Target

| | As at 31 December | | | As at |
|--|----------------------|----------------------|----------------------|----------------------|
| | 2017 | 2018 | 2019 | 31 October |
| | RMB | RMB | RMB | 2020 |
| | | | | RMB |
| Amounts due to related parties (Note 28.2(f)) | 500,000,093 | 490,900,093 | 110,000,093 | – |
| Security deposits from customers (i) | 361,634,356 | 576,218,590 | 869,872,962 | 914,759,542 |
| Fee income to be amortised | 234,721,623 | 315,411,635 | 387,828,210 | 356,730,601 |
| Dividends payable | 144,180,003 | 144,180,003 | 151,931,478 | 151,931,478 |
| Staff payroll and welfare payable | 51,957,674 | 65,320,179 | 16,163,562 | 5,490,287 |
| Other tax payables | 9,973,750 | 11,242,491 | 12,605,443 | 5,941,493 |
| Professional service fee | 194,538 | 67,646 | 769,538 | 947,174 |
| Advance receipt from customers | – | 6,170,306 | 6,998,509 | 789,627 |
| Other payables | 1,895,782 | 551,379 | 1,602,315 | 687,926 |
| | <u>1,304,557,819</u> | <u>1,610,362,322</u> | <u>1,557,772,110</u> | <u>1,437,278,128</u> |
| Analysed as: | | | | |
| Current | 817,764,460 | 865,345,356 | 564,640,494 | 386,748,625 |
| Non-current | 486,793,359 | 745,016,966 | 993,131,616 | 1,050,529,503 |
| | <u>1,304,557,819</u> | <u>1,610,362,322</u> | <u>1,557,772,110</u> | <u>1,437,278,128</u> |

- (i) The deposits were received from customers, which represented the pledged deposit in relation to the receivables from finance lease, sale and lease back transaction and factoring.

25 PAID-IN CAPITAL AND CAPITAL RESERVE

| | As at 31 December | | | As at |
|-----------------|-------------------|---------------|---------------|---------------|
| | 2017 | 2018 | 2019 | 31 October |
| | RMB | RMB | RMB | 2020 |
| | | | | RMB |
| Paid-in Capital | 1,312,274,413 | 1,312,274,413 | 1,312,274,413 | 1,312,274,413 |

Generally, transactions of the following nature are recorded in the capital reserve:

- Share premium arising from the excess of the paid-in capital amount;
- Donations received from shareholders; and
- Any other items required by the PRC regulations.

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

As at 31 December 2017, 2018, 2019 and 31 October 2020, the Target Group's capital reserve is shown as follows:

| | As at 31 December | | | As at |
|-----------------|-------------------|-------------|-------------|-------------|
| | 2017 | 2018 | 2019 | 31 October |
| | RMB | RMB | RMB | 2020 |
| | | | | RMB |
| Capital reserve | 241,732,063 | 241,732,063 | 241,732,063 | 241,732,063 |

26 STATUTORY SURPLUS RESERVES

Pursuant to the relevant PRC rules and regulations, the Target is required to transfer no less than 10% of its net profit, as determined under the PRC statutory audited financial statement to the statutory reserve fund until the balance reaches 50% of the registered capital. The transfer to the statutory reserve fund must be made before the distribution of dividend to shareholders.

27 ASSET SECURITISATION

The Target Group enters into securitisation transactions in the normal course of business by which it transfers financial assets including loans and receivables and finance lease receivables to structured entities which issue asset-backed securities to investors (Note 23).

The Target Group continues to recognise the transferred financial assets as it retains interests in the form of subordinated tranches.

As at 31 December 2017, 2018, 2019 and 31 October 2020, the carrying amount of the financial assets which have been securitised by the Target Group were RMB518 million, RMB1,628 million, RMB4,719 million and RMB6,853 million respectively.

28 RELATED PARTY TRANSACTIONS

28.1 Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member of the Target Group are also considered as related parties.

(a) Ultimate Controlling Shareholder

Qingdao City Construction Investment (Group) Limited

(b) Name of other related parties and relationship

| Name | Relationship with the Target |
|--|--|
| China Qingdao Development (Holdings) Group Company Limited | Controlled by the ultimate Controlling Shareholder |
| Chinese Capital Investment Holdings Limited | Shareholder with significant influence |
| Vasari Investment Holdings Limited | Shareholder with significant influence |
| Qingdao City Construction Finance Holding Group Co. Ltd | Controlled by the ultimate Controlling Shareholder |
| Qingdao Huiquan Wealth Financial Information Service Co., Ltd. | Controlled by the ultimate Controlling Shareholder |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

| Name | Relationship with the Target |
|--|--|
| Qingdao City Construction Investment Asset Management Co. Ltd | Controlled by the ultimate Controlling Shareholder |
| Qingdao City Construction Investment Cultural Industry Co., Ltd. | Controlled by the ultimate Controlling Shareholder |
| Qingdao Taishi Jirun Enterprise Management Consulting Co., Ltd. | Controlled by the ultimate Controlling Shareholder |
| Qingdao Hongfushuo Enterprise Management Consulting Co., Ltd. | Controlled by the ultimate Controlling Shareholder |

28.2 Related party transactions and balances

(a) Investment income

| | Year ended 31 December | | | Ten months ended 31 October | |
|--|------------------------|------------|------|-----------------------------|------|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB | RMB |
| Qingdao City Construction Investment Cultural Industry Co., Ltd. | – | 37,050,740 | – | – | – |

(b) Rental income

| | Year ended 31 December | | | Ten months ended 31 October | |
|--|------------------------|------------------|----------|-----------------------------|----------|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB | RMB |
| Qingdao Huiquan Wealth Financial Information Service Co., Ltd. | 1,716,095 | 1,470,939 | – | – | – |
| Qingdao City Construction Investment Asset Management Co. Ltd | 735,470 | 980,626 | – | – | – |
| | <u>2,451,565</u> | <u>2,451,565</u> | <u>–</u> | <u>–</u> | <u>–</u> |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

(c) Rental expense

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|------------------------|------------------|----------------|--------------------------------|----------------|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB | RMB |
| Qingdao Hongfushuo Enterprise Management Consulting Co., Ltd. | 1,225,783 | 1,225,783 | — | — | — |
| Qingdao Taishi Jirun Enterprise Management Consulting Co., Ltd. | 421,728 | 405,446 | 370,929 | 183,940 | 245,253 |
| | <u>1,647,511</u> | <u>1,631,229</u> | <u>370,929</u> | <u>183,940</u> | <u>245,253</u> |

(d) Interest expense

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|------------------------|------------------|-------------------|--------------------------------|-------------------|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB | RMB |
| Qingdao City Construction Investment (Group) Limited | 25,704,021 | 3,395,000 | 69,279,650 | 51,037,878 | 3,533,500 |
| Qingdao City Construction Investment Asset Management Co. Ltd | 9,454,249 | — | — | — | — |
| Qingdao City Construction Finance Holding Group Co. Ltd | — | — | 2,756,250 | 2,756,250 | 9,832,583 |
| | <u>35,158,270</u> | <u>3,395,000</u> | <u>72,035,900</u> | <u>53,794,128</u> | <u>13,366,083</u> |

(e) Rent receivables

| | As at 31 December | | | As at 31 October |
|--|-------------------|------------------|------------------|---------------------|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB |
| Qingdao Huiquan Wealth Financial Information Service Co., Ltd. | <u>454,178</u> | <u>1,544,486</u> | <u>1,544,486</u> | <u>1,544,486</u> |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

(f) Amounts due to related parties

| | As at 31 December | | | As at |
|--|--------------------|--------------------|--------------------|------------|
| | 2017 | 2018 | 2019 | 31 October |
| | RMB | RMB | RMB | 2020 |
| | | | | RMB |
| Qingdao City Construction Investment (Group) Limited | 500,000,000 | 300,000,000 | 110,000,000 | – |
| Chinese Capital Investment Holdings Limited | 53 | 53 | 53 | – |
| Vasari Investment Holdings Limited | 40 | 40 | 40 | – |
| | <u>500,000,093</u> | <u>300,000,093</u> | <u>110,000,093</u> | <u>–</u> |

The amounts due to Qingdao City Construction Finance Holding Group Co. Ltd and Qingdao City Construction Investment (Group) Limited were unsecured and interest-bearing while those due to Qingdao Taishi Jirun Enterprise Management Consulting Co., Ltd, Chinese Capital Investment Holdings Limited and Vasari Investment Holdings Limited were unsecured and interest-free. The carrying amount of these balances approximate their fair value and are denominated in RMB.

(g) Dividends payable

| | As at 31 December | | | As at |
|--|--------------------|--------------------|--------------------|--------------------|
| | 2017 | 2018 | 2019 | 31 October |
| | RMB | RMB | RMB | 2020 |
| | | | | RMB |
| China Qingdao Development (Holdings) Group Company Limited | 75,954,730 | 75,954,730 | 75,954,730 | 75,954,730 |
| Vasari Investment Holdings Limited | 45,171,339 | 45,171,339 | 50,141,887 | 50,141,887 |
| Chinese Capital Investment Holdings Limited | 23,053,934 | 23,053,934 | 25,834,861 | 25,834,861 |
| | <u>144,180,003</u> | <u>144,180,003</u> | <u>151,931,478</u> | <u>151,931,478</u> |

APPENDIX III ACCOUNTANT'S REPORT ON THE TARGET GROUP

(h) Guarantee from related parties

| | As at 31 December | | | As at |
|---|----------------------|----------------------|----------------------|----------------------|
| | 2017 | 2018 | 2019 | 30 October |
| | RMB | RMB | RMB | 2020 |
| | | | | RMB |
| Qingdao City Construction Investment (Group) Limited | 5,865,848,169 | 5,236,379,976 | 4,523,157,026 | 4,782,067,160 |
| Qingdao City Construction Finance Holding Group Co. Ltd | 1,052,236,761 | 1,799,198,185 | 2,959,037,032 | 738,885,560 |
| | <u>6,918,084,930</u> | <u>7,035,578,161</u> | <u>7,482,194,058</u> | <u>5,520,952,720</u> |

As at 31 December 2017, 2018, 2019 and 31 October 2020, the Target Group's bank borrowings with an amount of RMB6,405,695,684, RMB6,670,790,612, RMB5,022,754,078 and RMB1,885,045,222 (Note 22), the bonds payable with an amount of RMB512,389,246, RMB364,787,549, RMB2,459,439,980 and RMB3,635,907,498 (Note 23) were guaranteed by Qingdao City Construction Investment (Group) Co., Ltd and Qingdao City Construction Finance Holding Group Co., Ltd.

29 SUBSEQUENT EVENTS

In December 2020, China Qingdao Development (Holdings) Group Company Limited ("CQDHG") acquired 25.58% and 13.18% equity interest in the Target from Vasari Investment and Chinese Capital respectively. Upon completion of such acquisitions, CQDHG hold approximately 81.91% of the equity interest of the Target.

On 17 March 2021, the Board of Directors of Qingdao Holdings International Limited ("Qingdao Holdings") announced that Yangfan (Holdings) Group Limited, an indirect wholly owned subsidiary of Qingdao Holdings and CQDHG entered into the Sale and Purchase Agreement, pursuant to which Qingdao Holdings has conditionally agreed to acquire, and CQDHG has conditionally agreed to sell, the Target Equity Interest, being approximately 81.91% of the equity interest in the Target.

As at the date on which the consolidated financial statements are approved, the transaction between Qingdao Holdings and CQDHG has not completed.

II SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company or any of its subsidiaries in respect of any period subsequent to 31 October 2020 and up to date of this report.

A. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements (together with the notes to the consolidated financial statements) of the Group (i) for the nine-month period from 1 April 2019 to 31 December 2019 have been disclosed on pages 50 to 123 of the annual report of the Company for the nine months ended 31 December 2019 published on 28 April 2020; (ii) for the year ended 31 March 2019 have been disclosed on pages 47 to 118 of the annual report of the Company for the year ended 31 March 2019 published on 26 July 2019; (iii) for the year ended 31 March 2018 have been disclosed on pages 45 to 106 of the annual report of the Company for the year ended 31 March 2018 published on 27 July 2018; and (iv) for the year ended 31 March 2017 have been disclosed on pages 40 to 88 of the annual report of the Company for the year ended 31 March 2017 published on 28 July 2017.

Quick links to the annual reports of the Company are set out below:

- (i) Annual report of the Company for the nine months ended 31 December 2019:
<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0428/2020042802254.pdf>
- (ii) Annual report of the Company for the year ended 31 March 2019:
<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0726/ltn20190726335.pdf>
- (iii) Annual report of the Company for the year ended 31 March 2018:
<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0727/ltn20180727303.pdf>
- (iv) Annual report of the Company for the year ended 31 March 2017:
<https://www1.hkexnews.hk/listedco/listconews/sehk/2017/0728/ltn20170728380.pdf>

All the above annual reports of the Company have been published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.qingdaohi.com).

B. INDEBTEDNESS

As at 31 January 2021, the outstanding bank and other borrowings of the Group was approximately HK\$43.7 million. As at 31 January 2021, the Group had unutilised banking facilities of HK\$50.0 million, which were secured by a pledge over certain of the Group's investment properties.

Save as disclosed above and apart from the intra-group liabilities, as at 31 January 2021, the Group did not have any other outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans, debt instruments, borrowings or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities.

Statement of indebtedness of the enlarged group

As at 31 January 2021, being the latest practicable date for the purpose of this indebtedness statement, the indebtedness of the Enlarged Group was as follows:

| | As at 31 January 2021 (RMB'000) |
|--|--|
| Bank borrowings | 1,586,179 |
| Borrowings from other financial institutions | 2,154,402 |
| Bonds payables | 8,016,281 |
| Amount due to related parties | <u>985,831</u> |
| Total indebtedness | <u><u>12,742,693</u></u> |

C. FINANCIAL AND TRADING PROSPECT OF THE GROUP

The Group is principally engaged in the business of (i) leasing of investment properties; (ii) distribution of digital Chinese calligraphy education equipment; and (iii) provision of loan financing services.

Leasing of Properties

In the first half of 2020, the leasing market in Hong Kong is affected by the COVID-19 outbreak. The management expects the disruption caused by the COVID-19 outbreak is temporary but might be significant. The speed of recovery and the extent of any long-term impact on the leasing market remain uncertain as they depend on the duration and severity of the COVID-19 outbreak and the relevant containment measures. However, the management considers that the COVID-19 outbreak may not have a material impact on the Qingdao property market since the current outbreak in Qingdao is not severe and the Group's tenants are generally not small or medium-sized enterprises. In the meantime, the management will closely monitor the PRC and Hong Kong leasing market and may consider rental reductions if requested by tenants.

Digital Chinese Calligraphy Education Equipment

The business in the research and development, production and sales of digital Chinese calligraphy education equipment recorded stable growth in 2019. The Group's sales team has put in efforts in promoting the Group's products in major provinces in the PRC. However, due to the COVID-19 outbreak, schools in a number of provinces and municipalities in the PRC have been suspended and precautionary measures have been implemented by the PRC government to safeguard the health of students. As such, the COVID-19 outbreak has certain impact on the scheduled works for installing digital Chinese calligraphy education equipment in schools. As schools are the Group's major customers for this business segment, sales have been inevitably affected by the COVID-19 outbreak. Meanwhile, the launch timetable of personalised calligraphy education related products may also be affected by the outbreak of COVID-19. Since Chinese calligraphy training has been made compulsory for students in primary and secondary schools in the PRC, the Group remains optimistic about the prospects of its Chinese calligraphy education related products in the long term, although this business segment might experience a difficult time in the short term because of the COVID-19 outbreak.

Committed to delivering the highest standard of products to customers, the Group will continue to allocate resources to further develop this business segment by advancing product software, providing sufficient funds for product research and development, as well as enhancing the quality, functionality and customer experience of existing products. As the target market of this business segment is the PRC, the Group expects that this business segment will not be affected by the US-China trade friction, or other external uncertainties and fluctuations in the financial markets. The Group expects to launch more personalised products, although the launch timetable may be postponed due to the COVID-19 outbreak.

Loan Financing

The Group will continue to develop this business segment by employing prudent credit control procedures and strategies to maintain a balance between business growth and risk management. The Group is keen on expanding its loan financing business and will continue to identify suitable business opportunities. It is expected that this business segment will continue to be part of the Group's main income stream. The stability of economic and trading environment of the PRC and Hong Kong may continue to be, to a different extent, challenged by the US-China trade tension, COVID-19 outbreak and social unrest in Hong Kong. The Group believes these unfortunate extraordinary events, when they eventually become stabilised, will not have a significant impact on the Group's operations in the long term.

Looking ahead, the Group will seek to overcome all these challenges and endeavor to achieve stable and promising results with the concerted efforts from its staff and the full support from the ultimate Controlling Shareholder, QCCIG. The Group will continue to promote the long-term sustainable development of its business, with an aim to bring a stable return to the Shareholders and maximise Shareholders' value.

D. WORKING CAPITAL

The Directors are of the view that, after taking into account of the Enlarged Group's presently available financial resources, including but not limited to the funds internally generated from operations, the available banking facilities and the existing borrowings, the Enlarged Group will have sufficient working capital for its business for at least 12 months from the date of this circular in the absence of unforeseen circumstances.

E. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save for those disclosed in the Company's announcement dated 18 March 2021 relating to the inside information-decrease in profit and subject to COVID-19, the details of which are set out in paragraph headed "C. Financial and Trading Prospect of the Group in this appendix, the Directors confirm that there had been no material adverse change in the financial or trading position of the Group since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

F. LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the Group had total assets of approximately HK\$745.0 million (31 March 2019: HK\$742.8 million), whereas total liabilities of the Group amounted to approximately HK\$452.8 million (31 March 2019: HK\$453.7 million).

Accordingly, the net assets of the Group as at 31 December 2019 was HK\$292.2 million (31 March 2019: HK\$289.1 million).

As at 31 December 2019, the outstanding bank and other borrowings of the Group was approximately HK\$49.6 million (31 March 2019: nil).

G. CAPITAL STRUCTURE

The number of issued ordinary shares of the Company as at 31 December 2019 and 31 March 2019 remained the same at 499,276,680.

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes trade and other payables, interest-bearing bank borrowings, loans from and amount due to the ultimate holding company and an intermediate holding company, net of cash and cash equivalents and equity attributable to owners of the parent, comprising issued share capital and reserves.

H. LOAN AND INTEREST RECEIVABLES

| | 31 December 2019 HK\$'000 | 31 March 2019 HK\$'000 |
|-----------------------------------|--|---------------------------------------|
| Loans | 9,000 ⁽¹⁾ | 12,000 ⁽¹⁾ |
| Interest receivables | 241 | 80 |
| | 9,241 | 12,080 |
| Less: Allowance for credit losses | (198) | (259) |
| | <u>9,043</u> | <u>11,821</u> |

Note:

- ⁽¹⁾ The figures represent the outstanding balance of the loans as at 31 March 2019 and as at 31 December 2019, respectively. The loans were concluded in August 2017 and November 2017, respectively. For details, please refer to the announcements of the Company dated 29 August 2017 and 10 November 2017.

The borrowers are private companies incorporated in Hong Kong and independent of the Group. The loans are repayable within one year from the end of the reporting period, secured by personal guarantees from shareholders of the borrowers and carry interest at the fixed rate of 10% per annum. The interest is repayable monthly or quarterly. The management of the Group reviews the recoverable amounts of its loan and interest receivables by assessing the borrowers' financial position.

The expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group and are adjusted to reflect the current condition as appropriate. The loss rate applied at 31 December 2019 was 2.1% (31 March 2019: 2.1%).

I. CASH AND CASH EQUIVALENTS

| | 31 December | 31 March |
|------------------------|--------------------|-----------------|
| | 2019 | 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Cash and bank balances | 72,765 | 69,050 |
| Time deposits | — | 2,325 |
| | <u>72,765</u> | <u>71,375</u> |

As at 31 December 2019, the cash and bank balances and time deposits of the Group denominated in RMB amounted to HK\$52,217,000 (31 March 2019: HK\$43,619,000). The RMB is not freely convertible into other currencies. However, under the Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations of the PRC, the Group is permitted to exchange RMB to other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods depending on the immediate cash requirements of the Group and earn interest at the deposit rates of the respective periods. The bank balances are deposited with creditworthy banks or financial institutions with no recent history of default.

J. MATERIAL ACQUISITIONS, DISPOSALS, SIGNIFICANT INVESTMENTS AND FUTURE PLANS OF MATERIAL INVESTMENT

No material acquisition, disposal, significant investment or future plan of material investment was made during the nine months ended 31 December 2019.

K. SEGMENT INFORMATION**Leasing of Investment Properties**

During the nine months ended 31 December 2019, the rental income from investment properties located in Hong Kong and the PRC amounted to approximately HK\$23.7 million (1 April 2018 to 31 March 2019 (the “**Previous Period**”): HK\$31.2 million), representing a decrease of HK\$7.5 million, which accounted for 51.8% of the Group’s total revenue.

Production and Sale of Digital Chinese Calligraphy Education Equipment

During the nine months ended 31 December 2019, revenue generated from the production and sale of digital Chinese calligraphy education equipment amounted to HK\$21.2 million (Previous Period: HK\$23.6 million), which accounted for 46.2% of the Group’s total revenue. The Group has a solid foundation in this business segment as it has

invested substantial capital for the research and development as well as the innovation of digital Chinese calligraphy education equipment. The Group expects that more personalised products will be launched, although the launch timetable may be postponed due to the COVID-19 outbreak.

Loan Financing

During the nine months ended 31 December 2019, the Group's loan financing segment managed to contribute a consistent return and recorded a revenue of approximately HK\$0.9 million (Previous Period: HK\$1.2 million), which accounted for 2.0% of the Group's total revenue. The Group continues to maintain sound credit control policy when advancing loans to its customers. The Group holds the principle that prudent measures are particularly important and essential.

The Group will continue to develop this business segment by employing prudent credit control procedures and strategies to maintain a balance between business growth and risk management.

L. HUMAN RESOURCES

As at 31 December 2019, the Group employed a total of 58 full time employees (31 March 2019: 63). Employees' remuneration is designed to attract, retain and recognise employees and to maintain a fair, productive and sustainable workforce. The objective of the Group's human resource management is to reward and recognise employees by reviewing their salaries and wages through a performance appraisal system. Performance appraisal is conducted annually based on the employees' job performance, knowledge and experience.

M. CHARGE OF ASSETS

As at 31 December 2019, the Group pledged certain of its investment properties with a market value of HK\$163.1 million (31 March 2019: HK\$96.2 million) to a bank in Hong Kong to secure mortgage financing facilities granted to the Group. As at 31 December 2019, the Group had unutilised banking facilities of HK\$50.0 million (31 March 2019: HK\$57.0 million).

N. GEARING RATIO

The gearing ratio of the Group, being total liabilities to total assets, was 60.8% as at 31 December 2019 (31 March 2019: 61.1%). The Group believes that it has adequate cash resources to meet its commitments and current working capital requirements.

O. FOREIGN EXCHANGE EXPOSURE

The Group's financial statements are presented in Hong Kong dollars. The Group carried out its business transactions mainly in Hong Kong dollars, RMB and USD. During the nine months ended 31 December 2019, RMB devalued against Hong Kong dollars and USD. The

Group does not have any hedging arrangement on foreign exchange but the management monitors foreign currency exposure and will consider hedging significant currency exposure should the need arise.

P. CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any material contingent liabilities or capital commitments.

APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Qingdao Holdings International Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Qingdao Holdings International Limited (the "Company") and its subsidiaries (the "Group"), and Qingdao Urban and Rural Development Financial Leasing Co., Limited and its subsidiaries (the "Target Group") (collectively the "Enlarged Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 October 2020, the unaudited pro forma consolidated statement of comprehensive income for the six months ended 30 June 2020 and the unaudited pro forma consolidated statement of cash flow for the six months ended 30 June 2020, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages V-4 to V-10 of the Company's circular dated 24 March 2021, in connection with the proposed acquisition and proposed rights issue of the Target Group (the "Transactions") by the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages V-4 to V-10 of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Transactions on the Group's financial position as at 31 October 2020 and the Group's financial performance and cash flows for the six months ended 30 June 2020 as if the Transactions had taken place at 31 October 2020 and 1 January 2020 respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the Directors from the Group's financial statements for the six months ended 30 June 2020, on which no audit or review report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transactions on 31 October 2020 for the Enlarged Group's financial position and on 1 January 2020 for the Enlarged Group's financial performance and cash flows would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 24 March 2021

APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is an illustrative unaudited pro forma financial information of the Enlarged Group (the “Unaudited Pro Forma Financial Information”) which have been prepared by the directors in accordance with paragraph 4.29 of the Listing Rules and on the basis as set out in the accompanying notes below to illustrate:

- (a) the financial position of the Enlarged Group as at 31 October 2020 as if the Proposed Acquisition and the Proposed Rights Issue had been completed on 31 October 2020; and
- (b) the financial performance and cash flows of the Enlarged Group for the six months ended 30 June 2020 as if the Proposed Acquisition and the Proposed Rights Issue had been completed on 1 January 2020.

The Unaudited Pro Forma Financial Information has been prepared by the Directors based on the unaudited interim consolidated financial statements of the Group as at and for the six months ended 30 June 2020 as set out in the Company’s published 2020 interim report, the audited consolidated statement of financial position of the Target Group as at 31 October 2020 which has been extracted from the Accountant’s Report in Appendix III to this Circular, and the unaudited consolidated statement of comprehensive income and consolidated statement of cash flow for the six months ended 30 June 2020 which have been extracted from the unaudited management accounts of the Target Group, and the pro forma adjustments prepared to reflect the effects of the Proposed Acquisition and the Proposed Rights Issue as described in the accompanying notes. The Directors consider the use of the financial performance and cash flows for the six months ended 30 June 2020 of the Group would provide more relevant information about the impact of the transaction by illustrating how that transaction might have affected the financial information presented in this Circular: (i) since the Company changed its financial year end date from 31 March to 31 December in year 2019 and the consolidated statement of comprehensive income of the Group only covered the three months periods from 1 January 2019 to 31 March 2019 and the nine months period from 1 April 2019 to 31 December 2019; and (ii) to cover the period of the same length of the financial performance and cash flows of the Group and the Target Group.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with other financial information included elsewhere in this Circular.

This Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only. Accordingly, and because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not represent the true picture of the financial position of the Enlarged Group as at 31 October 2020 and the financial performance and cash flows of the Enlarged Group for the six months ended 30 June 2020.

APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

A. THE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

| | Unaudited Interim condensed consolidated statement of financial position of the Group as at 30 June | Consolidated statement of financial position of the Target Group as at 31 October | Consolidated statement of financial position of the Target Group as at 31 October | Pro forma adjustments | | Unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 31 October |
|---------------------------------|---|---|---|-----------------------|-----------------|---|
| Assets | 2020 | 2020 | 2020 | 2020 | | 2020 |
| | HK\$'000 | RMB'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | Note 1 | Note 2 | Note 3 | Note 4 | Note 6 | |
| Non-current assets | | | | | | |
| Property and equipment | 22,806 | 112,898 | 130,184 | | | 152,990 |
| Investment properties | 539,201 | – | – | | | 539,201 |
| Intangible assets | 20,509 | 351 | 405 | | | 20,914 |
| Loans and receivables | – | 9,843,593 | 11,350,745 | | | 11,350,745 |
| Finance lease receivables | – | 14,837 | 17,109 | | | 17,109 |
| Deferred income tax assets | 3,195 | 135,277 | 155,989 | | | 159,184 |
| Other assets | – | 35,210 | 40,601 | | | 40,601 |
| Cash and bank balances | – | 204,000 | 235,234 | | | 235,234 |
| Financial assets at fair value | | | | | | |
| through profit or loss | 12,500 | – | – | | | 12,500 |
| Right-of-use assets | 3,877 | – | – | | | 3,877 |
| Goodwill | 5,725 | – | – | | | 5,725 |
| Total non-current assets | 607,813 | 10,346,166 | 11,930,267 | | | 12,538,080 |
| Current assets | | | | | | |
| Inventories | 15,133 | – | – | | | 15,133 |
| Trade and other receivables | 26,387 | – | – | | | 26,387 |
| Loans and receivables | – | 5,470,956 | 6,308,614 | | | 6,308,614 |
| Finance lease receivables | – | 136,946 | 157,914 | | | 157,914 |
| Financial assets at fair value | | | | | | |
| through profit or loss | 2,208 | – | – | | | 2,208 |
| Other assets | – | 41,422 | 47,764 | | | 47,764 |
| Cash and bank balances | 90,202 | 412,308 | 475,436 | 37,452 | (20,280) | 582,810 |
| Total current assets | 133,930 | 6,061,632 | 6,989,728 | 37,452 | (20,280) | 7,140,830 |
| Total assets | 741,743 | 16,407,798 | 18,919,995 | 37,452 | (20,280) | 19,678,910 |

**APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

| | Unaudited Interim condensed consolidated statement of financial position of the Group as at 30 June 2020 HK\$'000 Note 1 | Consolidated statement of financial position of the Target Group as at 31 October 2020 RMB'000 Note 2 | Consolidated statement of financial position of the Target Group as at 31 October 2020 HK\$'000 Note 3 | Pro forma adjustments 2020 HK\$'000 HK\$'000 Note 4 Note 6 | | Unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 31 October 2020 HK\$'000 |
|---|---|--|---|---|-----------------|---|
| Liabilities | | | | | | |
| Non-current liabilities | | | | | | |
| Borrowings | 378,022 | 1,656,690 | 1,910,346 | | | 2,288,368 |
| Bonds payable | – | 6,430,861 | 7,415,490 | | | 7,415,490 |
| Financial liabilities at fair value through profit or loss | – | – | – | 2,224,152 | | 2,224,152 |
| Lease liabilities | 1,911 | | | | | 1,911 |
| Deferred tax liabilities | 7,092 | | | | | 7,092 |
| Other payables and accruals | 294 | 1,154,553 | 1,331,327 | | | 1,331,621 |
| Total non-current liabilities | 387,319 | 9,242,104 | 10,657,163 | 2,224,152 | | 13,268,634 |
| Current liabilities | | | | | | |
| Borrowings | 49,370 | 2,074,168 | 2,391,744 | | | 2,441,114 |
| Bonds payable | – | 1,932,285 | 2,228,137 | | | 2,228,137 |
| Trade and other payables | 6,832 | | | | | 6,832 |
| Contract liabilities | 3,065 | | | | | 3,065 |
| Lease liabilities | 1,358 | | | | | 1,358 |
| Other payables and accruals | 503 | 415,098 | 478,654 | | | 479,157 |
| Income tax payable | 28 | 7,664 | 8,837 | | | 8,865 |
| Total current liabilities | 61,156 | 4,429,215 | 5,107,372 | | | 5,168,528 |
| Total liabilities | 448,475 | 13,671,319 | 15,764,535 | 2,224,152 | | 18,437,162 |
| Equity | | | | | | |
| Share capital | 49,928 | 1,312,274 | 1,605,839 | (1,463,269) | | 192,498 |
| Reserve | 207,540 | 1,424,205 | 1,549,621 | (1,294,254) | (20,280) | 442,627 |
| Non-controlling interests | 35,800 | – | – | 570,823 | | 606,623 |
| Total equity | 293,268 | 2,736,479 | 3,155,460 | (2,186,700) | (20,280) | 1,241,748 |
| Total equity and liabilities | 741,743 | 16,407,798 | 18,919,995 | 37,452 | (20,280) | 19,678,910 |
| | | | | Pro Forma Net Tangible Assets (Note 7) | | 1,215,109 |

APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

B. THE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE ENLARGED GROUP

| | Unaudited Interim consolidated statement of comprehensive income of the Group for the six months ended 30 June 2020 HK\$'000 | Unaudited Consolidated statement of comprehensive income of the Target Group for the six months ended 30 June 2020 RMB'000 | Unaudited Consolidated statement of comprehensive income of the Target Group for the six months ended 30 June 2020 HK\$'000 | Pro forma adjustments | | | Unaudited Pro Forma consolidated statement of comprehensive income of the Enlarged Group for the six months ended 30 June 2020 HK\$'000 |
|---|--|---|--|-----------------------|--------------------|--------------------|---|
| | | | | HK\$'000 Note 4 | HK\$'000 Note 5 | HK\$'000 Note 6 | HK\$'000 |
| Revenue | | | | | | | |
| Interest income from sale and leaseback transactions | – | 664,052 | 734,075 | | | | 734,075 |
| Interest income from factoring | – | 24,205 | 26,757 | | | | 26,757 |
| Finance lease income | – | 1,768 | 1,954 | | | | 1,954 |
| Others | 22,877 | 3,384 | 3,741 | | | | 26,618 |
| Expense | | | | | | | |
| Depreciation | | (2,570) | (2,841) | | | | (2,841) |
| Interest expenses | (10,231) | (350,061) | (386,974) | | | | (397,205) |
| Cost of goods purchased | (4,521) | – | – | | | | (4,521) |
| Other income and gains | 6,872 | 12,440 | 13,752 | | (46,753) | | (26,129) |
| Administrative expenses | (13,407) | (22,986) | (25,410) | (2,720) | | (20,280) | (61,817) |
| Credit impairment losses | 330 | (81,293) | (89,865) | | | | (89,535) |
| Profit before income tax | <u>1,920</u> | <u>248,939</u> | <u>275,189</u> | <u>(2,720)</u> | <u>(46,753)</u> | <u>(20,280)</u> | <u>207,356</u> |
| Income tax expenses | (1,875) | (58,075) | (64,199) | | | | (66,074) |
| Profit for the period | <u>45</u> | <u>190,864</u> | <u>210,990</u> | <u>(2,720)</u> | <u>(46,753)</u> | <u>(20,280)</u> | <u>141,282</u> |
| Attributable to: | | | | | | | |
| Owners of the parent | 1,626 | 156,337 | 172,822 | (2,720) | (46,753) | (20,280) | 104,695 |
| Non-controlling interests | (1,581) | 34,527 | 38,168 | | | | 36,587 |
| | <u>45</u> | <u>190,864</u> | <u>210,990</u> | <u>(2,720)</u> | <u>(46,753)</u> | <u>(20,280)</u> | <u>141,282</u> |

APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

| | Unaudited Interim consolidated statement of comprehensive income of the Group for the six months ended 30 June 2020 HK\$'000 | Unaudited Consolidated statement of comprehensive income of the Target Group for the six months ended 30 June 2020 RMB'000 | Unaudited Consolidated statement of comprehensive income of the Target Group for the six months ended 30 June 2020 HK\$'000 | Pro forma adjustments | | | Unaudited Pro Forma consolidated statement of comprehensive income of the Enlarged Group for the six months ended 30 June 2020 HK\$'000 |
|---|--|---|--|-----------------------|--------------------|--------------------|---|
| | | | | HK\$'000 Note 4 | HK\$'000 Note 5 | HK\$'000 Note 6 | |
| Other comprehensive income/(loss) | | | | | | | |
| <i>Item that will not be reclassified to profit or loss in subsequent periods:</i> | | | | | | | |
| Exchange differences on translation of financial statements from functional currency to presentation currency | (3,830) | - | - | | | | (3,830) |
| <i>Items that may be reclassified to profit or loss in subsequent periods:</i> | | | | | | | |
| Exchange differences arising on translation of foreign operations | 661 | - | - | | | | 661 |
| Other comprehensive loss for the period | (3,169) | - | - | | | | (3,169) |
| Total comprehensive (loss)/income for the period | (3,124) | 190,864 | 210,990 | (2,720) | (46,753) | (20,280) | 138,113 |
| Attributable to: | | | | | | | |
| Owners of the parent | (990) | 156,337 | 172,822 | (2,720) | (46,753) | (20,280) | 102,079 |
| Non-controlling interests | (2,134) | 34,527 | 38,168 | | | | 36,034 |
| | (3,124) | 190,864 | 210,990 | (2,720) | (46,753) | (20,280) | 138,113 |

APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

C. THE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP

| | Unaudited Interim consolidated statement of cash flows of the Group for the six months ended 30 June 2020 <i>HK\$'000</i> | Unaudited Consolidated statement of cash flows of the Target Group for the six months ended 30 June 2020 <i>RMB'000</i> | Unaudited Consolidated statement of cash flows of the Target Group for the six months ended 30 June 2020 <i>HK\$'000</i> | <i>HK\$'000</i> <i>Note 4</i> | Pro forma adjustments <i>HK\$'000</i> <i>Note 6</i> | Unaudited Interim consolidated statement of cash flows of the Enlarged Group for the six months ended 30 June 2020 <i>HK\$'000</i> |
|--|--|--|---|----------------------------------|--|--|
| Net Cash inflow from operating activities | 15,049 | 88,471 | 97,800 | | | 112,849 |
| Investing activities | | | | | | |
| Redemption of financial investments | 10,989 | 3,169,540 | 3,503,764 | | | 3,514,753 |
| Income received from financial investments | 684 | 1,610 | 1,780 | | | 2,464 |
| Disposal of property and equipment | – | 317 | 350 | | | 350 |
| Purchase and construction of property and equipment | (167) | (13,865) | (15,327) | | | (15,494) |
| Cash paid for the acquisition transaction | – | – | – | (154,546) | | (154,546) |
| Purchase of financial investments | (2,190) | (3,165,100) | (3,498,856) | | | (3,501,046) |
| Net cash inflow/(outflow) from investing activities | 9,316 | (7,498) | (8,289) | (154,546) | | (153,519) |
| Financing activities | | | | | | |
| Proceeds from borrowings and bonds | – | 4,913,663 | 5,431,803 | | | 5,431,803 |
| Amounts borrowed from related parties | – | 2,225,000 | 2,459,623 | | | 2,459,623 |
| Capital contributions from non-controlling shareholders | 4,188 | – | – | | | 4,188 |
| Proceeds from the Proposed Rights Issue | | | | 194,718 | | 194,718 |
| Cash paid for the transaction expenses | | | | (2,720) | (20,280) | (23,000) |
| Repayment of borrowings and bonds | (1,003) | (5,019,757) | (5,549,084) | | | (5,550,087) |
| Amounts repaid to related parties | (9,128) | (2,185,000) | (2,415,406) | | | (2,424,534) |
| Cash-out for other financing activities | (934) | – | – | | | (934) |
| Net cash outflow from financing activities | (6,877) | (66,094) | (73,064) | 191,998 | (20,280) | 91,777 |
| Net increase in cash and cash equivalents | 17,488 | 14,879 | 16,447 | 37,452 | (20,280) | 51,107 |
| Cash and cash equivalents at the beginning of the period | 72,765 | 399,682 | 441,828 | | | 514,593 |
| Effects of exchange rate changes, net | (51) | – | – | | | (51) |
| Cash and cash equivalents at end of the period | 90,202 | 414,561 | 458,275 | 37,452 | (20,280) | 565,649 |

APPENDIX V UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Notes:

1. The amounts are extracted from the unaudited consolidated financial statements of the Group as at and for the six months ended 30 June 2020 included in the published 2020 interim report of the Group.
2. The amounts of consolidated statement of financial position are extracted from the audited consolidated financial statements of the Target Group as at 31 October 2020 included in the Accountant's Report of the Target Group as set out in Appendix III to this Circular.

The amounts of unaudited consolidated statement of comprehensive income and consolidated statement of cash flows for the six months ended 30 June 2020 are extracted from the unaudited management amounts of the Target Group for the six months ended 30 June 2020.

3. For the purpose of the unaudited pro forma financial information, the financial information of the Target Group which stated in RMB is translated to HK\$. HK\$1 is translated to RMB0.86722 (the closing rate as at 31 October 2020), RMB0.8958 (the closing rate as at 1 January 2020) or RMB0.9046 (the average rate for the six months ended 30 June 2020) whereas applicable.
4. On 17 March 2021, the Group entered into the Sale and Purchase Agreement with China Qingdao Development (Holdings) Group Company Limited ("CQDHG"), who is under common control by Qingdao City Construction Investment Group Limited ("QCCIG"), the ultimate controlling shareholder of the Company, and pursuant to which the Group has conditionally agreed to acquire approximately 81.91% of the issued share capital of the Target Company at a consideration of HK\$2,378.7 million. The consideration will be settled by (i) the cash consideration of approximately HK\$154.5 million which financed by the assumed issuance of shares under the Proposed Rights Issue of 499,276,680 rights shares of HK\$0.1 each at HK\$0.39 per rights share on the basis of one share for every one existing share of the Company, of which the estimated gross proceeds will be approximately HK\$194.7 million (before deducting the transaction expenses from the Proposed Rights Issue of approximately HK\$2.72 million and assuming that there is no change in the number of issued shares on or before the Rights Issue Record Date) and (ii) approximately HK\$2,224.2 million shall be payable by the issue of the convertible bonds (the "Consideration CB") by the Company to CQDHG (or its nominee(s)) upon Completion.

The estimated net proceeds from the Proposed Rights Issue (after the deduction of the related transaction expenses of approximately HK\$2.72 million, the estimated legal and professional fees and other transaction cost directly attributable to the Proposed Acquisition of approximately HK\$20.28 million and the cash consideration of approximately HK\$154.5 million) will be approximately HK\$17.17 million.

The fair value of the financial liability at fair value through profit or loss amounting to HK\$2,224.2 million as at 31 October 2020 is measured based on binomial model prepared by the Directors by reference to a professional valuation conducted by an independent external valuer.

As both the Group and the Target Group are under common control by QCCIG and the control is not transitional, the Proposed Acquisition is accounted for using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants.

5. For the purpose of the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows, assuming the Proposed Acquisition is completed on 1 January 2020, the fair value of the Consideration CB as at 1 January 2020 is approximately HK\$2,224.2 million and the changes in fair value of the Consideration CB for the six months ended 30 June 2020 is approximately HK\$46.8 million. The fair value model and details is the same as disclosed in Note 4 above.
6. The adjustment represents the estimated amounts for legal and professional fees and other transaction costs paid by the Company which is directly attributable to the Proposed Acquisition.
7. The unaudited pro forma net tangible assets attributable to equity holders of the Company as at 31 October 2020 is based on the unaudited pro forma total equity of the Enlarged Group attributable to equity holders of the Company of approximately HK\$1,241.7 million with an adjustment for the intangible assets and goodwill of the Enlarged Group attributable to equity holders of the Company as at 31 October 2020 of approximately HK\$26.6 million.
8. No other adjustments have been made in the unaudited pro forma consolidated statement of financial position to reflect any trading results or other transactions of the Group and of the Target Group entered into subsequent to 31 October 2020.
9. No other adjustments have been made in the unaudited pro forma consolidated statement of comprehensive income and consolidated statement of cash flows to reflect any trading results or other transactions of the Group and of the Target Group entered into subsequent to 30 June 2020.

A. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors confirm that, having made all reasonable enquiries and to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

B. MARKET PRICES

The table below shows the closing price per Share as quoted by the Stock Exchange (i) on the last day on which trading took place in each of the calendar months during the period commencing six months immediately preceding the Last Trading Day; (ii) as at the Last Trading Day; and (iii) as at the Latest Practicable Date:

| Date | Closing price per Share HK\$ |
|---|------------------------------------|
| 30 September 2020 | 0.405 |
| 30 October 2020 | 0.415 |
| 30 November 2020 | 0.43 |
| 31 December 2020 | 0.5 |
| 29 January 2021 | 0.4 |
| 26 February 2021 | 0.385 |
| 17 March 2021 (being the Last Trading Day and the Latest Practicable Date) | 0.48 |

The highest and lowest closing price per Share as quoted on the Stock Exchange during the period between 17 September 2020 (being the date falling six months prior to 17 March 2021, i.e. the date of the Announcement) (both days inclusive) and the Last Trading Day were HK\$0.52 per Share on 14, 15 and 16 December 2020, and HK\$0.375 per Share on 4 November 2020.

C. DISCLOSURE OF INTERESTS**1. Interests of Directors and Chief Executive**

As at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interests and/or short positions in the Shares, the underlying shares or the debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests

and/or short positions (as applicable) which they are taken or deemed to have under such provisions of the SFO); (ii) will be required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (iii) will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange.

2. Interests of Substantial Shareholders

So far as it is known to the Directors, as at the Latest Practicable Date, the following persons (not being a Director or chief executive of the Company) had an interest or short position in the Shares or the underlying Shares which will be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group:

| Name of Shareholder | Nature of interests | Number of Shares held ⁽¹⁾ | Approximate shareholding percentage |
|---------------------|--------------------------------------|--------------------------------------|-------------------------------------|
| QCCIG | Interest of a controlled corporation | 344,621,633 (L) ⁽²⁾ | 69.02% |
| CQDHG | Interest of a controlled corporation | 344,621,633 (L) ⁽²⁾ | 69.02% |
| CQIH | Beneficial owner | 344,621,633 (L) ⁽²⁾ | 69.02% |

Notes:

(1) The letter “L” denotes a long position in the Shares.

(2) The 344,621,633 Shares were held by CQIH. As at the Latest Practicable Date, CQIH was wholly owned by CQDHG, which was wholly owned by QCCIG. By virtue of the SFO, QCCIG and CQDHG are deemed to be interested in the Shares held by CQIH.

Save as disclosed hereinabove, as at the Latest Practicable Date, no other persons (not being a Director or chief executive of the Company) had an interest or short position in the Shares or the underlying Shares which will be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group.

3. Interests in Assets and/or Contracts and Other Interests

As at the Latest Practicable Date, none of the Directors nor proposed Directors had any direct or indirect interest in any assets which have been acquired or disposed of by, or

leased to, or which are proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group since 31 December 2019, being the date to which the latest published audited accounts of the Company were made up.

None of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Enlarged Group.

D. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies in force which (a) (including both continuous and fixed term contracts) have been entered into or amended during the period between 17 September 2020 (being the date falling six months prior to 17 March 2021, i.e. the date of the Announcement) and ending on the Latest Practicable Date (both days inclusive); (b) are continuous contracts with a notice period of 12 months or more; or (c) are fixed term contracts with more than 12 months to run irrespective of the notice period.

As at the Latest Practicable Date, none of the Directors nor proposed Directors had entered, or proposed to enter, into any service contracts with any member of the Enlarged Group which is not determinable within one year without payment of compensation other than statutory compensation.

There will not be any variation in the remuneration payable to and benefits in kind receivable by the Directors upon completion of the Acquisition.

E. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors nor proposed Directors or their respective close associates (as if each of them was treated as a controlling shareholder under Rule 8.10 of the Listing Rules) are engaged in, or interested in any business which, directly or indirectly, competes or is likely to compete with the business of the Enlarged Group.

F. SUMMARY OF MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the Company or any member of the Enlarged Group within two years preceding the date of the Announcement and are or may be material:

- (a) the Sale and Purchase Agreement;

- (b) the Underwriting Agreement;
- (c) the entrusted loan contract dated 7 May 2020 and entered into by Qingdao Qifeng Technology Services Co. Ltd.* (青島啟峰科技服務有限公司) (“**Qifeng**”), Qingdao Urban Rural Construction Micro-credit Loan Co. Ltd.* (青島城鄉建設小額貸款有限公司) (“**QURC Micro-credit Loan Company**”) and Huizhou Jiuyu Real Estate Company Limited* (惠州市九煜置業有限公司) in respect of a loan in the principal amount of RMB195,100,000;
- (d) the entrusted loan entrustment contract dated 7 May 2020 and entered into between Qifeng and QURC Micro-credit Loan Company, pursuant to which Qifeng agreed to entrust a sum of RMB195,100,000 with QURC Micro-credit Loan Company;
- (e) the joint venture agreement dated 15 November 2019 and entered into by Qingdao Holdings (Hong Kong) Limited, China Nuclear Industry Zhongyuan Construction Co., Limited* (中國核工業中原建設有限公司) and China Huadong Construction and Engineering Group Limited (中國華東建設工程集團有限公司) in relation to the formation of NEQH Development and Construction Co. Ltd.* (核建青控開發建設有限公司); and
- (f) the second supplemental loan agreement dated 30 August 2019 and entered into by (i) Classic Charter Limited; (ii) a borrower which is an Independent Third Party; and (iii) an individual guarantor who is an Independent Third Party to supplement the terms of the supplemental loan agreement dated 31 August 2018 and entered into by the aforesaid parties.

G. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save for those disclosed in the Company’s announcement dated 18 March 2021 relating to the inside information-decrease in profit and subject to COVID-19, the details of which are set out in paragraph headed “C. Financial and Trading Prospect of the Group in Appendix IV to this circular, the Directors confirm that there had been no material adverse change in the financial or trading position of the Group since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

H. LITIGATION OF THE ENLARGED GROUP

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

I. EXPENSES OF THE RIGHTS ISSUE

The expenses in connection with the Rights Issue, including but not limited to financial advisory, legal and accounting fees as well as printing, registration and translation charges, are estimated to be approximately HK\$3.5 million and are payable by the Company.

J. CONSENTS AND QUALIFICATIONS OF EXPERTS

Each of the following experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report and/or letter and/or opinion and/or references to its name included herein in the form and context in which they respectively appear:

| Name of expert | Qualifications |
|------------------------------------|---|
| BOCOM International (Asia) Limited | Licensed corporation under the SFO to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO |
| Zhong Lun Law Firm | Legal adviser to the Company as to PRC laws |
| Rainbow Capital (HK) Limited | Licensed corporation under the SFO to conduct type 6 (advising on corporate finance) regulated activity as defined under the SFO |
| PricewaterhouseCoopers | Certified Public Accountants under the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong) Registered Public Interest Entity Auditor under the Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong Kong) |
| China Insights Consultancy Limited | Industry consultant |

As at the Latest Practicable Date, none of the above experts had any interest in the share capital of any member of the Enlarged Group nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group, and none of the above experts had any interest, either directly or indirectly, in any assets which have been, since 31 December 2019, the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

K. ADDITIONAL DISCLOSURE

- (a) As at the Latest Practicable Date, no share or loan capital of any member of the Enlarged Group was under option, or agreed conditionally or unconditionally to be put under option.
- (b) As at the Latest Practicable Date, no founder, management or deferred shares of the Company or any of its subsidiaries had been issued or agreed to be issued.

- (c) As at the Latest Practicable Date, there was no arrangement under which future dividends would be waived or agreed to be waived.

L. MISCELLANEOUS

- (a) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda, and the head office and principal place of business of the Company in Hong Kong is located at Unit No. 8, 26th Floor, Tower 1, Admiralty Centre, No. 18 Harcourt Road, Hong Kong.
- (b) The secretary of the Company is Mr. Chan Kwong Leung, Eric, who is an associate member of both The Chartered Governance Institute in the United Kingdom and The Hong Kong Institute of Chartered Secretaries.
- (c) The principal share registrar and transfer office of the Company is Conyers Corporate Services (Bermuda) Limited at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda, and the Hong Kong branch share registrar and transfer office of the Company is Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) In the event of inconsistency, the English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts.

Copies of the following documents are available for inspection at the office of the Company at Unit No. 8, 26th Floor, Tower 1, Admiralty Centre, No. 18 Harcourt Road, Hong Kong during normal business hours, Monday to Friday (other than public holidays) from the date of this circular up to and including the date of the SGM:

- (a) the Bye-laws;
- (b) the letter from the Board, the text of which is set out in the section headed “Letter from the Board” in this circular;
- (c) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed “Letter from the Independent Board Committee” in this circular;
- (d) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed “Letter from the Independent Financial Adviser” in this circular;
- (e) the annual reports of the Company for each of the years ended 31 December 2017, 2018, nine months ended 31 December 2019 and the interim report of the Company for the six months ended 30 June 2020;
- (f) the accountant’s report from PricewaterhouseCoopers in respect of the historical financial information of the Target Group, the text of which is set out in Appendix III to this circular;
- (g) the report on the unaudited pro forma financial information of the Enlarged Group issued by PricewaterhouseCoopers, the text of which is set out in Appendix V to this circular;
- (h) a copy of each of the material contracts set out in the paragraph headed “F. Summary of Material Contracts” in Appendix VI to this circular;
- (i) the written consents referred to in the paragraph headed “J. Consents and Qualifications of Experts” in Appendix VI to this circular; and
- (j) a copy of this circular.



QINGDAO HOLDINGS INTERNATIONAL LIMITED

青島控股國際有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00499)

NOTICE OF THE SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an special general meeting (the “**SGM**”) of Qingdao Holdings International Limited (the “**Company**”) will be held at Unit Nos. 9–11, 26th Floor, Tower 1, Admiralty Centre, No. 18 Harcourt Road, Hong Kong on Tuesday, 13 April 2021 at 11:00 a.m., for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions. Capitalised terms defined in the circular dated 24 March 2021 issued by the Company (the “**Circular**”) shall have the same meanings when used in this notice unless otherwise specified.

ORDINARY RESOLUTIONS

Resolution in relation to the Sale and Purchase Agreement and the Specific Mandate for the Allotment and Issue of the Conversion Shares

1. “**THAT**

- (a) the agreement dated 17 March 2021 (the “**Sale and Purchase Agreement**”) entered into between Yangfan (Holdings) Group Limited (as the purchaser and an indirect wholly-owned subsidiary of the Company) and China Qingdao Development (Holdings) Group Company Limited (as vendor) (the “**Vendor**”) in relation to the acquisition of approximately 81.91% of the equity interest in Qingdao Rural Construction Financial Leasing Company Limited* (青島城鄉建設融資租賃有限公司), at a total consideration of approximately HK\$2,378.7 million, which will be settled upon completion as follows: (i) approximately HK\$154.5 million in cash; and (ii) approximately HK\$2,224.2 million by the issue of the convertible bonds (the “**Consideration CB**”) by the Company to the Vendor (or its nominee(s)) in the aggregate principal amount of approximately HK\$2,224.2 million convertible into (a) a maximum of 1,189,386,362 conversion shares (the “**Conversion Share(s)**”) at the initial conversion price of HK\$1.87 per Conversion Share (subject to adjustments); or (b) a maximum of 1,486,732,953 Conversion Shares, at the base conversion price of HK\$1.496 per Conversion Share (a copy of the Sale and Purchase Agreement having been

* For identification purpose only

NOTICE OF SGM

produced to the SGM and marked “A” and initialled by the chairman of the SGM for the purpose of identification) and the transactions contemplated thereunder be and are hereby confirmed, approved and ratified;

- (b) the issue of the Consideration CB by the Company to the Vendor (or its nominee(s)) pursuant to the terms and conditions of the Sale and Purchase Agreement and the transactions contemplated thereunder be and are hereby approved;
- (c) conditional upon The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting the listing of, and permission to deal in, the Conversion Shares, the grant of a specific mandate (the “**Specific Mandate**”) to the directors of the Company (the “**Director(s)**”) to allot and issue up to 1,486,732,953 Conversion Shares to the Vendor (or its nominee(s)) pursuant to the terms and conditions of the Sale and Purchase Agreement be and is hereby approved, such Specific Mandate is in addition to and not prejudicing or revoking any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors by the shareholders of the Company (the “**Shareholder(s)**”); and
- (d) any one of the Directors (or any two Directors or one Director and the secretary of the Company, in the case of execution of documents under seal) be and is hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Sale and Purchase Agreement, the issue of the Consideration CB and the issue of the Conversion Shares and any of the transactions contemplated thereunder and the implementation thereof including the affixing of seal thereon.”

Resolution in relation to the Rights Issue

- 2. “**THAT** conditional upon: (i) the Stock Exchange granting or agreeing to grant (subject to allotment) and not having revoked the listing of and permission to deal in the Rights Shares (as defined below) to be allotted and issued to the Shareholders pursuant to the terms and conditions of the Rights Issue (as defined below); and (ii) the Underwriting Agreement (as defined below) becoming unconditional and not being terminated in accordance with its terms:
 - (a) the issue by way of rights issue (the “**Rights Issue**”) of 499,276,680 ordinary shares (the “**Rights Share(s)**”) at the subscription price of HK\$0.39 per Rights Share to the qualifying shareholders (the “**Qualifying Shareholders**”) of the Company whose names appear on the date (the “**Record Date**”) by reference to which entitlement under the Rights Issue will be determined (other than those shareholders (the “**Overseas Shareholders**”) with registered addresses outside Hong Kong whom the Directors, after making relevant enquiries, consider their exclusion from the Rights Issue to be necessary or expedient on account of either

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the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place) in the proportion of one (1) Rights Share for every one (1) share of the Company then held on the Record Date at the subscription price of HK\$0.39 per Rights Share or otherwise on the terms and conditions set out in the Circular be and is hereby approved;

- (b) the underwriting agreement (the “**Underwriting Agreement**”) dated 17 March 2021 and entered into between the Company and Vision Finance International Company Limited (a copy of the Underwriting Agreement having been produced to the SGM and marked “B” and initialled by the chairman of the SGM for the purpose of identification) and the transactions contemplated thereunder be and are hereby confirmed, approved and ratified;
- (c) any one of the Directors be and is hereby authorised to allot and issue the Rights Shares pursuant to the Rights Issue notwithstanding the same may be offered, allotted or issued otherwise than pro-rata to the Qualifying Shareholders and, in particular, any one of the Directors may (i) make such exclusions or other arrangements in relation to the Overseas Shareholders as he/she may deem necessary, desirable or expedient having regard to any restrictions or obligations under the bye-laws of the Company or the laws of, or the rules and regulations of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong; and (ii) offer for application under forms of excess application for any Rights Shares provisionally allotted but not accepted, and to do all such acts and things as he/she consider necessary, desirable or expedient to give effect to any or all other transactions contemplated in this resolution; and
- (d) any one of the Directors be and is hereby authorised to sign or execute such documents and do all such acts and things in connection with the allotment and issue of the Rights Shares, the implementation of the Rights Issue and the Underwriting Agreement, the exercise or enforcement of any of the Company’s rights under the Underwriting Agreement and to make and agree to make such variations of the terms of the Underwriting Agreement as he/she may in his/her discretion consider to be appropriate, necessary, desirable or expedient to carry out, to give effect to or in connection with the Rights Issue or any transaction contemplated thereunder.”

Yours faithfully,

By order of the Board

Qingdao Holdings International Limited

Gao Yuzhen

Executive Director and Chairman

Hong Kong, 24 March 2021

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Notes:

1. All resolutions at the SGM will be taken by poll pursuant to the Listing Rules and the results of the poll will be published on the websites of the Stock Exchange and the Company in accordance with the Listing Rules.
2. Any Shareholder entitled to attend and vote at the SGM is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy needs not be a Shareholder. If a Shareholder who hold two or more shares and appoint more than one proxy, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
3. Any Shareholder of the Company whose ownership is either recorded through CCASS or maintained with a licensed securities dealer (i.e. not directly recorded in his own name in the register of members of the Company) shall only be entitled to vote by providing his instructions to vote to HKSCC Nominees Limited either directly as a CCASS participant or through his licensed securities dealer and the relevant financial intermediaries. In order to attend and vote at the SGM, any such Shareholder shall be appointed by HKSCC Nominees Limited as his proxy to attend and vote instead of him.
4. In order to be valid, the form of proxy must be deposited at the Hong Kong Share Registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Delivery of the form of proxy shall not preclude a Shareholder from attending and voting in person at the SGM and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. For determining the entitlement to attend and vote at the SGM, the register of members of the Company will be closed from Wednesday, 7 April 2021 to Tuesday, 13 April 2021 (both dates inclusive), during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the SGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong Share Registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 1 April 2021.
6. In the event of inconsistency, the English text of this notice shall prevail over the Chinese text.

As at the date of this notice, the Board comprises Mr. Gao Yuzhen (chairman), Mr. Yuan Zhi (deputy chairman and chief executive officer) and Mr. Hu Liang as executive Directors, Mr. Li Shaoran as non-executive Director, and Mr. Yin Tek Shing, Paul, Mr. Wong Tin Kit, Ms. Zhao Meiran and Mr. Li Xue as independent non-executive Directors.