

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 a stockbroker, a licensed securities dealer or other registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in FY Financial (Shenzhen) Co., Ltd., you should at once hand this circular, together with the enclosed form of proxy and reply slip, to the purchaser or transferee or to the bank, stockbroker, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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FY FINANCIAL (SHENZHEN) CO., LTD.
富銀融資租賃(深圳)股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 8452)

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO THE FACTORING AGREEMENT
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



Unless the context otherwise requires, capitalized terms used in the cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular.

A letter from the Board is set out on pages 5 to 21 of this circular and a letter from the Independent Board Committee to the Independent Shareholders is set out on pages 22 to 23 of this circular. A letter from Octal Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 24 to 45 of this circular.

Notice convening the EGM to be held at Room 1603, Cheung Kei Building, No. 128 Xinzhou 11th Street, Futian District, Shenzhen, the PRC on Thursday, 31 August 2023 at 10:00 a.m., is set out on pages 52 to 53 of this circular. A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.fyleasing.com).

Shareholders who intend to appoint a proxy to attend the EGM shall complete the form of proxy in accordance with the instructions printed thereon and return it to the H Share Registrar, Tricor Investor Services Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (for H Shareholders), or the Company's head office in the PRC at Room 1603, Cheung Kei Building, No. 128 Xinzhou 11th Street, Futian District, Shenzhen, the PRC (for holders of Domestic Shares and/or Unlisted Foreign Shares) as soon as possible but in any event not less than 24 hours before the time appointed for the holding of the relevant meetings or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the relevant meetings or any adjournment thereof (as the case may be) if you so wish, and in such event, the form of proxy shall be deemed to be revoked.

14 August 2023

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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DEFINITIONS

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

“Aggregated Agreements”	the Longding Huayuan Agreements, the Dayuan Tiandi Factoring Agreement and the Factoring Agreement
“Announcement”	the announcement of the Company dated 3 July 2023 in relation to the Factoring Agreement and the transaction contemplated thereunder
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Company”	FY Financial (Shenzhen) Co., Ltd. (富銀融資租賃(深圳)股份有限公司), a joint stock company incorporated in the PRC with limited liability and the H Shares of which are listed on GEM
“Dayuan Tiandi”	Beijing Municipality Dayuan Tiandi Property Development Co., Ltd. (北京市大苑天地房地產開發有限公司), a company established in the PRC and a substantial shareholder of the Company
“Dayuan Tiandi Factoring Agreement”	the Factoring Agreement dated 28 April 2023 entered into between the Company (as factor) and Dayuan Tiandi (as seller) in respect of the accounts receivable factoring services to be provided by the Company to Dayuan Tiandi with a factoring principal amount of up to RMB7,950,000 as disclosed in the announcement of the Company dated 28 April 2023
“Directors”	the directors of the Company
“Domestic Share(s)”	ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB by PRC natural persons or entities established under the laws of the PRC and are unlisted Shares which are currently not listed or traded on any stock exchange

DEFINITIONS

“Effective Date”	the effective date of the Factoring Agreement, that is the date on which the Factoring Agreement is approved by the Independent Shareholders at the EGM
“EGM”	the extraordinary general meeting of the Company (or any adjournment thereof) to be convened and held at Room 1603, Cheung Kei Building, No. 128 Xinzhou 11th Street, Futian District, Shenzhen, the PRC on Thursday, 31 August 2023 at 10:00 a.m. for the purpose of considering and, if thought fit, approving the Factoring Agreement and the transaction contemplated thereunder
“Factoring Agreement”	the with-recourse commercial factoring agreement dated 3 July 2023 entered into between the Company (as factor) and Longding Huayuan (as seller) in respect of the accounts receivable factoring services to be provided by the Company to Longding Huayuan with a factoring principal amount of up to RMB27,000,000
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM of the Stock Exchange as amended, supplemented or otherwise modified from time to time
“Group”	the Company and its subsidiaries
“H Share(s)”	the overseas-listed foreign share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars and are listed on GEM
“H Shareholder(s)”	holder(s) of the H Shares
“Historical Factoring Agreements”	eight factoring transactions with Independent Third Parties and had been announced on the website of Stock Exchange by the Company from 1 January 2021 to 3 July 2023
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee comprising all independent non-executive Directors to advise the Independent Shareholders on the terms of the Factoring Agreement and the transaction contemplated thereunder

DEFINITIONS

“Independent Financial Adviser”	Octal Capital Limited, a licensed corporation authorised to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the Factoring Agreement and the transaction contemplated thereunder
“Independent Shareholders”	Shareholder(s) other than Dayuan Tiandi and its associates
“Independent Third Parties”	third parties independent of and not connected with (within the meaning of the GEM Listing Rules) any directors, supervisors, chief executive or substantial shareholders of the Company, its subsidiaries and their respective associates
“Latest Practicable Date”	9 August 2023, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Longding Huayuan”	Beijing Longding Huayuan Real Estate Development Co., Ltd.* (北京市龍鼎華源房地產開發有限責任公司), a company established in the PRC with limited liability
“Longding Huayuan Agreements”	The asset transfer agreement and the lease agreement entered into on 17 August 2020 in relation to an arrangement involving the sale of the lease assets by Longding Huayuan to the Company under the asset transfer agreement and the lease back of the lease assets by the Company to Longding Huayuan under the lease agreement as disclosed in the announcement of the Company dated 17 August 2020 and the circular of the Company dated 25 September 2020
“PRC”	the People’s Republic of China, and for the purpose of this circular only, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the ordinary share(s) with nominal value of RMB1.00 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it under the GEM Listing Rules
“Supervisors”	the supervisors of the Company
“Unlisted Foreign Share(s)”	ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and paid up in a currency other than RMB by persons other than PRC natural persons or entities established under the laws of the PRC and are Shares which are currently not listed or traded on any stock exchange
“%”	per cent

LETTER FROM THE BOARD

FY FINANCIAL (SHENZHEN) CO., LTD.

富銀融資租賃(深圳)股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 8452)

Executive Directors:

Mr. Li Peng (李鵬)

Mr. Weng Jianxing (翁建興)

Ms. Gong Xiaoting (貢曉婷)

Non-executive Directors:

Mr. Peng Qilei (彭期磊)

Ms. Liu Jing (劉敬)

Independent non-executive Directors:

Mr. Fung Che Wai Anthony (馮志偉)

Mr. Hon Leung (韓亮)

Mr. Liu Shengwen (劉升文)

Head office in the PRC:

Room 1603, Cheung Kei Building

No. 128 Xinzhou 11th Street

Futian District

Shenzhen

PRC

Principal place of business in Hong Kong:

40/F, Dah Sing Financial Centre

No. 248 Queen's Road East

Wanchai

Hong Kong

14 August 2023

To the Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO THE FACTORING AGREEMENT
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcement in relation to the discloseable and connected transaction contemplated under the Factoring Agreement.

The purposes of this circular are to provide you with (i) further details of the Factoring Agreement; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Factoring Agreement and the transaction contemplated thereunder; (iii) a letter of advice from the Independent Financial Adviser in relation to the Factoring Agreement and the transaction contemplated thereunder; (iv) the notice convening the EGM; and (v) other information as required under the GEM Listing Rules.

The Independent Board Committee has been established to advise the Independent Shareholders on the terms of the Factoring Agreement. The Company has appointed Octal Capital Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM THE BOARD

THE FACTORING AGREEMENT

On 3 July 2023, the Company entered into the Factoring Agreement with Longding Huayuan, pursuant to which the Company has agreed to provide accounts receivable factoring service for Longding Huayuan with a factoring principal amount of up to RMB27,000,000, in return for (i) factoring interest income; and (ii) transfer of the legal title of accounts receivables created in the ordinary and usual course of business of Longding Huayuan with its customer(s) (i.e. debtor(s) of Longding Huayuan) from Longding Huayuan to the Company for a term of two years commencing from the Effective Date.

If there is any event of default of the terms of the Factoring Agreement, the Company may exercise its right of recourse and demand for repurchase of the accounts receivables by Longding Huayuan. In such event, Longding Huayuan shall be liable to pay the factoring expenses, default compensation and the outstanding factoring principal amount to the Company.

The principal terms of the Factoring Agreement are set out as follows:

Date of agreement:	3 July 2023
Parties:	The Company (as factor) Longding Huayuan (as seller)
Type of facility:	One-off and with recourse
Financing term:	A term of two years commencing from the Effective Date (or of a term until the date on which the factoring principal amount and factoring expenses are fully settled, whichever is the later but in any event will not be later than the second anniversary of the Effective Date).
Transfer of accounts receivables:	Subject to the terms and conditions of the Factoring Agreement, the accounts receivables of Longding Huayuan as referred to in the underlying transaction documents entered into between the parties pursuant to the Factoring Agreement shall be assigned to the Company.

LETTER FROM THE BOARD

The accounts receivable to be assigned under the Factoring Agreement are rental receivable of Longding Huayuan in relation to its commercial premises located in various blocks of residential buildings within three residential projects developed by Longding Huayuan in Tiancun Road, Haidian District, Beijing, the PRC (北京海澱區田村路) under 12 lease agreements with a total rental receivable of approximately RMB34,100,000 as at 2 July 2023, among which the rental receivable due by the top five tenants amount to approximately RMB30,100,000. Under the respective lease agreements, the tenants shall make upfront rental payments in advance to Longding Huayuan, among which 3 tenants shall pay on a bi-annual basis and 9 tenants shall pay on an annual basis.

Factoring principal amount:

A maximum amount of up to RMB27,000,000 (the “**Factoring Limit**”).

The factoring principal amount will normally be calculated by the aggregate amount of accounts receivables to be assigned to the Company times the factoring ratio in accordance with the terms of the Factoring Agreement and, in any event, shall not exceed the Factoring Limit.

LETTER FROM THE BOARD

The maximum factoring principal amount of RMB27,000,000 for the Factoring Agreement was determined after arm's length negotiations with reference to (i) the lending capacity of the Group for the provision of the funding under the Factoring Agreement after considering the Group's working capital requirement; (ii) the funding need of Longding Huayuan; (iii) the repayment capability of Longding Huayuan given the Group's historical transactions conducted with Longding Huayuan since 2020, and its settlement record and noting that Longding Huayuan has always made payments under the relevant agreement with good repayment history; (iv) the business performance and business development of Longding Huayuan bears a stable trend; (v) the stable operating cash inflow of Longding Huayuan will guarantee its repayment of the factoring principal amount and factoring interest under the Factoring Agreement; (vi) the underlying accounts receivable of the Factoring Agreement are rental receivable from 12 lessees with a total value of approximately RMB34,100,000, which will be adequate to cover Longding Huayuan's repayment of the factoring principal amount and factoring interest under the Factoring Agreement; and (vii) the repayment capability of the guarantor under the Factoring Agreement is also adequate to fulfill the relevant repayment liabilities of Longding Huayuan in the event of default by Longding Huayuan.

LETTER FROM THE BOARD

The cash inflow of the rental receivable under the 12 lease agreements (excluding the overdue rental receivable of approximately RMB4.8 million as at the date of the Factoring Agreement) is expected to be approximately RMB3.4 million in the six months ending 31 December 2023, RMB13.9 million in the year ending 31 December 2024, and RMB12.0 million in the six months ending 30 June 2025 respectively. The Company noted that as at the date of the Factoring Agreement, rental receivable of approximately RMB4,800,000 of Longding Huayuan became overdue but were unpaid by five tenants under five lease agreements respectively. These rental payments became overdue respectively during the period from 1 January 2023 to 4 June 2023. Longding Huayuan has been taking follow-up actions with these tenants and strives to have the overdue amount collected as soon as practicable. With the Company adopting a prudent approach, it was agreed between the Company and Longding Huayuan that if the aforementioned overdue amount remains to be unpaid as at 31 July 2023, the actual factoring amount to be provided by the Company to Longding Huayuan shall be adjusted downward on a dollar-to-dollar basis of the unsettled overdue amount.

As at 31 July 2023 and the Latest Practicable Date, the aforementioned overdue rental receivable remained unpaid amounted to approximately RMB4,100,000 by four tenants under four lease agreements respectively. As such, the actual factoring principal amount under the Factoring Agreement had been reduced to RMB22,900,000.

LETTER FROM THE BOARD

Payment of factoring principal amount:

Subject to the satisfaction of the terms and conditions as set out in the Factoring Agreement, the Company shall pay the factoring principal amount of RMB22,900,000 to Longding Huayuan.

Factoring ratio:

The factoring ratio, which represents the ratio of the maximum factoring principal amount to the accounts receivables being assigned, under the Factoring Agreement shall not exceed 80%.

Specifically, the maximum amount of factoring principal is RMB27,000,000, and the aggregate amount of the accounts receivable to be assigned under the Factoring Agreement is approximately RMB34,100,000, thus the factoring ratio of the Factoring Agreement is approximately 79%.

Such factoring ratio falls within the range of factoring ratios of the Historical Factoring Agreements, which ranged from 70% to 85% of the net value of the accounts receivables under the relevant factoring agreements and is determined based on the overall strength and competitiveness of its customers as well as their financial condition, business operation, repayment capability and credit status, and is therefore fair and reasonable and in the interest of the Company and the Shareholders as a whole.

As disclosed above, as a result of certain overdue rental receivable, the actual factoring amount under the Factoring Agreement was reduced to RMB22,900,000. Based on such amount the actual factoring ratio has been reduced to 67%, which is lower than the originally prescribed factoring ratio of 80%. Thus the Company considers that it presents as a lower credit risk to the Company.

LETTER FROM THE BOARD

Factoring interest:

The factoring interest shall be calculated based on the following formula:

$$\frac{A \times B}{360} \times C$$

A = the outstanding balance of the factoring principal amount

B = the interest rate of 10% per annum

C = the actual number of days of the advancement

The factoring interest under the Factoring Agreement shall be payable by Longding Huayuan to the Company on a monthly basis pursuant to the terms of the Factoring Agreement and the underlying transaction documents entered into between the parties pursuant to the Factoring Agreement.

The factoring interest was determined after taking into account (i) the prevailing interest rate for factoring transactions in the PRC factoring industry; (ii) the factoring interest rate charged by the Group in the Historical Factoring Agreements, which ranged from approximately 7.2% to 12.0%; and (iii) the risk associated with the factoring activities under the Factoring Agreement, including but not limited to, the credit assessment of Longding Huayuan based on its business, financial position and repayment capability reflected by the due diligence conducted by the Company, the value of the underlying accounts receivable and the repayment capability of the guarantor.

LETTER FROM THE BOARD

Repayment of the factoring principal amount:

The factoring principal amount is repayable in full on or before the second anniversary of the Effective Date pursuant to the terms and conditions of the Factoring Agreement and the underlying transaction documents entered into between the parties.

Factoring expenses:

The factoring expenses comprise (i) the factoring interest as set out in the paragraphs under "Factoring interest"; (ii) the default interest in respect of the outstanding factoring principal amount and the factoring interest due but not repaid, as set out in the paragraphs under "Default interest rate and default payment mechanism:"; and (iii) other expenses, such as administrative fees, legal fees and disbursements, as incurred by the Company in the course of rendering the accounts receivable factoring services and shall be payable by Longding Huayuan pursuant to the terms of the Factoring Agreement.

The payment of the factoring interest and the default interest in respect of the outstanding factoring principal amount and the factoring interest due but not repaid shall be payable by Longding Huayuan to the Company on a monthly basis.

Other expenses incurred by the Company (if any) in the course of rendering the accounts receivable factoring services shall be repayable together with the repayment of the factoring principal on or before the second anniversary of the Effective Date.

LETTER FROM THE BOARD

Default interest rate and default payment mechanism:

In respect of the outstanding factoring principal amount due but not repaid, the default interest rate is 15% per annum and the default interest payment shall be calculated as follows:

$$\frac{A_1 \times B_1}{360} \times C_1$$

A_1 = the outstanding balance of the factoring principal amount overdue but not repaid

B_1 = the interest rate of 15% per annum

C_1 = the number of days that the outstanding factoring principal amount became overdue

In respect of the factoring interest due but not repaid, the default interest rate shall be 24% per annum and the default interest payment shall be calculated as follows:

$$\frac{A_2 \times B_2}{360} \times C_2$$

A_2 = the outstanding balance of the factoring interest amount overdue but not repaid

B_2 = the interest rate of 24% per annum

C_2 = the number of days that the outstanding factoring interest amount became overdue

Prior to the due date of the monthly factoring interest payments, the Company has in place a system to remind its factoring customers to make the payment of the amount due on the payment date, and will call to remind the factoring customers to pay as soon as possible on the payment date.

LETTER FROM THE BOARD

If there is an event of default on the terms of the Factoring Agreement, which results in non-payment of the factoring interest, the default interest, the factoring principal, or other expenses (if any and as incurred), (i) the Company will issue a notice of payment due to Longding Huayuan and re-evaluate their credit risks upon onsite inspection and communication on the specific reasons that lead to such default; (ii) the Company will also notify the debtors of the relevant accounts receivable assigned to the Company under the Factoring Agreement that payment of such accounts receivable shall be made directly to the Company; (iii) a letter from the Company's lawyer will be issued to Longding Huayuan if no satisfactory time and schedule for repayment can be agreed between the parties after onsite communication and negotiation; and (iv) if all the above steps still fail to resolve the default situation, the Company will file a claim in court against Longding Huayuan, requesting payment of the factoring expenses and the outstanding factoring principal amount. The Company may also resort to the guarantor for the debt payable by Longding Huayuan under the Factoring Agreement.

Condition precedent:

The Factoring Agreement shall be conditional upon the Independent Shareholders' approval having been obtained in accordance with the Company's constitutional documents and the GEM Listing Rules.

Repurchase:

The Company shall be entitled to demand Longding Huayuan to immediately and unconditionally repurchase the outstanding amount of accounts receivables being transferred to the Company, repay the outstanding factoring principal amount and pay the factoring expenses in the event that any of the triggering events as stipulated in the Factoring Agreement occurs, including but not limited to the following major triggering events:

- (i) Longding Huayuan has commercial dispute with its debtor(s) in respect of the underlying contract(s);

LETTER FROM THE BOARD

- (ii) the Company being unable to receive the timely payment in full of the accounts receivables by the debtor(s) of Longding Huayuan as a result of the credit risk of the debtor(s) of Longding Huayuan;
- (iii) Longding Huayuan waiving or offsetting the payment of the accounts receivables transferred to the Company without giving notice to the Company;
- (iv) the debtor(s) of Longding Huayuan being merged, divided, reorganised, the assets of the debtor(s) of Longding Huayuan being transferred, the fund of the debtor(s) of Longding Huayuan being misappropriated, the business operation of the debtor(s) of Longding Huayuan being ceased or suspended, etc., which has adverse effect to the repayment of the accounts receivables;
- (v) the debtor(s) of Longding Huayuan being involved or possibly involved in any major economic dispute, litigation or arbitration;
- (vi) the debtor(s) of Longding Huayuan selling, leasing, transferring or otherwise disposing of its major assets, or the entire or substantial part of its assets; and
- (vii) such other circumstances which the Company deems appropriate for Longding Huayuan to repurchase the outstanding amount of the accounts receivables.

Guarantee:

Mr. Gong Liang (貢亮) entered into a guarantee in favour of the Company in respect of all debt payable by Longding Huayuan to the Company under the Factoring Agreement.

The provision of factoring facility by the Company under the Factoring Agreement will be financed by the internal resources of the Group.

LETTER FROM THE BOARD

PREVIOUS TRANSACTIONS

Prior to entering into the Factoring Agreement, the Company has entered into the Longding Huayuan Agreements pursuant to which the Company would purchase the lease assets from Longding Huayuan at an aggregate consideration of RMB72,000,000 and the Company would lease the lease assets to Longding Huayuan for a term of 36 months in return for lease payment. Details of the Longding Huayuan Agreements are set out in the announcement of the Company dated 17 August 2020 and the circular of the Company dated 25 September 2020. The last installment of the payment due from Longding Huayuan to the Company under the Longding Huayuan Agreements, being RMB2,164,000 (after deducting the security deposit of RMB7,200,000 paid by Longding Huayuan) has been repaid on 25 July 2023. Thus, there is no outstanding amount due from Longding Huayuan to the Company under the Longding Huayuan Agreements.

In addition, the Company has entered into the Dayuan Tiandi Factoring Agreement with Dayuan Tiandi pursuant to which the Company has agreed to provide accounts receivable factoring service for Dayuan Tiandi with a factoring principal amount of RMB7,950,000. Details of the Dayuan Tiandi Factoring Agreement are set out in the announcement of the Company dated 28 April 2023. As at the Latest Practicable Date, the outstanding amount due from Dayuan Tiandi to the Company was RMB7,950,000.

REASONS FOR AND BENEFITS OF THE TRANSACTION

Based on the actual factoring principal of RMB22,900,000, the Factoring Agreement would enable the Group to earn factoring interest income of approximately RMB4,649,972 over the course of the Factoring Agreement. The terms of the Factoring Agreement were agreed between the Company and Longding Huayuan after arm's length negotiations between the parties and are on normal commercial terms with reference to other comparable transactions the Group conducted with the Independent Third Parties, the lending capacity of the Company, the credit assessment on Longding Huayuan and the outstanding amount of accounts receivables to be assigned to the Company by Longding Huayuan.

The Group has been providing sales and leaseback services to Longding Huayuan since 2020. In performing the credit assessment on Longding Huayuan for the purpose of the Factoring Agreement, the Group has taken into account and critically assessed the following key factors, among others, as its set of criteria to assess the likelihood of repayment by the borrower and the collectability of principal and interest through the due diligence and credit assessment conducted by the business department and the risk management department of the Company in accordance with the Group's internal assessment policy:

Historical transactions conducted with Longding Huayuan and its settlement record

Longding Huayuan has always made timely payments under the Longding Huayuan Agreements since October 2020 and there were no overdue payments.

LETTER FROM THE BOARD

Longding Huayuan's management team, financial position, credit records, business operations and future prospects

The Company has assessed the financial position of Longding Huayuan based on its audited financial statements for the year ended 31 December 2022, as well as its credit record based on Longding Huayuan's credit report obtained from the Credit Reference Center of the People's Bank of China (中國人民銀行徵信中心) which showed no overdue record in its credit record. The Company has also reviewed the team structure and primary responsibilities of Longding Huayuan's key management team of 11 people led by Mr. Gong Liang and assessed Longding Huayuan's overall business operations and future prospects.

Quality of the accounts receivable of Longding Huayuan

In its due diligence to assess the quality of the accounts receivable of Longding Huayuan, the Company has performed verification of the authenticity of the accounts receivable, verification of the performance and payment ability of the debtors of the accounts receivable, assessed the businesses that the debtors of the related accounts receivables under the Factoring Agreement are engaged in, and their business operations. As disclosed under the heading "Factoring principal amount" above, there were certain overdue and unpaid rental receivable under the Factoring Agreement. The Company noted that certain tenants have been slow in settling these overdue rental receivable. Despite the slow settlement of these tenants, the Company understands from Longding Huayuan that these tenants had been very cooperative with Longding Huayuan in making regular payments to Longding Huayuan in the past and that all rental payments for the year ending 31 December 2022 had been settled, with one of these tenants having settled its current year overdue rental receivable in July 2023; and that these tenants were proactive in communicating with Longding Huayuan and expected to repay the overdue rental receivable during the period from August 2023 to October 2023. Moreover, all tenants are still carrying on their business operations at the leased properties. The Company also conducted a due diligence trip to inspect the properties leased to the debtors of the accounts receivable and inspected the certificate of ownership of the leased premises. Having considered the above, the Company is of the view that the quality of the accounts receivable of Longding Huayuan is acceptable under these circumstances.

Recourse and credit assessment and repayment ability of the guarantor

If there is an event of default on the terms of the Factoring Agreement by Longding Huayuan, the Company is entitled to exercise its right of recourse and demand for immediate and unconditional repurchase of the accounts receivable by Longding Huayuan. Moreover, in the event of default, Mr. Gong Liang, being the guarantor, is responsible for all debt payable by Longding Huayuan to the Company pursuant to the Factoring Agreement.

The Company has also assessed the credit record of Mr. Gong Liang based on his personal credit report obtained from the Credit Reference Center of the People's Bank of China (中國人民銀行徵信中心), and noted there is no overdue record in his over 20 years of credit history.

Having also considered Mr. Gong Liang's assets based on public information available, including his personal investments and his indirect interest in the Company, the Company considered Mr. Gong Liang as financially competent to be the guarantor under the Factoring Agreement.

LETTER FROM THE BOARD

In view of the above, the Company considers that the credit assessment of Longding Huayuan is satisfactory, and that the credit risk on the Factoring Agreement is relatively low.

As Ms. Gong Xiaoting, being an executive Director, is the daughter of Mr. Gong Liang who owns 45% equity interest in Dayuan Tiandi while Mr. Peng Qilei and Ms. Liu Jing, being the non-executive Directors, serve as the management at Dayuan Tiandi and various related companies of Dayuan Tiandi, they have abstained from voting on the Board resolution in relation to the transaction contemplated under the Factoring Agreement. Save as disclosed above, none of the other Directors are deemed to have a material interest in the transaction contemplated under the Factoring Agreement and, hence they are not required to abstain from voting on the Board resolution in relation to such transaction.

Since the provision of factoring services is one of the main activities of the Group, and given reasons above, the Directors are of the view that the entering into of the Factoring Agreement is in the ordinary and usual course of business of the Company and will generate revenue and cashflow stream from the factoring interest received and the terms of the Factoring Agreement are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

INFORMATION ON THE GROUP

The Group is principally engaged in the provision of finance leasing, factoring, advisory services and customer referral services, the supply of medical equipment, 5G base station business and energy storage business in the PRC.

INFORMATION ON LONGDING HUAYUAN

Longding Huayuan is a company established in the PRC with limited liability and is principally engaged in real estate development. Based on public information available, as at the Latest Practicable Date, Longding Huayuan is held as to 90% by Dayuan Tiandi (being 55% held by Mr. Zhao Dehua (趙得驊) and 45% held by Mr. Gong Liang (貢亮)), 9.17% by Beijing Huien Investment Consultancy Company Limited* (北京匯恩投資顧問公司) (being 100% held by Mr. Ma Xiaosong (馬曉松)), 0.5% by Beijing Chengjian Real Estate Development Co., Ltd (北京城建房地產開發有限公司) (being 100% held by the People's Government of Beijing Municipality), 0.33% by Mr. Zhang Wanguo (張萬國). Save for Dayuan Tiandi, all other shareholders of Longding Huayuan and their ultimate beneficial owners are Independent Third Parties.

To the best of the Director's knowledge, Dayuan Tiandi is principally engaged in real estate development; Beijing Huien Investment Consultancy Company Limited is principally engaged in provision of consultancy services; and Beijing Chengjian Real Estate Development Co., Ltd is principally engaged in property development, sales of properties, properties rental business, carpark rental and provision of storage services.

LETTER FROM THE BOARD

AGGREGATION OF TRANSACTIONS

Reference is made to the announcements of the Company dated 17 August 2020 and 28 April 2023 in relation to the Longding Huayuan Agreements and the Dayuan Tiandi Factoring Agreement, respectively. As at the date of the Factoring Agreement, Dayuan Tiandi is a substantial shareholder of the Company. As Longding Huayuan is owned as to 90% by Dayuan Tiandi, Longding Huayuan is therefore a connected person of the Company. Given that the Longding Huayuan Agreements, the Dayuan Tiandi Factoring Agreement and the Factoring Agreement are entered into by the Company with parties connected with one another, the transaction contemplated under the Factoring Agreement is required to be aggregated with the previous transactions under Longding Huayuan Agreements and the Dayuan Tiandi Factoring Agreement pursuant to Rules 19.22, 19.23, 20.79 and 20.80 of the GEM Listing Rules.

IMPLICATIONS UNDER THE GEM LISTING RULES

As Longding Huayuan is a connected person of the Company, and as one or more of the applicable percentage ratios (as defined in the GEM Listing Rules) in respect of the Factoring Agreement, on a stand-alone basis, exceed 5% but all of which are less than 25%, the transaction contemplated thereunder constitutes a discloseable and connected transaction for the Company. As the transaction contemplated under the Factoring Agreement requires aggregation with the previous transactions under the Longding Huayuan Agreements and the Dayuan Tiandi Factoring Agreement, and as one or more of the applicable percentage ratios (as defined in the GEM Listing Rules) in respect of the Aggregated Agreements exceed 25% but all of which are less than 75%, the transaction under the Factoring Agreement would remain a major and connected transaction for the Company under Chapters 19 and 20 of the GEM Listing Rules on an aggregated basis.

Nonetheless, as the Longding Huayuan Agreements and the transactions contemplated thereunder were major and connected transactions at the material time and had complied with all applicable requirements under the GEM Listing Rules including reporting, announcement, circular and Independent Shareholders' approval, the Factoring Agreement and the transaction contemplated under the Factoring Agreement are only subject to the relevant requirements for a discloseable and connected transaction under Chapters 19 and 20 of the GEM Listing Rules including reporting, announcement, circular and Independent Shareholders' approval.

The Independent Board Committee has been established to advise the Independent Shareholders on the terms of the Factoring Agreement. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM THE BOARD

EGM

Set out on pages 52 to 53 of this circular is the notice of EGM during which an ordinary resolution will be proposed to the Shareholders to consider and, if thought fit, to approve the Factoring Agreement and the transaction contemplated thereunder. In accordance with Rule 17.47(4) of the GEM Listing Rules, all votes to be taken at the EGM will be by poll. Dayuan Tiandi and its associates, who were interested in a total of 80,000,000 Domestic Shares representing approximately 22.26% of the total number of issued Shares as at the Latest Practicable Date, will be required to abstain from voting at the EGM.

A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.fyleasing.com). If you intend to appoint a proxy to attend the EGM, you are required to complete the form of proxy in accordance with the instructions printed thereon and return it to the H Share Registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (for H Shareholders), or the Company's head office in the PRC at Room 1603, Cheung Kei Building, No. 128 Xinzhou 11th Street, Futian District, Shenzhen, the PRC (for holders of Domestic Shares and/or Unlisted Foreign Shares) as soon as possible but in any event not less than 24 hours before the time appointed for the holding of the respective meetings or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the respective meetings or any adjournment thereof (as the case may be) if you so wish, and in such event, the form of proxy shall be deemed to be revoked.

CLOSURE OF REGISTER OF MEMBERS OF H SHARES

For determining the entitlement of the Shareholders to attend and vote at the EGM, the transfer books and register of members of the Company will be closed from Tuesday, 29 August 2023 to Thursday, 31 August 2023, both days inclusive, during which period no Share transfers can be registered. In order to be eligible to attend and vote at the EGM, all transfer documents of Shares accompanied by the relevant share certificates must be lodged with the H Share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (for holders of H Shares), or the Company's head office in the PRC at Room 1603, Cheung Kei Building, No. 128 Xinzhou 11th Street, Futian District, Shenzhen, the PRC (for holders of Domestic Shares and/or Unlisted Foreign Shares) for registration not later than 4:30 p.m. on Monday, 28 August 2023.

Shareholders whose names appear on the register of members of the Company after the close of business on Monday, 28 August 2023 are entitled to attend and vote at the EGM.

LETTER FROM THE BOARD

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 22 to 23 of this circular which contains its recommendations to the Independent Shareholders on the Factoring Agreement and the transaction contemplated thereunder; and (ii) the letter from the Independent Financial Adviser to the Independent Board Committees and the Independent Shareholders set out on pages 24 to 45 of this circular which contains, amongst other matters, its opinions in relation to the Factoring Agreement and the transaction contemplated thereunder. Your attention is also drawn to the additional information set out in the appendix to this circular.

The Directors (including all the independent non-executive Directors after considering the advice of the Independent Financial Adviser) consider that the Factoring Agreement (including the actual factoring principal amount RMB22,900,000) and the transaction contemplated thereunder are fair and reasonable, on normal commercial terms or better, and are in the interests of the Group and the Shareholders as a whole and accordingly recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM.

Yours faithfully,
FY Financial (Shenzhen) Co., Ltd.
Mr. Li Peng
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendation, prepared for incorporation in this circular, from the Independent Board Committee to the Independent Shareholders regarding the Factoring Agreement and the transaction contemplated thereunder.

FY FINANCIAL (SHENZHEN) CO., LTD.

富銀融資租賃(深圳)股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 8452)

14 August 2023

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE FACTORING AGREEMENT AND NOTICE OF EXTRAORDINARY GENERAL MEETING

We refer to the circular of the Company to the Shareholders dated 14 August 2023 (the “**Circular**”), in which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter will have the same meanings as defined in the Circular.

We have been appointed by the Board to form the Independent Board Committee to advise the Independent Shareholders on whether, in our opinion, the entering into of the Factoring Agreement and the transaction contemplated thereunder, are in the interests of the Company and the Shareholders as a whole and the terms of the Factoring Agreement are fair and reasonable so far as the Independent Shareholders are concerned. None of the members of the Independent Board Committee have any direct or indirect interest in the Factoring Agreement and the transaction contemplated thereunder. Octal Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

Your attention is drawn to the “Letter from the Board” on pages 5 to 21 of the Circular, which sets out the details of the Factoring Agreement and the transaction contemplated thereunder, and the “Letter from the Independent Financial Adviser” on pages 24 to 45 of the Circular, which contains its advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Factoring Agreement and the transaction contemplated thereunder.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the terms of the Factoring Agreement, the advice of the Independent Financial Adviser and the principal factors and reasons taken into consideration by them in arriving at their advice, we consider that the Factoring Agreement (including the actual factoring principal amount RMB22,900,000) was entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of which are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolution in respect of the Factoring Agreement and the transaction contemplated thereunder.

Yours faithfully,
For and on behalf of
the Independent Board Committee

Fung Che Wai Anthony
*Independent Non-executive
Director*

Hon Leung
*Independent Non-executive
Director*

Liu Shengwen
*Independent Non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from Octal Capital Limited regarding the Factoring Agreement and the transaction contemplated thereunder for the purpose of inclusion in this circular.



Octal Capital Limited
801-805, 8th Floor, Nan Fung Tower
88 Connaught Road Central
Hong Kong

14 August 2023

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE FACTORING AGREEMENT

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the Factoring Agreement, details of which are set out in the letter from the Board contained in this Circular of the Company dated 14 August 2023 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

On 3 July 2023 (the “**Announcement Date**”), the Company entered into the Factoring Agreement with Longding Huayuan, pursuant to which the Company has agreed to provide accounts receivable factoring service for Longding Huayuan for a term of two years from the Effective Date. Subject to the satisfaction of the terms and conditions as set out in the Factoring Agreement, the Company shall pay the factoring principal amount of RMB22,900,000 to Longding Huayuan.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Fung Che Wai Anthony, Mr. Hon Leung and Mr. Liu Shengwen, has been established to consider and advise the Independent Shareholders on whether the Factoring Agreement has been entered into in the ordinary and usual course of business of the Group and on normal commercial terms, the terms of which are fair and reasonable and in the interests of the Group and the Shareholders as a whole. We, Octal Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, we are not connected with the directors, chief executives and substantial shareholders of the Company, Longding Huayuan or any of their respective subsidiaries or associates or parties acting in concert with any of them and do not have any shareholding, directly or indirectly, in any members of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group. During the last two years, we have not been engaged by the Company as an independent financial adviser to the Company. Apart from normal professional fees paid or payable to us by the Company in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Group or the directors, chief executive and substantial shareholders of the Group, or any of its respective subsidiaries or associates that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent to act as the Independent Financial Adviser of the Company pursuant to Rule 17.96 of the GEM Listing Rules.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in this Circular and have assumed that all information and representations made or referred to in this Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussion with the Directors and the management of the Company regarding the Group and the Factoring Agreement, including the information and representations contained in this Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and the management of the Company in this Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in this Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in this Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group and its associates nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on the terms of the Factoring Agreement, we have taken the following principal factors and reasons into consideration:

1. Background information of the Group

The Group is principally engaged in the provision of finance leasing, factoring, advisory services and customer referral services, supply of medical equipment, 5G base station business and energy storage business in the PRC.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The consolidated statement of comprehensive income for the years ended 31 December 2021 (“FY2021”) and 2022 (“FY2022”) and for the three months ended 31 March 2022 (“1Q2022”) and 2023 (“1Q2023”) from the annual report of the Company for FY2022 (the “2022 Annual Report”) and the quarterly report of the Company for 1Q2023 (the “1Q2023 Report”) are summarized as below:

	FY2021 <i>RMB'000</i> (audited)	FY2022 <i>RMB'000</i> (audited)	1Q2022 <i>RMB'000</i> (unaudited)	1Q2023 <i>RMB'000</i> (unaudited)
Financial and advisory business (<i>Note 1</i>)	38,169	15,937	6,549	3,762
Trading operation business (<i>Note 2</i>)	4,926	–	–	138
Energy storage business (<i>Note 3</i>)	–	11,751	–	4,686
5G base station business (<i>Note 4</i>)	–	1,814	–	501
	43,095	29,502	6,549	9,087
Total revenue				
Cost of sales	(8,739)	(16,909)	(340)	(3,967)
Gross profit	34,356	12,593	6,209	5,120
Gross profit margin (%)	79.7%	42.7%	94.8%	56.3%
Profit after tax	14,931	(32,486)	3,861	1,503

Notes:

1. The financial and advisory business comprises (a) direct finance leasing; (b) sale–leaseback; (c) factoring; (d) advisory services; (e) customer referral; and (f) investment holding.
2. The trading operation business comprises primarily import and domestic trade of medical equipment, as well as the provision of maintenance services primarily within the medical equipment industry.
3. The energy storage business comprises (a) trading of energy storage systems; (b) energy storage solution and general contracting; and (c) provision of energy storage business.
4. The 5G base station business comprises primarily provision of 5G base stations site space.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Comparison between FY2021 and FY2022

During FY2022, the revenue of the Group was amounted to approximately RMB29.5 million, representing a decrease of approximately RMB13.6 million from approximately RMB43.1 million for FY2021. As disclosed in the 2022 Annual Report, the decrease in revenue was mainly due to the reduction of the income from finance leasing service and factoring service. As disclosed in 2022 Annual Report, during FY2022, the management of the Company has developed 5G base station business and energy storage business, so as to reduce and diversify the potential risk of only developing and focusing on the finance leasing industry. The 5G base station business and energy storage business contributed revenue of RMB11.8 million and RMB1.9 million, respectively, during FY2022.

During FY2022, the Group's gross profit amounted to approximately RMB12.6 million, representing a decrease of approximately RMB21.8 million compared to approximately RMB34.4 million for FY2021. This is mainly due to the increment in costs of energy storage business during FY2022.

During FY2022, the Group recorded an impairment loss on accounts receivable of approximately RMB38.3 million (FY2021: RMB7.3 million). The impairment loss was related to the Group's finance leasing business and the factoring business taking into account of the aging period of accounts receivables, the financial status of customers, the possibility of recovering the outstanding amount, etc. The impairment loss on accounts receivables of RMB38.3 million was related to customers who are Independent Third Parties.

During FY2021 and FY2022, the Group did not have any bank borrowings and no interest expenses have been incurred.

The profit after tax of the Group decreased by approximately RMB47.4 million from a profit of approximately RMB14.9 million for FY2021 to a loss of approximately RMB32.5 million for FY2022, primarily as a result of a decrease in gross profit of approximately RMB21.8 million, an increase in impairment loss on accounts receivable of approximately RMB30.9 million after setting off the tax credit recorded in FY2022 of approximately RMB6.3 million.

Comparison between 1Q2022 and 1Q2023

During 1Q2023, the Group recorded revenue of approximately RMB9.1 million, representing an increase of approximately RMB2.5 million from approximately RMB6.5 million for 1Q2022. The increase was mainly due to the revenue contributed by the energy storage business during 1Q2023. The gross profit of the Group declined from RMB6.2 million in 1Q2022 to RMB5.1 million in 1Q2023 because the gross profit of the energy storage business was lower than that of the financial and advisory business.

During 1Q2023, the Group did not have any bank borrowings and no interest expenses have been incurred.

During 1Q2023, the Group recorded a profit after tax of approximately RMB1.5 million, representing a decrease of approximately RMB2.4 million from approximately RMB3.9 million for 1Q2022. As disclosed in the 1Q2023 Report, the decrease in profitability was mainly attributable to the increment in staff cost of the energy storage business.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The consolidated statement of financial position of the Group as at 31 December 2022 extracted from the 2022 Annual Report is summarised below:

	As at 31 December 2022 <i>RMB'000</i> (audited)
Non-current assets	
– Plant and equipment	21,476
– Accounts receivable	21,336
– Interest in an associate (Shanghai KYMS Cloud Technology Co., Ltd)	51,816
– Others	79,514
Total non-current assets	174,142
Current assets	
– Accounts receivable	135,383
– Cash and cash equivalents	182,949
– Others	19,155
Total current assets	337,487
Total assets	511,629
Current liabilities	
– Trade and other payables	43,368
– Lease liabilities	2,681
– Tax payable	5,003
– Others	1,383
Total current liabilities	52,435
Non-current liabilities	
– Lease liabilities	6,095
– Others	2,414
Total non-current liabilities	8,509
Total liabilities	60,944
Net assets	450,685
Current ratio (current assets divided by current liabilities)	6.4

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group's assets as at 31 December 2022 mainly included accounts receivable of approximately RMB156.7 million, an interest in an associate of approximately RMB51.8 million and cash and cash equivalents of approximately RMB183.0 million, which in aggregate represented approximately 76.5% of total assets of the Group.

The Company has 20.81% shareholding interests in an associate, namely Shanghai KYMS Cloud Technology Co., Ltd. which is principally engaged in leasing of serviced offices in the PRC.

As at 31 December 2022, the Group's liabilities mainly included trade and other payables of approximately RMB43.4 million, representing approximately 71.2% of total liabilities of the Group. The Group did not have bank borrowings as at 31 December 2022.

2. Background information of Longding Huayuan

Longding Huayuan is a limited liability company established in the PRC and is principally engaged in the real estate development in the PRC. As at the Latest Practicable Date, Longding Huayuan is owed as to 90% by Dayuan Tiandi. Save for Dayuan Tiandi, all other shareholders of Longding Huayuan and their ultimate beneficial owners are Independent Third Parties.

Based on the audited financial statement of Longding Huayuan of FY2022, we noted that as at 31 December 2022, the net current assets and net assets of Longding Huayuan were approximately RMB3,118 million and RMB1,766 million, respectively. Longding Huayuan recorded net cash inflow from its operating activities of approximately RMB193.8 million for FY2022. We reviewed the unaudited financial statement of Longding Huayuan for the five month ended 31 May 2023 and noted that the net current assets and net assets of Longding Huayuan was approximately RMB2,567 million and RMB1,304 million, respectively.

Prior to entering into the Factoring Agreement, the Company has entered into the Longding Huayuan Agreements pursuant to which the Company purchased lease assets from Longding Huayuan at an aggregate consideration of RMB72 million and leased back to Longding Huayuan for a term of 36 months in return for a monthly rental payment of RMB2,341,000. Details of the Longding Huayuan Agreements are set out in the Company's announcement dated 17 August 2020 and circular dated 25 September 2020. The last instalment of the payment due from Longding Huayuan to the Company under the Longding Huayuan Agreements was RMB2,164,000 (after deducting the security deposit of RMB7,200,000 paid by Longding Huayuan) which has been repaid on 25 July 2023. Thus, there is no outstanding amount due from Longding Huayuan to the Company under the Longding Huayuan Agreements.

In addition, the Company entered into the Dayuan Tiandi Factoring Agreement with Dayuan Tiandi pursuant to which the Company provided accounts receivable factoring service for Dayuan Tiandi with a factoring principal amount of RMB7,950,000. Details of the Dayuan Tiandi Factoring Agreement are set out in the Company's announcement dated 28 April 2023. As at the Latest Practicable Date, the outstanding amount due from Dayuan Tiandi to the Company was RMB7,950,000, which will be settled on or before April 2024.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. Factoring Agreement

The principal terms of the Factoring Agreement are summarised below:

Date of agreement:	3 July 2023
Parties:	The Company (as factor) Longding Huayuan (as seller)
Type of facility:	One-off and with recourse
Financing term:	A term of two years commencing from the Effective Date (or of a term until the date on which the factoring principal amount and factoring expenses are fully settled, whichever is the later but in any event will not be later than the second anniversary of the Effective Date).
Transfer of accounts receivables:	The accounts receivables of Longding Huayuan as referred to in the underlying transaction documents entered into between the parties pursuant to the Factoring Agreement shall be assigned to the Company.

The accounts receivable to be assigned under the Factoring Agreement are rental receivable of Longding Huayuan in relation to its commercial premises located in various blocks of residential buildings within three residential projects developed by Longding Huayuan in Tiancun Road, Haidian District, Beijing, the PRC, under 12 lease agreements with a total rental receivable of approximately RMB34,000,000 as at 2 July 2023, among which the rental receivable due by the top five tenants amount to approximately RMB30,100,000. Under the respective lease agreements, the tenants shall make upfront rental payments to Longding Huayuan, among which three tenants shall pay on a bi-annual basis and nine tenants shall pay on an annual basis.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Factoring principal amount:

A maximum amount of up to RMB27,000,000 (the “**Factoring Limit**”).

The factoring principal amount will be normally calculated by the aggregate amount of accounts receivables to be assigned to the Company times the factoring ratio in accordance with the terms of the Factoring Agreement and, in any event, shall not exceed the Factoring Limit.

The Company noted that as at the date of the Factoring Agreement, rental receivable of approximately RMB4,800,000 of Longding Huayuan became overdue but were unpaid by five tenants under five lease agreements. These rental payments became overdue respectively during the period from 1 January 2023 to 4 June 2024. Longding Huayuan has been taking follow-up actions with these tenants and strives to have the overdue amount collected as soon as practicable. With the Company adopting a prudent approach, it was agreed between the Company and Longding Huayuan that if the aforementioned overdue amount remains to be unpaid as at 31 July 2023, the actual factoring amount to be provided by the Company to Longding Huayuan shall be adjusted downward on a dollar-to-dollar basis of the unsettled overdue amount.

As at 31 July 2023 and the Latest Practicable Date, the aforementioned overdue rental receivable remained unpaid amounted to approximately RMB4,100,000 by four tenants under four lease agreements. As such, the actual factoring principal amount under the Factoring Agreement had been reduced to RMB22,900,000.

Payment of factoring principal amount:

Subject to the satisfaction of the terms and conditions as set out in the Factoring Agreement, the Company shall pay the factoring principal amount of RMB22,900,000 to Longding Huayuan.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- Factoring ratio:** The ratio of the maximum factoring principal amount to the accounts receivables being assigned, under the Factoring Agreement shall not exceed 80%.
- Factoring interest:** The factoring interest shall be calculated based on the following formula:
- $$\frac{A \times B}{360} \times C$$
- A = the outstanding balance of the factoring principal amount
- B = the interest rate of 10% per annum
- C = the actual number of days of the advancement
- The factoring interest under the Factoring Agreement shall be payable by Longding Huayuan to the Company on a monthly basis pursuant to the terms of the Factoring Agreement and the underlying transaction documents entered into between the parties pursuant to the Factoring Agreement.
- Repayment of the factoring principal amount:** The factoring principal amount is repayable in full on or before the second anniversary of the Effective Date pursuant to the terms and conditions of the Factoring Agreement and the underlying transaction documents entered into between the parties.
- Factoring expenses:** The factoring expenses comprise (i) the factoring interest as set out above; (ii) the default interest in respect of the outstanding factoring principal amount and the factoring interest due but not repaid as set out in the paragraphs under “Default interest rate and default payment mechanism” in the Letter from the Board; and (iii) other expenses incurred by the Company in the course of rendering the accounts receivable factoring services and shall be payable by Longding Huayuan pursuant to the terms of the Factoring Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The payment of the factoring interest and the default interest in respect of the outstanding factoring principal amount and the factoring interest due but not repaid shall be payable by Longding Huayuan to the Company on a monthly basis.

Guarantee:

Mr. Gong Liang (貢亮) entered into a guarantee in favour of the Company in respect of all debt payable by Longding Huayuan to the Company under the Factoring Agreement.

Details of the Factoring Agreement can be referred to the Letter from the Board.

Principal Amount

Pursuant to the Factoring Agreement, the maximum principal amount is RMB27,000,000. As mentioned above, the actual factoring principal to Longding Huayuan is RMB22,900,000 which will be financed by internal resources of the Group. Based on the bank balance of the Group as at 31 December 2022 amounted to RMB183 million, we concur with the Directors that the Group has sufficient funding to finance the transaction contemplated under the Factoring Agreement. We understand from the management of the Company that the actual factoring principal amount of RMB22,900,000 is determined on a case-by-case basis with reference to factors including (i) the overall strength and competitiveness, as well as financial condition, business operation, repayment capability and credit status of Longding Huayuan; (ii) the financial capability of the Group for provision of the funding under the Factoring Agreement; (iii) the historical repayment record of Longding Huayuan with the Group; (iv) the nature and quality of the underlying accounts receivables of the Factoring Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Accounts Receivables of Longding Huayuan

The underlying accounts receivables refer to rental receivables of approximately RMB34.1 million in relation to 12 lease agreements for commercial premises (the “Properties”), which were located in various blocks of residential buildings within three residential projects developed by Longding Huayuan in Tiancun Road, Haidian District, Beijing, the PRC (北京海澱區田村路). We noted that property ownership certificates for the Properties have been obtained. We have checked against their rental agreements and noticed that the tenants of the Properties include three state-owned banks, beauty service provider, oral care clinic and kindergarten, etc. We have also performed random check against the rental settlement records of these 12 rental agreements in FY2022 and the first six months of 2023. We further reviewed the rental settlement record after the date of Factoring Agreement and noticed that the rental of RMB1.2 million in relation to three tenants are due in July 2023 which have been fully settled as at the Latest Practicable Date.

Based on the calculation prepared by the Company, the estimated rental receivables of Longding Huayuan for a term of two years commencing from the Effective Date amounted to approximately RMB34.1 million, among which the rental receivables related to the top five tenants are amounted to RMB30.1 million. As at the date of the Factoring Agreement, approximately RMB4.8 million of rental receivables has been overdue based on the payment terms of the respective lease agreements. For the period between the date of the Factoring Agreement and 31 July 2023, approximately RMB0.7 million has been subsequently settled. Since there are overdue rental receivables due from four tenants of approximately RMB4.1 million as at 31 July 2023, taking a prudent approach, the Company reduced the factoring principal to RMB22,900,000 under the Factoring Agreement on a dollar-to-dollar basis of the unsettled overdue amount.

We further reviewed the expected cash inflow of the rental under these 12 lease agreements (excluding the overdue rental receivables of approximately RMB4.8 million as at the date of the Factoring Agreement) in which approximately RMB3.4 million, approximately RMB13.9 million and approximately RMB12.0 million will be occurred in the second half of 2023, the year ending 31 December 2024 and the first half of 2025. We understood from the Company that the Group would review the settlement progress of the rental receivables on a quarterly basis during the two year terms of the Factoring Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Longding Huayuan

For our due diligence purpose, we have reviewed the due diligence and credit assessment result performed by the business department and the risk management department of the Company. The Company performed on-site visit during the period from 12 April 2023 to 16 April 2023 and reviewed rental agreements, settlement records of rental and status of the Properties. We also reviewed the assessment result in relation to business background, shareholding structure, senior management structure, pledged assets, litigation search of Longding Huayuan and noticed that the assessment result concluded by the Company was satisfactory.

Regarding the background and shareholding structure of Longding Huayuan, we have retrieved the company report from the National Enterprise Credit Information Publicity System (“國家企業信用信息公示系統”) and checked to its shareholder, shareholding structure, directorship, legal representative and penalty information imposed by the government, we noted that the information disclosed in the said report is same as those disclosed in the Company’s own assessment report and no material penalty or legality matter was found in the said report. Moreover, we performed a research on the public domain and the information available on the website of Beijing Municipal Commission of Housing and Urban-Rural Development (“北京市住房和城鄉建設委員會”), we noticed that Longding Huayuan is a Beijing-based property developer. We have also obtained and reviewed a corporate credit report issued by People’s Bank of China – Credit Reference Center (“中國人民銀行—徵信中心”) in July 2023 in relation to the credit activities of Longding Huayuan. Based on this report, we noticed that Longding Huayuan made normal repayment for its existing loans with different financial intuitions and there is no overdue record in relation to its historical credit activities. We also obtained the auditor’s report of Longding Huayuan for FY2022 and noticed that Longding Huayuan recorded net asset of approximately RMB1,766 million and its gearing ratio (calculated by total bank borrowings divided by total assets) is approximately 28.0%.

We also checked to the repayment record in relation to the Longding Huayuan Agreements and noted that the repayment has been made on a timely basis. The Company advised that there is no overdue amount due from Longding Huayuan as at the Latest Practicable Date.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Regarding the overdue rental receivables of approximately RMB4.8 million as at the date of Factoring Agreement, we further take into account of the following factors:

1. Given the Group' historical transactions under the Longding Huayuan Agreements, there is no overdue record and repayments have been made in according to the relevant payment schedule;
2. Based on the Company's credit assessment, there is no material negative findings in relation to the creditability of Longding Huayuan;
3. Based on the audited account of Longding Huayuan of FY2022, Longding Huayuan recorded net current assets and net assets was approximately RMB3,118 million and RMB1,766 million, respectively with unqualified auditor's opinion in FY2022. The net cash inflow from its operating activities were approximately RMB194 million for FY2022. The business of Longding Huayuan is able to generate cash inflow to finance the repayment obligations of the Factoring Agreement; and
4. The expected cash inflow from the rental receivables under the Factoring Agreement is approximately RMB29.2 million (excluding the overdue amount of approximately RMB4.8 million as at the date of Factoring Agreement) will be adequate to cover the principal amount of RMB22.9 million and the relevant factoring interests of approximately RMB4.6 million,

we concur with the Company that the credit assessment of Longding Huayuan conducted by the Company was satisfactory.

Guarantee

In the event of default, Mr. Gong Liang, being the guarantor, is responsible in respect of all debt payable by Longding Huayuan to the Company pursuant to the Factoring Agreement. Apart from being the guarantor for the Factoring Agreement, Mr. Gong Liang is also the guarantor for the Longding Huayuan Agreements and the Dayuan Tiandi Factoring Agreement. As at the Latest Practicable Date, the amount guaranteed by Mr. Gong Liang is RMB7,950,000 which represents the outstanding principal of the Dayuan Tiandi Factoring Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

To assess the financial competency of Mr. Gong Liang, we understood that Mr. Gong Liang owns 45% equity interest in Dayuan Tiandi, which is a substantial Shareholder of the Company. Mr. Gong Liang is the director and the legal representative of Dayuan Tiandi as at the Latest Practicable Date. We reviewed the unaudited management accounts of Dayuan Tiandi for FY2022 and noted that Dayuan Tiandi had total assets and net assets of approximately RMB1,591 million and RMB1,024 million respectively as at 31 December 2022 and recorded net profit of approximately RMB15.6 million for FY2022. We also noted that Dayuan Tiandi has a registered capital of RMB150 million as at the Latest Practicable Date, which has been fully paid up.

We obtained and reviewed a credit report issued by People's Bank of China – Credit Reference Center (“中國人民銀行—徵信中心”) in July 2023 regarding credit activities of Mr. Gong Liang. Based on his credit report, we noticed that Mr. Gong Liang made timely repayment on his personal loans and did not have loan default record.

Considering Mr. Gong Liang's investment in Dayuan Tiandi and indirect interest in the Company, as well as Mr. Gong Liang's credit report, we concur with the Directors that Mr. Gong Liang is financially competent to be the guarantor under the Factoring Agreement.

4. Reasons and benefits for entering into the Factoring Agreement

The Group is principally engaged in the provision of finance leasing, factoring, advisory services and customer referral services, supply of medical equipment, 5G base station business and energy storage business in the PRC. The Group provides customised finance leasing and factoring services tailored for customers in a number of strategic industries, including property development, property leasing, construction, architectural decoration, energy resources industries. As disclosed in 1Q2023 Report, the Company continues engaging in finance leasing and advisory services by adopting prudent financial management and cost control to manage the default risk and the profit margin. The entering into of the Factoring Agreement is in line with the Group's business development.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

With reference to the 2022 Annual Report and the 1Q2023 Report, the finance leasing and factoring services generated major revenue of the Company. The financial and advisory revenue amounted to approximately RMB15.9 million and RMB3.8 million during FY2022 and 1Q2023, respectively, representing approximately 54% and 41% of the total revenue for the respective year/period. During FY2022 and 1Q2023, the factoring income was amounted to RMB5.2 million and RMB2.6 million, respectively.

Longding Huayuan is established in the PRC with principal businesses encompassing property development in the PRC. Longding Huayuan is an existing customer of the Group. We understand from the management of the Company that the Group has established a stable business relationship with Longding Huayuan since 2016. The Group have provided finance leasing service relating to equipment for property development projects to Longding Huayuan since October 2020. During FY2021 and FY2022, the Company recorded income from the sales-leaseback transaction with Longding Huayuan of approximately RMB5.7 million and RMB3.4 million, representing approximately 15.0% and 21.5% of the revenue of the financial and advisory business for FY2021 and FY2022 respectively.

We have obtained and checked to the settlement record of Longding Huayuan made in FY2022 and the monthly lease payment from Longding Huayuan has been made on a timely basis. The Company has not made any specific impairment loss in relation to the receivables due from Longding Huayuan. Since Longding Huayuan has a proven settlement record and business track record with the Group, it is commercially reasonable to continue the business relationship with Longding Huayuan.

The Factoring Agreement could provide the Group with a stable factoring interest income and cash flow of approximately RMB4,650,000 during the upcoming two years from the Effective Date without significant credit risk based on the past business experience with Longding Huayuan, which is in line with the Group's risk management perspective. The Factoring Agreement will enable the Group to earn further factoring income using the Group's internal resources. We are of the view that it is commercially justifiable to entering into the Factoring Agreement.

5. Assessment of the principal terms of the Agreement

In assessing the fairness and reasonableness of the terms of the Factoring Agreement, we have identified eight factoring transactions which (i) were announced by the Company with the announcement published during the period from 1 January 2021 up to the Announcement Date; and (ii) the transactions are in relation to the factoring agreements entered into by the Group with the Independent Third Parties. We consider

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

that these eight factoring transactions (the “**Historical Agreements**”) represent an exhaustive list based on such criteria and would provide a benchmarking comparison for our analysis. The principal terms of the Historical Agreements are set out below:

Date of Announcement	Customer of the Company	Terms of factoring				With recourse	With guarantee
		Principal (RMB)	Ratio	Interest p.a.	Term (years)		
15 December 2021	Ningbo Jinchang Trading Co., Ltd	12,750,000	85%	Minimum: 7.2% Maximum: 12.0%	0.5	Yes	No
16 December 2021	Ningbo Yishan Trading Co., Ltd	13,290,000	74%	Minimum: 8.0% Maximum: 12.0%	0.5	Yes	No
20 December 2021	Ningbo Huafan Network Technology Co., Ltd	12,120,000	85%	Minimum: 7.2% Maximum: 12.0%	0.5	Yes	No
23 December 2021	Ningbo Dingniu Import and Export Co., Ltd.	10,000,000	72%	Minimum: 8.0% Maximum: 12.0%	0.5	Yes	No
28 December 2021	Ningbo Beigong Energy Co., Ltd	11,840,000	85%	Minimum: 7.2% Maximum: 12.0%	0.5	Yes	No
21 December 2022	Shanghai Kuaijie Enterprise Management Co., Ltd.	32,000,000	80%	12.0%	3.0	Yes	Corporate & personal guarantee
19 May 2023	Jiangsu Laihui Construction Group Co., Ltd	30,000,000	70%	10.0%	1.0	Yes	Personal guarantee
16 June 2023	Beijing Yinte Nadi Construction Material Trading Co., Ltd.	31,000,000	80%	10.0%	1.0	Yes	Personal guarantee
		Maximum	85%	12.0%	3.0		
		Minimum	70%	7.2%	0.5		
		Average	79%	N/A	0.9		
		Median	80%	N/A	0.5		
	Factoring Agreement	27,000,000	80%	10.0%	2.0	Yes	Personal guarantee

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Factoring Ratio

The factoring ratio of the Historical Agreements are ranged from approximately 70% to 85% with an average factoring ratio of approximately 79% and median factoring ratio of approximately 80%. The factoring ratio of 80% under the Factoring Agreement falls within the range of the Historical Agreement.

Based on the rental receivable from Longding Huayuan of RMB34.1 million and the actual factoring principal amount of RMB22,900,000, the corresponding factoring ratio is 67% which is lower than the prescribed factoring ratio of 80%.

Factoring Interests

The factoring interests per annum of the Historical Agreements are ranged from approximately 7.2% to 12.0% in which certain factoring agreements have two factoring interests subject to the borrowing period of the factoring principal. The factoring interest of the Factoring Agreement (i.e. 10% per annum) falls within the said range of the Historical Agreements.

Factoring Terms

The factoring terms of the Historical Agreements are ranged from approximately 0.5 years to 3.0 years. The term of the Factoring Agreement is 2.0 years which is in line with the general business practice of the Group.

Guarantee

3 out of 8 Historical Agreements are covered with personal guarantee which offers additional protection to the Company in respect of the factoring principal and factoring interests. The Factoring Agreement is also covered by a personal guarantee in relation to all debts payable by Longding Huayuan to the Company.

Based on the above analysis, we noted that the terms of the Factoring Agreement are in line with the terms of the Historical Agreements.

Comparable Transactions

To further assess the fairness and reasonableness of the major terms of the Factoring Agreement, we have conducted research on the companies listed on the Stock Exchange and identified 11 factoring transactions (the “**Comparable Transactions**”) based on the criteria (i) the factoring agreement entered into during the period from 1 March 2023 to the Announcement Date; (ii) the listed company is principally engaged in finance leasing and factoring business, which in aggregate accounted for over 50% of their total revenue in the latest financial year; and (iii) the announcements of the Comparable Transactions have disclosed sufficient information in relation to the factoring agreement (including principal amount, interest rate, provision of guarantee and/or security and lease repayment terms). The Comparable Transactions set forth in the below table represent an exhaustive

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list based on such criteria and are relevant and appropriate comparable to the Factoring Agreement. We are of the view that the four-month review period is appropriate since it provided a reasonable number of recent samples for our analysis purpose and the Comparable Transactions as a whole provide a fair and representative sample.

We noticed that five out of 11 Comparable Transactions were conducted with independent third parties by Metropolis Capital Holdings Limited (Stock Code: 8621) which is principally engaged in the provision of finance lease, finance leasing advisory and factoring services to its customers in the PRC. Since these five Comparable Transactions were entered into by Metropolis Capital Holdings Limited in its ordinary and usual course of business, they are suitable for assessing the fairness of key factoring terms. We consider that all these 11 Comparable Transactions can provide a general reference of key terms for similar factoring transaction conducted by the listed companies under the current market conditions.

The table below illustrates the major terms of the Comparable Transactions:

Date of announcement	Company Name	Stock code	Factoring principal (RMB)	Factoring		Factoring term (years)	With guarantee	Settlement of factoring interests
				Factoring ratio	interest per annum			
1 March 2023	Metropolis Capital Holdings Limited	8621	4,750,000	95%	12.0%	0.5	No	Monthly basis
21 March 2023	Zhongguancun Science-Tech Leasing Co., Ltd.	1601	105,332,451	81%	4.6%	2.9	No	No information provided
27 March 2023	Yue Da International Holdings Limited	629	30,000,000	Not Disclosed ²	8.0% ³	0.6	Corporate guarantee	No information provided
29 March 2023	Zhongguancun Science-Tech Leasing Co., Ltd.	1601	116,543,942	88%	4.0%	4.8	No	No information provided
30 March 2023	Baiying Holdings Group Limited	8525	21,200,000	82%	8.0%	0.5	No	within 3 business days upon receipt of such accounts receivable

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Date of announcement	Company Name	Stock code	Factoring principal (RMB)	Factoring			With guarantee	Settlement of factoring interests
				Factoring ratio	interest per annum	Factoring term (years)		
3 April 2023	Baiying Holdings Group Limited	8525	22,180,000	82%	8.0%	0.5	No	within 3 business days upon receipt of such accounts receivable
25 May 2023	Metropolis Capital Holdings Limited	8621	3,371,270	95%	14.0%	1.8	No	Monthly basis
25 May 2023	Metropolis Capital Holdings Limited	8621	980,479	95%	14.0%	1.5	No	Monthly basis
9 June 2023	Metropolis Capital Holdings Limited	8621	1,005,446	95%	14.0%	1.3	No	Monthly basis
9 June 2023	Metropolis Capital Holdings Limited	8621	3,277,685	95%	14.0%	1.5	No	Monthly basis
29 June 2023	Doyen International Holdings Limited	668	17,000,000	90%	11.0%	1.0	No	End of the term
			Maximum	95%	14.0%	4.8		
			Minimum	81%	4.0%	0.5		
			Average	90%	10.1%	1.5		
			Median	93%	11.0%	1.3		
	Factoring Agreement		27,000,000	80%	10.0%	2.0	Personal guarantee	Monthly basis

Notes:

1. All of the Comparable Transactions are conducted with the independent third party of the respective companies.
2. The announcement does not disclose relevant factoring ratio thus excluded from the calculation of average and median.
3. The factoring interest was in a range of 8% to 9.5%. We have taken 8.0% in this analysis.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Factoring Ratio

Based on the above table, we noted that the factoring ratio of the Comparable Transactions ranged from approximately 81.0% to 95.0% with an average of approximately 90% and median ratio of 93%. The factoring ratio of the Factoring Agreement is lower than the low-end of the Comparable Transactions. We consider that it is favourable to the Company from the risk-control perspective to have a lower factoring ratio.

Factoring Interests

Based on the above table, we noted that the factoring interest per annum of the Comparable Transactions ranged from approximately 4.0% to 14.0% with an average and median of approximately 10.1% and 11.0%. The factoring interest rate of 10.0% per annum under the Factoring Agreement is within the range and close to both average and median of the interest rates represented by the Comparable Transactions, where the interest rate charged by the Company is no less favourable than the interest rates of the Comparable Transactions.

On the other hand, we noticed that the factoring income of the Group was RMB5.2 million for FY2022 which was mainly derived from 10 customers. We checked to their individual factoring interest rates which were in the range of 7.2% to 12.0% per annum. The factoring interest of the Factoring Agreement is within the said range of factoring interest rates offered to the Group's other customers in FY2022.

Factoring Term

The term of the Factoring Agreement is 24 months, which falls within the range of factoring terms of the Comparable Transactions. We noted that the tenants under 12 sets of lease agreements will pay an aggregate of approximately RMB29.2 million of rental to Longding Huayuna (excluding RMB4.8 million overdue amount as at the date of the Factoring Agreement) during the two-year term of the Factoring Agreement which are sufficient to cover the actual factoring principal amount of RMB22,900,000, and thus the two-year financing term is considered reasonable.

Settlement of Factoring Interests

The factoring interests under the Factoring Agreement shall be paid on a monthly basis. Five out of 11 Comparable Transactions have monthly settlement of factoring interests. It is not uncommon to have factoring interests to be settled on a monthly basis.

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Guarantee Arrangement

Only one out of 10 Comparable Transactions provides corporate guarantee in the factoring agreement. We consider that the personal guarantee arrangement is offering an additional protection to mitigate the default and credit risk in relation to the Factoring Agreement.

Having considered in particular that (i) the factoring ratio of the Factoring Agreement is lower than that of all Comparable Transactions; (ii) the factoring interest and the duration of the Factoring Agreement are within the range of Comparable Transactions; (iii) the factoring interest of the Factoring Agreement falls within the range of the interest rates charged to the independent third parties under the Historical Agreements; and (iv) the guarantee under the Factoring Agreement provided extra protection against credit risk, we are of the view that the terms of the Factoring Agreement are on normal commercial terms.

6. Internal control

As disclosed in the Letter from the Board, the Company conducted the due diligence and credit assessment on Longding Huayuan by the business department and the risk management department of the Company in accordance with the Group's internal assessment policy before entering into the Factoring Agreement. The relevant assessment covered the areas in relation to Longding Huayuan's management team, financial position, credit records, verification of the authenticity of the accounts receivable, verification of the performance and payment ability of the debtors of the accounts receivable, business operation and future prospects.

We have reviewed the assessment report prepared by the risk management department of the Company in relation to the due diligence and credit assessment for Longding Huayuan and noted that the company team (i) examined the terms of the Factoring Agreement; (ii) performed on-site visit to confirm the existence and status of the Properties, the business and the financial status of Longding Huayuan; (iii) conducted background check and litigation check to assess creditworthiness of Longding Huayuan; and (iv) examined the lease agreements, background and rental payment of selected tenants of the underlying lease agreements to verify the ownership and existence of the rental receivables. The risk management department also reviewed the auditor's report of Longding Huayuan for FY2022 and the recent corporate credit report of Longding Huayuan.

Based on the due diligence work performed by the Company, the Company is of the view that the credit assessment of Longding Huayuan is satisfactory and the credit risk on the Factoring Agreement is relatively low.

Further, we noted that the assessment report was subsequently circulated to the review committee for review and approved by all five committee members. We consider that there is internal control procedures in place to assess the quality and risk of the potential factoring customers before the execution of factoring agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that the entering of the Factoring Agreement with the actual factoring principal amount of RMB22,900,000 is in the ordinary and usual course of business of the Group, is on normal commercial terms, and the terms of which are fair and reasonable and in the interests of the Group and the Independent Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed for approving the Factoring Agreement with the actual factoring principal amount of RMB22,900,000 at the EGM.

Yours faithfully
For and on behalf of
Octal Capital Limited

Alan Fung
Managing Director

Wong Wai Leung
Executive Director

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 28 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions of listed companies in Hong Kong subject to the compliance to the Listing Rules and the Takeovers Code. Mr. Wong Wai Leung has been a responsible officer of Type 1 (dealing in securities), Type 6 (advising on corporate finance) regulated activities since 2008 and is also a responsible officer Type 9 (asset management) regulated activities. Mr. Wong has accumulated decades of experience in corporate finance and investment banking and has participated in and completed various advisory transactions of listed companies in Hong Kong in respect of the Listing Rules and the Takeovers Code.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that 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.

2. DISCLOSURE OF INTERESTS**(a) Interests and short positions of the Directors, Supervisors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations**

As at the Latest Practicable Date, none of the Directors, Supervisors and the chief executive of the Company had an interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest and/or short position taken or deemed to have taken under such provisions of the SFO); (b) were required, pursuant to Section 352 of the SFO, to be entered in the register of the Company referred to therein; or (c) were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Interests and short positions of the substantial shareholders of the Company in the Shares and underlying Shares

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons and corporations (other than the Directors, Supervisors or the chief executive of the Company) had or deemed to have any interest or short position in the Shares and underlying Shares which fell to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and were recorded in the register kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Class of shares	Nature of interest	Number of shares interested in the relevant class of shares of the Company ⁽¹⁾	Percentage (approximate)	Number of shares interested in the total share capital of the Company ⁽¹⁾	Percentage (approximate)
Dayuan Tiandi ⁽²⁾	Domestic shares	Beneficial owner	80,000,000 (L)	66.67%	80,000,000 (L)	22.26%
Mr. Zhao Dehua ("Mr. Zhao") ⁽²⁾	Domestic shares	Interest of a controlled corporation	80,000,000 (L)	66.67%	80,000,000 (L)	22.26%
Mr. Gong Liang ("Mr. Gong") ⁽²⁾	Domestic shares	Interest of a controlled corporation	80,000,000 (L)	66.67%	80,000,000 (L)	22.26%
Shenzhen Zhonglian Financial Holding Investment Development Co., Ltd. ("Shenzhen Zhonglian") ⁽³⁾	Unlisted foreign shares	Beneficial owner	70,445,200 (L)	47.12%	70,445,200 (L)	19.60%
	Domestic shares	Beneficial owner	5,000,000 (L)	4.17%	5,000,000 (L)	1.39%
Hainan Mujing Chengyuan Technology Partnership (Limited Partnership) ("Mujing Chengyuan") ⁽³⁾	Unlisted foreign shares	Interest of a controlled corporation	70,445,200 (L)	47.12%	70,445,200 (L)	19.60%
	Domestic shares	Interest of a controlled corporation	5,000,000 (L)	4.17%	5,000,000 (L)	1.39%
Mr. Gong Changjiu ⁽³⁾	Unlisted foreign shares	Interest of a controlled corporation	70,445,200 (L)	47.12%	70,445,200 (L)	19.60%
	Domestic shares	Interest of a controlled corporation	5,000,000 (L)	4.17%	5,000,000 (L)	1.39%

Name of Shareholder	Class of shares	Nature of interest	Number of shares interested in the relevant class of shares of the Company ⁽¹⁾	Percentage (approximate)	Number of shares interested in the total share capital of the Company ⁽¹⁾	Percentage (approximate)
Mr. Xu Dongsheng ("Mr. Xu") ⁽³⁾	Unlisted foreign shares	Interest of a controlled corporation	70,445,200 (L)	47.12%	70,445,200 (L)	19.60%
	Domestic shares	Interest of a controlled corporation	5,000,000 (L)	4.17%	5,000,000 (L)	1.39%
Beijing Youke Yu Technology Development Co., Ltd. ("Youke Yu") ⁽⁴⁾	Unlisted foreign shares	Beneficial owner	46,714,200 (L)	31.25%	46,714,200 (L)	13.00%
Beijing Xinmao Licheng Trading Co., Ltd. ("Xinmao Licheng") ⁽⁴⁾	Unlisted foreign shares	Interest of a controlled corporation	46,714,200 (L)	31.25%	46,714,200 (L)	13.00%
Mr. Guo Lidong ("Mr. Guo") ⁽⁴⁾	Unlisted foreign shares	Interest of a controlled corporation	46,714,200 (L)	31.25%	46,714,200 (L)	13.00%
Mr. Yan Wenge ("Mr. Yan") ⁽⁴⁾	Unlisted foreign shares	Interest of a controlled corporation	46,714,200 (L)	31.25%	46,714,200 (L)	13.00%
Beijing Hengsheng Rongcheng Trading Co., Ltd. ⁽⁵⁾	Unlisted foreign shares	Beneficial owner	32,340,600 (L)	21.6%	32,340,600 (L)	9.00%

Name of Shareholder	Class of shares	Nature of interest	Number of shares interested in the relevant class of shares of the Company ⁽¹⁾	Percentage (approximate)	Number of shares interested in the total share capital of the Company ⁽¹⁾	Percentage (approximate)
Ms. Wu Yue ⁽⁵⁾	Unlisted foreign shares	Interest of a controlled corporation	32,340,600 (L)	21.6%	32,340,600 (L)	9.00%
KKC Capital Limited	H shares	Investment manager	9,408,000 (L)	10.47%	9,408,000 (L)	2.62%
KKC Capital SPC – KKC Capital High Growth Fund Segregated Portfolio	H shares	Beneficial owner	9,408,000 (L)	10.47%	9,408,000 (L)	2.62%
A Plus Capital Management Limited	H shares	Investment manager	9,318,000 (L)	10.37%	9,318,000 (L)	2.59%
Tiger Capital Fund SPC – Tiger Global SP	H shares	Beneficial owner	9,318,000 (L)	10.37%	9,318,000 (L)	2.59%

Notes:

- (1) The letter “L” denotes the person’s long position in the shares. As at the Latest Practicable Date, the Company issued a total of 359,340,000 shares, including 120,000,000 domestic shares, 89,840,000 H shares and 149,500,000 unlisted foreign shares.
- (2) Dayuan Tiandi is owned as to 55% by Mr. Zhao and 45% by Mr. Gong. By virtue of the SFO, Mr. Zhao and Mr. Gong are deemed to be interested in the shares held by Dayuan Tiandi.
- (3) Shenzhen ZhongLian is owned as to 90% by Mujing Chengyuan and 10% by Mr. Gong Changjiu. Mujing Chengyuan is in turn owned as to 51% by Mr. Gong Changjiu and 49% by Mr. Xu. By virtue of the SFO, Mr. Gong Changjiu and Mr. Xu are deemed to be interested in the shares held by Shenzhen ZhongLian.
- (4) Youke Yu is owned as to 20% by Mr. Guo and 80% by Xinmao Licheng. Xinmao Licheng is in turn owned as to 50% by Mr. Guo and 50% by Mr. Yan. By virtue of the SFO, Xinmao Licheng, Mr. Guo and Mr. Yan are deemed to be interested in the shares held by Youke Yu.
- (5) Beijing Hengsheng Rongcheng Trading Co., Ltd. is wholly owned by Ms. Wu Yue. By virtue of the SFO, Ms. Wu Yue is deemed to be interested in the shares held by Beijing Hengsheng Rongcheng Trading Co., Ltd.

Save as disclosed above, as at the Latest Practicable Date, the Directors are not aware of any other person who had any interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

As at the Latest Practicable Date, Mr. Peng Qilei and Ms. Liu Jing serve as the management at Dayuan Tiandi and various related companies of Dayuan Tiandi. Save as disclosed above, none of the Directors was a director or employee of a company that had an interest or short position in the shares and underlying shares that would need to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(c) Directors' and Supervisors' service contracts

As at the Latest Practicable Date, none of the Directors or Supervisors had or proposed to have any service contract with any member of the Group (excluding contracts expiring or determinable by the relevant employer within one year without the payment of compensation (other than statutory compensation)).

(d) Directors' or Supervisors' interest in assets or contracts

As at the Latest Practicable Date, none of the Directors or Supervisors had any direct or indirect interest in any assets which had been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries. As at the date of this circular, none of the Directors or Supervisors was materially interested in any contract or arrangement subsisting and which is significant in relation to the business of the Group.

(e) Directors', Supervisors' or Controlling Shareholders' interests in competing businesses

As at the Latest Practicable Date, in so far as the Directors were aware, none of the Directors, Supervisors, Controlling Shareholders or their respective close associates (as defined in the GEM Listing Rules) had any interest in any business that competed or was likely to compete with the businesses of the Group.

3. EXPERT'S QUALIFICATION AND CONSENT

The following is the qualification of the expert who has given its opinions or advices contained in this circular:

Name	Qualification
Octal Capital Limited	Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or report, as the case may be, and references to its name and logo in the form and context in which it appears.

As at the Latest Practicable Date, the above expert does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and did not have any interest, direct or indirect, in any assets which had been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to any member of the Group.

4. MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2022, being the date up to which the latest published audited accounts of the Company were made.

5. DOCUMENTS ON DISPLAY

Copy of the following document will be available on the website of the Stock Exchange (<http://www.hkexnews.hk>) and on the website of the Company (<http://fyleasing.com>) for a period of 14 days from the date of this circular:

- (a) the written consent from the Independent Financial Adviser referred to in the section headed "Expert's Qualification and Consents" in this appendix; and
- (b) the Factoring Agreement.

NOTICE OF EGM

FY FINANCIAL (SHENZHEN) CO., LTD.

富銀融資租賃(深圳)股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 8452)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (“EGM”) of FY Financial (Shenzhen) Co., Ltd. (the “Company”) will be held at Room 1603, Cheung Kei Building, No. 128 Xinzhou 11th Street, Futian District, Shenzhen, the PRC on Thursday, 31 August 2023 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT**, as set out in the circular dated 14 August 2023 issued by the Company to its shareholders (the “Circular”):

- (a) the with-recourse commercial factoring agreement dated 3 July 2023 (the “**Factoring Agreement**”) entered into between the Company as factor and Beijing Longding Huayuan Real Estate Development Co., Ltd.* (北京市龍鼎華源房地產開發有限責任公司) (“**Longding Huayuan**”) as seller, pursuant to which the Company has agreed to provide the accounts receivable factoring services to Longding Huayuan in the actual factoring principal amount of RMB22,900,000 for a term of two years commencing from the Effective Date (as defined in the Circular), a copy of which has been produced to the meeting and marked “A”, and the transaction contemplated thereunder, be and are hereby approved, confirmed and ratified;
- (b) the directors of the Company (the “**Directors**”) be and are hereby authorised to do all such acts, deeds and things and to sign, execute and deliver all such documents as they may, in their absolute discretion, consider necessary, desirable or expedient to give effect, determine, revise, supplement or complete any matters relating to or in connection with the Factoring Agreement and the transaction contemplated thereunder.”

By order of the Board
FY Financial (Shenzhen) Co., Ltd.
Mr. Li Peng
Chairman

Hong Kong, 14 August 2023

NOTICE OF EGM

Notes:

1. For determining the entitlement of the shareholders of the Company (the “Shareholders”) to attend and vote at the EGM, the transfer books and register of members of the Company will be closed from Tuesday, 29 August 2023 to Thursday, 31 August 2023, both days inclusive, during which period no share transfers can be registered. In order to be eligible to attend and vote at the EGM, all transfer documents of shares of the Company accompanied by the relevant share certificates must be lodged with the H Share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (for holders of H Shares), or the Company’s head office in the PRC at Room 1603, Cheung Kei Building, No. 128 Xinzhou 11th Street, Futian District, Shenzhen, the PRC (for holders of Domestic Shares and/or Unlisted Foreign Shares) for registration not later than 4:30 p.m. on Monday, 28 August 2023.

Shareholders whose names appear on the register of members of the Company after the close of business on Monday, 28 August 2023 are entitled to attend and vote at the EGM. Dayuan Tiandi and its associates shall abstain from voting on the resolution to be put at the EGM.

2. A Shareholder entitled to attend and vote at the above meeting is entitled to appoint another person as his/her/its proxy to attend and vote instead of him/her/it. A proxy need not be a Shareholder.
3. Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, at the EGM in respect of such shares as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the EGM, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members of the Company in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.
4. The instrument appointing the proxy must be in writing and signed by the appointor or his/her attorney duly authorised in writing, or if the appointor is a legal person, either under a legal person’s seal or signed by its director or an attorney duly authorised in writing.
5. In order to be valid, a form of proxy must be deposited at the H Share Registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (for holders of H shares of the Company), or the Company’s head office in the PRC at Room 1603, Cheung Kei Building, No. 128 Xinzhou 11th Street, Futian District, Shenzhen, the PRC (for holders of domestic shares and/or unlisted foreign shares of the Company) together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy shall not preclude the Shareholders from attending and voting in person at the EGM or any adjournment thereof (as the case may be) if they so wish, and in such event, the form of proxy shall be deemed to be revoked.
6. The EGM is expected to last for an hour. Shareholders (in person or by proxy) attending the meeting shall be responsible for their own travelling and accommodation expenses.

As at the date of this notice, the executive Directors are Mr. Li Peng, Mr. Weng Jianxing and Ms. Gong Xiaoting; the non-executive Directors are Mr. Peng Qilei and Ms. Liu Jing; and the independent non-executive Directors are Mr. Fung Che Wai Anthony, Mr. Hon Leung and Mr. Liu Shengwen.

This notice, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this notice 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 notice misleading.

This notice will remain on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk on the “Latest Listed Company Information” page for at least 7 days from the date of this posting and will be also posted on the website of the Company at www.fyleasing.com.