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EGIC 中國恒嘉融資租賃集團有限公司
CHINA EVER GRAND FINANCIAL LEASING GROUP CO., LTD.

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 379)

INSIDE INFORMATION
(1) DECONSOLIDATION OF SUBSIDIARIES OF THE GROUP; AND
(2) PROFIT WARNING

This announcement is made by China Ever Grand Financial Leasing Group Co., Ltd. (the "**Company**" and together with its subsidiaries, collectively the "**Group**") pursuant to Rule 13.09 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

DECONSOLIDATION OF SUBSIDIARIES OF THE GROUP

References are made to (i) the announcement of the Company dated 21 July 2015 in relation to, among others, the acquisition of the holding company of 北京恒嘉國際融資租賃有限公司 (Beijing Ever Grand International Financial Leasing Co. Limited) ("**BJEG**") and capital injection to BJEG; (ii) the announcement of the Company dated 24 May 2016 in relation to further capital injection into BJEG; (iii) the announcement of the Company dated 31 August 2021 in relation to the re-scheduling of the settlement time of capital injection into BJEG; and (iv) the announcement of the Company dated 31 July 2023 in relation to the change of directors (collectively, the "**Announcements**"). Unless otherwise stated, capitalised terms used herein shall have the same meanings as those defined in the Announcements.

The board (the "**Board**") of directors (the "**Directors**" and each a "**Director**") of the Company wishes to update the shareholders (the "**Shareholders**") and potential investors of the Company that due to its inability to control the board of directors of BJEG (the "**BJEG Board**"), the Board has assessed the situation and came to the view that the Group no longer had control over the group of companies comprised of BJEG and its subsidiaries on 31 July 2023 (the "**Date of the Deconsolidation**"), and hence it has resolved on 8 February 2024 that the results of BJEG and its wholly-owned subsidiaries, namely 恒嘉(天津)融資租賃有限公司 (Ever Grand (Tianjin) Financial Leasing Co., Ltd.*) and 海南晉通華府科技有限公司 (Hainan Jintong Huafu Technology Co., Ltd.*) (collectively, known as the "**Deconsolidated Subsidiaries**"), in respect of their financial leasing business in the PRC, shall be deconsolidated from the consolidated statements of the Group for the financial year ended 31 December 2023 (the "**Deconsolidation**").

Shareholding structure and composition of the BJEG Board

BJEG is a company established in the PRC with limited liability. As at the date of this announcement, the registered capital of BJEG is owned as to approximately 51.39% by Hong Kong Ever Grand Capital Group Limited ("**HKEG**"), an indirect wholly-owned subsidiary of the Company, and approximately 48.61% by 中安和豐(天津)企業管理有限公司 (Zhongan Hefeng (Tianjin) Enterprise Management Co., Ltd.*) (formerly known as 中安資產管理(天津)有限公司 (Zhongan Asset Management (Tianjin) Limited*)) ("**Zhong An**").

According to the existing articles of association of BJEG (the "**BJEG Articles**"), the BJEG Board shall comprise of three directors, all of whom must be jointly appointed by HKEG and Zhong An. As there are no provisions on the shareholders' meeting of BJEG under the BJEG Articles, the BJEG Board is the highest authority of BEJG and shall decide on major matters concerning the management of BJEG. Save for any consequential amendments to the provisions of the BJEG Articles due to changes in the amount of the registered capital of BJEG, the BJEG Articles have remain unchanged since the Deconsolidated Subsidiaries became part of the Group.

As at the date of this announcement, the three members of the BJEG Board are Mr. Qiao Weibing ("**Mr. Qiao**"), an executive Director, Mr. Lai Ka Fai ("**Mr. Lai**"), a former executive Director, and another director nominated by Zhong An. Since Mr. Lai's resignation as an executive Director and as a director of the Company's subsidiaries, associates and joint ventures (if any) all with effect from 31 July 2023, Mr. Lai has ceased to have any responsibilities and obligations towards BJEG, and has not performed/does not have any capacity to perform any duties as a director of BJEG.

Moreover, the Company considered that it would be in its interest to appoint and replace certain directors of BJEG, and as such the Company proposed to the BJEG Board that two candidates, each being a Director, with better expertise and knowledge in the relevant industry be appointed as new directors of BJEG in place of two BJEG Board members previously nominated by HKEG, and considered that the arrangement would further improve the performance of BJEG. As mentioned above, the appointment of any director to the BJEG Board must be jointly approved by HKEG and Zhong An. While the Company has already proposed candidates to be appointed to the BJEG Board, despite repeated attempts from the Group to formally communicate with the BJEG Board and/or Zhong An regarding the Group's request to nominate new directors (the "**Proposed Appointment**") to the BJEG Board, neither the BJEG Board nor Zhong An had indicated any positive response up to the date hereof, and as such no consensus on the Proposed Appointment is reached.

Accordingly, after a long period of effort of communication, the BJEG Board remains to consist of Mr. Qiao and the director nominated by Zhong An only, and hence HKEG is unable to have dominating control over the BJEG Board or control over the Deconsolidated Subsidiaries, particularly when there are no provisions on the shareholders' meeting of BJEG provided in the BJEG Articles.

Relevant history and sequence of events leading to the Deconsolidation

1. On 21 July 2015, the Company and Mr. Wong Lik Ping ("**Mr. Wong**"), an executive Director, the chairman of the Board and a substantial Shareholder, entered into the Acquisition Agreement, pursuant to which the Company agreed to acquire and Mr. Wong agreed to sell the Sale Shares and assign the Shareholder's Loan at the total consideration of RMB170,847,000. On the same day, HKEG and Zhong An entered into the Capital Injection Agreement, pursuant to which HKEG and Zhong An agreed that BJEG should apply for an increase in its registered capital from US$30 million to US$36 million, where the increased amount of US$6 million shall be entirely contributed by HKEG such that HKEG's equity interest in BJEG should increase from approximately 41.67% to approximately 51.39% after its contribution of the additional registered capital while Zhong An's equity interests in BJEG should decrease from approximately 58.33% to approximately 48.61%. The completion of the Acquisition Agreement and the Capital Injection Agreement took place on 7 January 2016.

2. In May 2016, the Company announced that BJEG had increased its registered capital by US$44 million, from US$36 million to US$80 million, by way of capital contribution in cash to be contributed by the Group and by Zhong An, pro rata to their respective shareholding in BJEG. According to the Capital Injection plan, the Group and Zhong An should contribute approximately US$22.61 million and US$21.39 million, respectively in approximately five years.

3. In August 2021, the Company announced that having considered the unfavorable operating environment of the financial leasing business in which BJEG was operating in and lack of viable business expansion plans, the Company had not topped up the unpaid registered capital of US$22.61 million on schedule and was in course of negotiation with Zhong An regarding the re-scheduling of the settlement time of the Capital Injection.

4. On 31 July 2023, Mr. Lai effectively resigned as an executive Director and as a director of the Company's subsidiaries, associates and joint ventures (if any), including that of his position as a director of BJEG. Mr. Lai has since ceased to have any responsibilities and obligations towards BJEG, and has not performed/does not have any capacity to perform any duties as a director of BJEG.

5. After having identified suitable candidates to be appointed to the BJEG Board, in October 2023, the Company issued a legal letter through its legal representative to the BJEG Board regarding the Proposed Appointment and urged the BJEG Board to liaise this matter with Zhong An. The BJEG Board replied that the Company should follow the procedures for appointment of director according to the BJEG Articles and negotiate this matter directly with Zhong An though it is noted that the registered office address of BJEG and Zhong An are the same.

6. In December 2023, the Company issued a letter to Zhong An to follow up with the progress of the Proposed Appointment but no reply had been received thereafter. According to legal advice (the "**PRC Legal Advice**") prepared by the Company's legal advisor as to PRC laws (the "**PRC Lawyer**"), as no consensus could be reached between the Group and Zhong An on the Proposed Appointment, the current BJEG Board effectively has two members only, one of them being Mr. Qiao, an executive Director, and the other one being a director nominated by Zhong An, and hence the BJEG Board does not comprise of three directors as required under the BJEG Articles. Furthermore, as advised by the PRC Lawyer, the Company Law of the PRC (the "**PRC Company Law**") stipulates that a limited liability company in the PRC such as BJEG would require a minimum of three directors for forming its board of directors. As the current composition of the BJEG Board does not comply with the BJEG Articles and the PRC Company Law, the BJEG Board would not be able to convene a valid BJEG Board meeting and/or to pass any valid resolutions. As a result of this, the Company is currently unable to make effective decisions regarding the management of BJEG through the BJEG Board.

7. As explained above, since under the BJEG Articles no provisions on the shareholders' meeting of BJEG is available, the Group would not be able to exercise control over BJEG with its voting rights as a majority shareholder of BJEG or have control over the management of BJEG even it is interested in over 50% of the equity interest of BJEG.

In view of the above and after consulting the preliminary view of the Company's auditors over the assessment of the Company's control over the affairs of BJEG in the course of preparing the audited accounts of the Company, as well as after obtaining PRC Legal Advice, the Board has assessed the situation and came to the view that the Group in effect no longer had control over the Deconsolidated Subsidiaries since the Date of the Deconsolidation, and hence resolved on 8 February 2024 that the results of the Deconsolidated Subsidiaries shall be deconsolidated from the Group as it is no longer exposed, or had rights, to variable returns from its involvement with the Deconsolidated Subsidiaries, or the ability to affect those returns through its power over the Deconsolidated Subsidiaries.

In view of the above circumstances, the Group will exclude the financial position, results and cash flows of the Deconsolidated Subsidiaries as at and for the Date of Deconsolidation from the consolidated financial statements of the Group for the financial year ended 31 December 2023. The Board considers that the consolidated financial statements of the Group for the year ended 31 December 2023 prepared on the aforementioned basis present more fairly results and state of affairs of the Group as a whole in light of the Deconsolidation.

Impact of the Deconsolidation

The financial effect of the Deconsolidation on the Group account

According to the unaudited financial statements of the Group for the first six months ended 30 June 2023 and assuming that the Deconsolidation had taken place on 30 June 2023, a summary of the Group's financial position and results would have been as follows:–

	Group's total assets	Group's total liabilities	Group's net assets	Continuing operations Group's revenue	Continuing operations Group's net loss
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance/amount before Deconsolidation	753,755	252,487	501,268	25,046	23,525
Less: those attributable to the Deconsolidated Subsidiaries	(257,769)	(209,128)	(48,641)	(4,555)	(1,818)
Add: Interests in associates	24,997	–	24,997	–	–
Net effect	(232,772)	(209,128)	(23,644)	(4,555)	(1,818)
Balance/amount after Deconsolidation	520,983	43,359	477,624	20,491	21,707

The above effects of the Deconsolidation on the Group accounts are for illustrative purposes only. It is further assumed that there is no difference between the fair value of the equity interest in the Deconsolidated Subsidiaries and the cost of subsidiaries derecognised. The actual financial effects will be subject to the fair value evaluation and potential audit adjustments from the Company's auditors as of the date of the Deconsolidation. Moreover, the Company considered that the Group would remain to have significant assets and operation after the Deconsolidation.

Since the Date of the Deconsolidation, the Deconsolidated Subsidiaries had ceased to be subsidiaries of the Group and have been accounted for as associates of the Company.

Impact of the Deconsolidation on the audit opinion of the 2023 Group account

As of the date of this announcement, despite of the loss of control over the Deconsolidated Subsidiaries, the accessibility of books and records of the Deconsolidated Subsidiaries has been unaffected and the audit fieldwork has been completed. The Company has not been informed by the Company's auditors of any potential audit qualification over the Deconsolidation.

Save as disclosed above, the Board is also of the view that the Deconsolidation will not have a significant impact on the Group's operation, cash flow and financial position. After examining the evidence and documents in relation to the Deconsolidation available up to the date of this announcement, the Board considered that the Deconsolidation was mainly due to the lack of consensus between the Group and Zhong An over the Proposed Appointment, which resulted in an impasse on the succession plan of the BJEG Board. Despite the Deconsolidation, the daily operation of the Deconsolidated Subsidiaries have not been affected and as at the date of this announcement, the Deconsolidated Subsidiaries are conducting their daily operation as normal.

Further details about the Deconsolidation will be disclosed in the annual results announcement of the Company which is expected to be released by the end of March 2024.

Actions to be taken

The Group will continue to explore possible ways to resolve the matter relating to the loss of control over the Deconsolidated Subsidiaries, including to liaise with Zhong An on the succession plan of the BJEG Board and will try to resolve this matter in an amicably manner. The Group will also continue to consult its PRC Lawyer and explore various legal measures to enforce and protect the Group's shareholders' rights in BJEG and to restore the Group's control over the Deconsolidated Subsidiaries. The Group may also realise the investment in the Deconsolidated Subsidiaries when suitable opportunity arises in order to clear up the uncertainties surrounding the outcome of the Group's continued negotiation with Zhong An and enhance the Group's financial position.

If the Group and Zhong An subsequently reach an agreement on the succession plan of the BJEG Board and the Group restores control over the Deconsolidated Subsidiaries, subject to the then Company's auditor's opinion, the Group would resume consolidating the financial results of the Deconsolidated Subsidiaries for the year ending 31 December 2024.

Further announcement(s) in respect of the further development of the Deconsolidation will be made by the Company as and when appropriate in accordance with the Listing Rules.

PROFIT WARNING

The Board wishes to inform the Shareholders and potential investors that, based on its preliminary review of the unaudited consolidated management accounts of the Group for the year ended 31 December 2023 (the "**Current Year**"), it is expected to record a loss of approximately not less than HK$35 million for the year ended 31 December 2023 as compared to a profit of HK$43.6 million for the year ended 31 December 2022 (the "**Corresponding Year**"). The expected turnaround from profit to loss for the Group was mainly attributable to the net effect of the following factors arising from the Deconsolidated Subsidiaries:

i. there was an absence of a one-off gain on derecognition of financial asset and related financial liabilities at amortised cost in relation to financial lease projects of the Group in the Current Year, as compared to a net gain of approximately HK$169.4 million of the same nature was recorded in the Corresponding Year; and

ii. In the Current Year, the Group recorded a significant decrease in impairment losses under expected credit loss model, with a reduction of not less than HK$50 million in impairment losses as compared to the impairment losses of approximately HK$62.2 million in the Corresponding Year.

As the Company is still in the process of finalising the Group's annual results for the Current Year, the information contained in this announcement is only based on the Board's preliminary assessment of the unaudited consolidated management accounts of the Group with reference to the information currently available to the Board which may be subject to the further finalisation and other potential adjustments, if any, and have not been reviewed or confirmed by the Company's auditors or the audit committee of the Board. The actual financial results of the Group for the Current Year may be different from the disclosure herein. Shareholders and potential investors of the Company are advised to read carefully the annual results announcement of the Company for the Current Year.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.

By order of the Board of
China Ever Grand Financial Leasing Group Co., Ltd.
Wong Lik Ping
Chairman and Executive Director

Hong Kong, 8 February 2024

As at the date of this announcement, the Board comprises (1) Mr. Wong Lik Ping, Mr. Siu Wai Bun, Mr. Tao Ke, Mr. Qiao Weibing and Mr. Ng Tin Shui as executive directors; (2) Ms. Yip Man Yi as non-executive director; and (3) Mr. Lo Tsun Yu, Mr. Ho Hin Yip, Mr. Wu Kai Tang and Mr. Leung Yiu Ming, David as independent non-executive directors.

* *For identification purposes only*