ZERO2IPO 清科資本
Zero2IPO Capital

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11 June 2024

To the Independent Board Committee and the Independent Shareholders
of China CITIC Financial Asset Management Co., Ltd.

Dear Sirs/Madams,

MAJOR TRANSACTION AND CONNECTED TRANSACTION ENTERING INTO OF THE SHARE TRANSFER AGREEMENT

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the entering into of the Share Transfer Agreement and the transaction contemplated thereunder in this supplemental circular, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the supplemental circular dated 11 June 2024 issued by the Company to the Shareholders (the "**Supplemental Circular**"), of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as defined in the Supplemental Circular unless the context requires otherwise.

With reference to the Board Letter, the Company transfers the Target Shares to CITIC Group by virtue of an agreement pursuant to the requirements on the transfer of state-owned assets in financial enterprises. On 28 May 2024 (after trading hours), the Company entered into the Share Transfer Agreement with CITIC Group, pursuant to which the Company conditionally agreed to transfer and CITIC Group conditionally agreed to purchase the Target Shares, representing 60.0% of the issued shares of Financial Leasing Company. The total consideration of the Disposal is RMB11,997,543,239.36 (excluding the related transaction costs). Upon completion of the Disposal, the Company will hold 19.92% of the issued shares of Financial Leasing Company, Financial Leasing Company will cease to be the Company's subsidiary and its financial results will not be consolidated into the Group's financial statements.

As the highest applicable percentage ratio in respect of the Disposal exceeds 25% but is less than 75%, the Disposal constitutes a major transaction of the Company under Chapter 14 of the Listing Rules, and is therefore subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules. In addition, as at the Latest Practicable Date, CITIC Group held 21,230,929,783 Domestic Shares of the Company, representing 26.46% of the total issued Shares of the Company. CITIC Group is a substantial shareholder of the Company and constitutes a connected person of the Company under Chapter 14A of the Listing Rules. The Share Transfer Agreement and the transaction contemplated thereunder therefore constitute a connected transaction of the Company, and is subject to the reporting, announcement, circular (including independent financial adviser) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee consisting of all the independent non-executive Directors, namely Mr. Shao Jingchun, Mr. Zhu Ning, Ms. Chen Yuanling and Mr. Lo Mun Lam, Raymond has been formed for the purposes of advising the Independent Shareholders on (i) whether the terms of the Disposal are on normal commercial terms and are fair and reasonable; (ii) whether the Disposal is in the interests of the Company and the Shareholders as a whole and in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Disposal at the EGM. We, Zero2IPO Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

Zero2IPO Capital Limited is a licensed corporation to carry out regulated activities of advising on corporate finance under the SFO. As at the Latest Practicable Date, we were not aware of any relationships or interests between us and the Group, CITIC Group or any other parties that could be reasonably regarded as a hindrance to our independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders. Apart from the advisory fee payable to us in connection with our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on the information and facts supplied, opinions expressed and representations made to us by the Directors, the management of the Group (the "**Management**") (including but not limited to those contained or referred to in the Supplemental Circular). We have assumed that the information and facts supplied, opinions expressed and representations made to us by the Directors and the Management were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the EGM. We have also assumed that all statements of belief, opinions, expectation and intention made by the Management in the Supplemental Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Supplemental Circular, or the reasonableness of the opinions expressed by the Company, its management and/or advisers, which have been provided to us.

The Directors have collectively and individually accept full responsibility for the accuracy of the information contained in the Supplemental Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Supplemental 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 in the Supplemental Circular or the Supplemental Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Supplemental Circular, save and except for this letter of advice.

We have reviewed currently available information and documents, among others: i) the Share Transfer Agreement; ii) the Announcement; iii) the annual report of the Company for the years ended 31 December 2022 and 2023 (the "**2022 Annual Report**" and the "**2023 Annual Report**"); iv) the valuation report of the Target Share (the "**Valuation Report**") issued by an independent valuer, China United Assets Appraisal Group Co., Ltd., (中聯資產評估集團有限公司) (the "**Valuer**"), in respect of the market value of Financial Leasing Company as at 30 June 2023; v) the audited financial statements of Financial Leasing

Company for the years ended 31 December 2022 and 2023 issued by Ernst&Yong Hua Ming (LLP) (安永華明會計師事務所); vi) other information as set out in the Supplemental Circular; and vii) relevant market data and information available from public source which are made available to us and enable us to reach an informed view and justify our reliance on the information provided so as to provide a reasonable basis for our advice. We also held discussion with the Directors and the Management of the Company from time to time. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business and affairs or prospects of the Group, CITIC Group, Financial Leasing Company or their respective shareholders, subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of entering the Share Transfer Agreement. Our opinion is necessarily based on the market, financial, economic and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to consider events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Where information in this letter of advice has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources but we did not conduct any independent investigation into the accuracy and completeness of such information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

The principal factors and reasons we have considered in assessing the Share Transfer Agreement and the transaction contemplated thereunder in giving our recommendation to the Independent Board Committee and the Independent Shareholders are set out below:

Information on the Group

With reference to 2023 Annual Report of the Company, the Company mainly engages in such businesses as distressed asset management, financial services, and asset management and investment business, with distressed asset management being its core business.

China CITIC Financial Asset Management Co., Ltd., with its predecessor being China Huarong Asset Management Corporation founded on November 1, 1999, is one of the four state-owned financial asset management companies established in response to the Asian financial crisis and for mitigating financial risks, promoting the reform of state-owned banks and the reform and difficulty relief of state-owned enterprises. It was converted into a joint stock limited company upon the approval of the State Council on September 28, 2012. In January 2024, the Company officially changed its name to "China CITIC Financial Asset Management Co., Ltd." with the approval of the superior authorities. As at the Latest Practicable Date, the major shareholders of the Company included CITIC Group, the Ministry of Finance of People's Republic China ("**MOF**") , National Council for Social Security Fund, China Insurance Rongxin Private Fund Co., Ltd., China Life Insurance (Group) Company and Warburg Pincus LLC.

Set out below are the consolidated financial information of the Group for the years ended 31 December 2022 and 2023, as extracted from the Company's 2023 Annual Report:

Table 1 Summarised financial results of the Group

	For the year ended 31 December	
	2023	**2022**
	RMB million	*RMB million*
	(audited)	*(audited)*
Total income from continuing operations	75,800.1	36,933.2
Total expense from continuing operations	(75,329.7)	(74,801.9)
(Loss)/profit attributable to Equity holders of the Company	1,766.2	(27,587.1)

The Group's total income from continuing operations for the year ended 31 December 2023 amounted to RMB75,800.1 million, representing an increase of 105.2% as compared with the previous year. With reference to the 2023 Annual Report, such is mainly due to changes in fair value of other financial assets and liabilities, as well as a significant increase in the Group's other income and other net gains or losses mainly deriving from the income of investment in associates. The total expenses of continuing operations of the Group amounted to RMB75,329.7 million for the year ended 31 December 2023, representing an increase of 0.7% as compared with the previous year.

The Group's loss attributable to shareholders of the Company amounted to RMB27,587.1 million for the year ended 31 December 2022. With reference to the 2022 Annual Report, the major factors that affected the full year performance were as follows: (i) change in the fair value of some equity financial assets, listed and unlisted shares and funds as a result of fluctuations in the capital market; (ii) the impairment losses under expected credit loss model caused by the macroeconomic situation and the downturn in the real estate industry; and (iii) the decrease in scale and income of acquisition-and-restructuring distressed debt assets.

The net profit attributable to equity holders of the Company amounted to RMB1,766.2 million for the year ended 31 December 2023. With reference to the 2023 Annual Report, main reasons for the turnaround from loss to profit in the operating results were as follows, (i) deepening of business synergy, proactive efforts in market expansion, and strengthening of asset management, coupled with a year-on-year increase in gains and losses from changes in fair value of equity assets due to improving trend in the capital market as compared to a year ago, contributed positively to the Company's profit for the year; (ii) actively conducting market-oriented DES business and special situations investment business to improve asset structure and optimize asset allocation; and (iii) the impact of economic environment and industry as a whole resulted in the Group recognizing asset impairment losses and losses on change of fair value of RMB41.0 billion in order to further consolidate assets, laying the foundation for sustainable and healthy development in the future.

Table 2: Summarised financial position of the Group

	As at 31 December	
	2023	**2022**
	RMB million	*RMB million*
	(audited)	*(audited)*
Assets	968,103.2	957,803.9
Liabilities	920,066.4	907,060.0
Equity attributable to equity holders of the Company	47,995.4	49,353.3

As at 31 December 2023, the total assets of the Group amounted to RMB968,103.2 million, representing an increase of 1.1% as compared with the end of the previous year, which mainly consisted of: (i) financial assets at fair value through profit or loss ("**FVTPL**"); (ii) debt instruments at fair value through other comprehensive income ("**FVTOCI**"); (iii) inventories; (iv) debt instruments at amortised cost; and (v) interests in associates and joint ventures.

As at 31 December 2022, the total assets amounted to RMB957,803.9 million and the total liabilities amounted to RMB907,060.0 million. With reference to the 2022 Annual Report, the Group has completed the share transfer of Huarong Consumer Finance, Huarong Securities, Huarong Xiangjiang Bank and Huarong Trust, the scale of asset and debt was reduced to within one trillion as schedule.

Information on CITIC Group

With reference to the Board Letter, as a company incorporated in the PRC with limited liability, CITIC Group is a large state-owned comprehensive multinational enterprise group which have five major business segments, namely comprehensive financial service, advanced intelligent manufacturing, advanced materials, new consumption, and new-type urbanization. MOF is the ultimate beneficial owner of CITIC Group. As at the Latest Practicable Date, CITIC Group was interested in approximately 26.46% share interests in the Company. Hence, CITIC Group is a connected person of the Company under Chapter 14A of the Listing Rules.

Information on Financial Leasing Company

With reference to the Board Letter and 2023 Annual Report of the Company, Financial Leasing Company is a joint stock limited liability company incorporated in the PRC. Financial Leasing Company is a national non-banking financial institution regulated by the NFRA. It is held by the Company as at the date of the Share Transfer Agreement as to 79.92% of its issued shares and is a subsidiary of the Company. Its main scope of business is to carry out financial leasing business and other businesses approved by the NFRA.

Financial information of Financial Leasing Company

The table below sets forth the summarised financial information of Financial Leasing Company for the years ended 31 December 2022 and 2023 according to the Board Letter and the audited financial statements for the year ended 31 December 2023 of Financial Leasing Company provided by the Management.

Table 3: Summarized financial results of Financial Leasing Company

	For the year ended 31 December	
	2023	**2022**
	RMB million	*RMB million*
	(audited)	*(audited)*
Revenue	5,850.5	7,557.4
Profit before taxation	132.3	1,617.1
Net profit	158.0	1,228.4

Based on the discussion with the Management, the revenue of Financial Leasing Company decreased by 22.6% from RMB 7,557.4 million for the year ended 31 December 2022 to RMB5,850.5 million for the year ended 31 December 2023. The total net profit from Financial Leasing Company decreased by 87.1% from RMB1,228.4 million for the year ended 31 December 2022 to RMB158.0 million for the year ended 31 December 2023, mainly due to the decrease in the other income from the disposal of investment properties and increase in impairment losses in 2023. With reference to the 2023 Annual Report of the Company, after the application of the Accounting Standards for Enterprises No. 21 — Leases (《企業會計準則第21號 — 租賃》) in 2019, interest income of receivables arising from sales and leaseback arrangements is presented in interest income. In 2023, Financial Leasing Company achieved a total of finance lease income and interest income of receivables arising from sales and leaseback arrangements of RMB4,920.3 million, representing an increase of 0.7% as compared with the previous year. As at 31 December 2023, the total amount of finance lease receivables and receivables arising from sales and leaseback arrangements was RMB104,515.0 million, representing an increase of 14.4% as compared with the end of the previous year.

Table 4: Summarised financial position of Financial Leasing Company

	As at 31 December	
	2023	**2022**
	RMB million	*RMB million*
	(audited)	*(audited)*
Total assets	117,641.5	108,032.0
Net assets	19,707.7	19,494.0

As set out in the Board Letter and based on the Financial Leasing Company's audited report, as at 31 December 2023, the total assets of Financial Leasing Company amounted to RMB117,641.5 million, which mainly consisted of the finance lease receivables. The net asset of Financial Leasing Company as at 31 December 2023 is RMB19,707.7 million and the net assets of Financial Leasing Company attributable to the Company as at 31 December 2023 is RMB15,750.4 million.

Reasons and benefits for Disposal

As stated in the Board Letter, the Board is of the view that the Disposal helps the Company to return to its source and focus on core business to ensure its sustainable operation and development, which is in compliance with the requirements from regulatory authorities on financial asset management companies to gradually exit the non-core businesses. In addition, the gains and losses from disposal generated in the parent company's financial statements due to the disposal of this part of the equity can replenish the core tier-one capital of the parent company in one go. After taking into account the impact of income tax and stamp duty, a capital replenishment effect of more than RMB6.3 billion can be achieved and the released capital can be used for the development of the Group's core business of distressed assets, which is beneficial to the Group in reinforcing and strengthening its core business, concentrating more resources and energy on the development of its core business of distressed asset management, and is beneficial to the Group's future development and the long term benefits of the Shareholders. Upon the completion of the Disposal, the securities, banks, trusts, leasing and consumer finance business in the original financial services business segment have been sold, and the Company will hold non-controlling equity interest of Financial Leasing Company, being 19.92% of issued shares of Financial Leasing Company. Subsequently, the Company will readjust the description of the Company's principal businesses in the annual report and other external disclosure documents.

After implementing the transfer of five licensed subsidiaries, including Huarong Securities and Huarong Trust, the Company has been proceeding with the transfer of the remaining licensed subsidiaries in an orderly manner under the market-oriented and law-based principle, and in strict compliance with the relevant system requirements of the MOF regarding the transfer of state-owned assets in financial enterprises. The Disposal is a continuation of the previous implementation of regulatory requirements and related work. Upon completion of the Disposal, it will be conducive to the Company's focusing on its core business, giving full play to its functional advantages, preventing and resolving financial risks supporting small and medium-sized financial institutions in reforming and reducing risks, and the scale of distressed asset acquisitions has increased significantly year-on-year, contributing to the maintenance of the stable operation and healthy development of the financial market.

For our due diligence purpose, we reviewed the related notice from regulatory authorities the such as "Notice on the state-owned financial institutions should focus on their core business and the reduction of management levels" MOF [2020] No. 111 (關於國有金融機構聚焦主業、壓縮層級等相關事項的通知(財金[2020]111號)), and understand that the regulatory authorities require the state-owned financial institutions shall, in accordance with the development strategy, withdraw from business field that deviate from their main businesses and concentrate of the capital in the core business. And as discussed with the Management, we understand the financial leasing business is the non-core business according to the Company's development strategy.

Having considered that:(i) the Disposal is a good opportunity to streamline the Group's investment portfolio by phasing out its non-core assets and meet the requirements from regulatory authorities on financial asset management companies; (ii) the net proceeds from the Disposal can improve the Group's ability to meet its financial obligation and strengthen its financial position taking into account the needs of the Group in term of its long-term development goals; (iii) based on our due diligence work on the Valuation Report, the consideration for the Disposal of approximately RMB11,997.5 million is fair and reasonable as mentioned under section headed "Evaluation of the Consideration"; and (iv) the Disposal would not have a substantial adverse impact on the Group, based on the Group's total assets will decrease by approximately RMB101,679.0 million, representing 10.5% of the total assets (assuming that the Disposal had taken place as at 31 December 2023) do not represent a major proportion in its total asset, we concur with the Directors that the Disposal is in the interests of the Company and the Shareholders as a whole.

Principal Terms of the Share Transfer Agreement

Principal terms of the Share Transfer Agreement are set out as follows, details of which are set out in the section headed "3. Share Transfer Agreement" of the Board Letter:

Date

28 May 2024

Parties

The Company, as transferor; and
CITIC Group, as transferee.

Disposal

As at the Latest Practicable Date, the Company held 10,041,001,883 shares of Financial Leasing Company, representing 79.92% of the issued shares of Financial Leasing Company. The Company conditionally agreed to transfer and CITIC Group conditionally agreed to purchase the Target Shares, representing 60.0% of the issued shares of Financial Leasing Company.

Consideration

The total consideration for the Disposal is RMB11,997,543,239.36 (excluding the related transaction costs). CITIC Group shall make a lump sum payment to the receiving account designated by the Company of the total consideration for the Disposal within 10 business days after the various regulatory approvals relating to the Disposal (the approval from the MOF and the NFRA) and the Share Transfer Agreement become effective.

Conditions Precedent

The Share Transfer Agreement will become effective upon the fulfilment of the following conditions:

(1) each of the Company and CITIC Group has obtained relevant internal approvals and authorizations required by the laws of the PRC and its articles of association in relation to the Disposal (including the Independent Shareholders' approval);

(2) the Disposal has been approved by the MOF;

(3) the shareholders' meeting of Financial Leasing Company considered and approved the change of equity and the corresponding amendments to its articles of association; and

(4) NFRA has approved the change in Financial Leasing Company's equity in relation to the Disposal.

As at the Latest Practicable Date, none of the above conditions had been fulfilled save for (2) above. Under the Share Transfer Agreement, there is no specific circumstance mentioned therein where the above conditions precedent may be waived.

Transitional Period Arrangements

The period from the Valuation Reference Date to the last day of the month in which the Completion Date falls shall be the transitional period of the Disposal. Any profit or loss of Financial Leasing Company during the transitional period will be entitled to or borne by CITIC Group. With reference to the Board Letter, according to the rules in relation to the transfer of state-owned assets, the validity period of the asset valuation report is one year. Due to the internal procedures of the Company and the procedures in relation of state-owned assets transfer, the asset valuation report prepared by China United Assets was finalised and approved on 29 March 2024. Based on the Group's past practice and as the consideration for the Disposal was determined primarily based on the valuation of Financial Leasing Company as at the Valuation Reference Date, and there is no consideration adjustment arrangement under the Share Transfer Agreement, the Directors considered that the profits or losses of Financial Leasing Company after the Valuation Reference Date entitled to or borne by CITIC Group is reasonable although the Valuation Reference Date is 30 June 2023.

In addition to the above, all rights, obligations and risks in respect of the Target Shares will be transferred to CITIC Group from the Completion Date. After the Completion Date, the Company and CITIC Group shall jointly urge and cooperate with Financial Leasing Company in the industrial and commercial registration and filing of changes in relation to the Disposal.

Completion

Completion of the Disposal shall take place on the date on which CITIC Group pays the total consideration to the Company.

For our due diligence purpose, (i) we have reviewed the Share Transfer Agreement, and noted the terms stated above are the same with the terms of the Share Transfer Agreement, (ii) we have compared principal terms of the Share Transfer Agreement to those equity disposal and connected transactions disclosed on the Hong Kong Stock Exchange, out of the 39 transactions during the period from May 2023 to May 2024, we noted over 20 of them have the similar principal terms (e.g. for conditions precedent, agreements to be effective upon relevant approvals; for payment terms, to make the payment within certain business days after the approvals; for completion terms, completion of the disposal to take place on the date on which transferee pays the total consideration to the transferor). Based on aforesaid, we conclude that the principal terms in the Share Transfer Agreement are the standard terms of normal equity transfer agreements. For the transitional period arrangements, as discussed with the Management, we note that the it aims to protect the transferor due to it may be a long period from Valuation Reference Date to the Completion Date of the Disposal, while the consideration of the Disposal is based on the Valuation Reference Date and there is no consideration adjustment arrangement under the Share Transfer Agreement. For protection of the Company's benefit, it is a common practice that any profit or loss of the transferor during the transitional period to be entitled to or borne by the transferee, CITIC Group. And we further reviewed the share transfer agreements of the five licensed subsidiaries including Huarong Securities and Huarong Trust, which have implemented the share transfer, there is a similar transitional period arrangement in the share transfer agreements, and (iii) as discussed with the Management, the payment terms was determined after arm's length negotiations between the Company and CITIC Group. Based on above, we consider that the principal terms of Share Transfer Agreement are on normal commercial terms to the Company and the Shareholders.

Evaluation of the Consideration

With reference to the Board Letter, the consideration for the Disposal was determined after arm's length negotiations between the Company and CITIC Group on normal commercial terms after taking into consideration various factors, including (i) the valuation of 100% equity interests in Financial Leasing Company as assessed by the Valuer at approximately RMB19,995.9 million as at Valuation Reference Date, being 30 June 2023; (ii) the audited net asset value of Financial Leasing Company, being approximately RMB19,707.7 million as at 31 December 2023; and (iii) the factors set out in the section headed "Reasons for and Benefits of the Share Transfer Agreement and the Transaction contemplated thereunder", such as capital will be released through the Disposal to be used for the development of the Group's core businesses, which is beneficial to the Group in reinforcing and strengthening its core business concentrating more, resources and energy on the development of its core business of distressed asset management. As such, the Board is of the view that the consideration is appropriate and in the interests of the Company and Shareholders. And the asset valuation of Financial Leasing Company has been completed and reported to the MOF for its record.

With reference to the Board Letter, the Valuation Reference Date of the asset valuation is on 30 June 2023. The Valuation Reference Date was determined based on the comprehensive consideration of factors such as the asset size, workload, expected time required and compliance requirements of Financial Leasing Company. Having considered the above factors, the Valuer appraised the value of Financial Leasing Company based on the Valuation Reference Date. According to the rules in relation to the transfer of state-owned assets, the valid period of the asset valuation report is one year. Due to the internal procedures of the Company and the procedures in relation of state-owned assets transfer, the asset valuation report prepared by the Valuer was finalised and approved on 29 March 2024. Based on the above, the Directors consider that the Valuation Reference Date is reasonable.

To assess the fairness and reasonableness of the consideration for the Disposal, we obtained and reviewed the Valuation Report, and analysed the changes on the financial statements of Financial Lease Company between 30 June 2023 and 31 December 2023. We noted from the Valuation Report that the valuation of Financial Leasing Company as at 30 June 2023 was approximately RMB19,995.9 million, increased by 1.5% as compared with the net asset of Financial Leasing Company as at 31 December 2023. As discussed with the Valuer, we understood the Valuer has considered the financial statements of the Financial Leasing Company for the year ended 31 December 2023, and based on the business scope and operation of Financial Leasing Company disclosed in 2023 Annual Report and the interim report of the Company for the six months ended 30 June 2023, we found that there was no material change in Financial Leasing Company's business scope and operation, of which Financial Leasing Company still mainly involves in the financial leasing business of water, environment and public utilities management, manufacturing, transportation, logistics, postal services and other industries. From 1 July 2023 to 31 December 2023, and the net asset of Financial Leasing Company as at 31 December 2023 changed within 0.5% as compared with the net assets as at 30 June 2023. Based on our review on the interim report of the Company for six months ended 30 June 2023, there was no material change in the financial performance of the Financial Leasing Company between 30 June 2023 and 31 December 2023. With reference to the Board Letter and as confirmed with the Management, there was no material change between 31 December 2023 and the Latest Practicable Date. Based on the above, we consider the consideration of the Disposal as at Valuation Reference Date, being 30 June 2023 is fair and reasonable.

We have performed the works as required under Note 1(d) to Rule 13.80 of the Listing Rules and paragraph 5.3 of the Corporate Finance Adviser Code of Conduct in respect of the Valuation Report, which included (i) the Valuer's qualification in relation to the preparation of the Valuation Report; (ii) inquiry on the Valuer's current and prior relationship with the Group and other parties to the Share Transfer Agreement; (iii) review of the terms of the Valuer's engagement; (iv) the steps and due diligence measures taken by the Valuer for conducting the Valuation Report; and (v) discussion with the Valuer regarding the bases, methodology and assumptions adopted in the Valuation Report.

(a) Competency of the Valuer

We have performed due diligence on the qualification of the Valuer, namely China United Assets Appraisal Group, and the competency and experience of the persons in charge of the Valuation Report. We note that (i) the Valuer is a supplier in white list of state-owned enterprises; (ii) the signatories of the Valuation Report are registered under China Appraisal Society and have over five years of experience respectively in asset valuation in the PRC; and (iii) the Valuer has provided a wide range of valuation services to numerous companies, including stated-owned enterprises, A-Share companies and Hong Kong-listed companies. In the past three years, the Valuer has provided over 60 valuation services of business similar to Financial Leasing Company in different provinces in the PRC. Therefore, we were satisfied with the Valuer's qualification for preparation of the Valuation Report.

We have also enquired with the Valuer as to its independence from the Group and the parties to the Share Transfer Agreement and were given to understand that the Valuer is an independent third party of the Group. The Valuer also confirmed to us that it was not aware of any relationship or interest between itself and the Group or any other parties that would reasonably be considered to affect its independence to act as an independent valuer for the Company. The Valuer confirmed to us that apart from normal professional fees payable to it in connection with their engagement for the valuation, they had no other engagement with the Company.

Furthermore, we note from the engagement letter entered into between the Company and the Valuer that their scope of work is appropriate to form the opinion required to be given and there were no limitations on the scope of work which might adversely impact the degree of assurance given by the Valuer in the Valuation Report.

From the engagement letter and other relevant information provided by the Valuer, we were satisfied with the terms of engagement of the Valuer as well as their qualification and independence for preparation of the Valuation Report.

(b) Valuation methodology

Based on our discussion with the Valuer, the Valuation Report was prepared by the Valuer in accordance with various regulations or standards such as Basic Standards for Asset Valuation (Cai Zi [2017] No. 43) (《資產評估基本準則》(財資[2017]43號)) and other standards related to the appraisal work. We understand that the Valuer has carried out inspections, made relevant enquiries and searches for the purpose of the valuation, including but not limited to review on relevant the building ownership certificates, state-owned land use right certificates, motor vehicle driving permits, key asset acquisition contracts or evidential documents; and the Vauler has obtained the information for the basis of price determination, including the information on forecast of future earnings provided by the evaluated entity according to the law, relevant information of the price information database of China United Assets Appraisal Group Co., Ltd., the important business contracts and information, and other reference documents. We understand from the Valuer that all assumptions adopted are commonly adopted for a financial leasing company valuations.

To further assess the fairness and reasonableness on the assumptions adopted by the Valuer, we have reviewed the underlying working papers prepared by the Valuer, and note that general and special assumptions in the Valuation Report are adopted for a financial leasing company valuations according to the Basic Standards for Asset Valuation (Cai Zi [2017] No. 43) (《資產評估基本準則》(財資[2017]43號)), and the special assumptions in respect of the external economic environment unchanged, the enterprise operates as a going concern, the business scope and operating unchanged, all the related laws and regulations complied with, and the selected comparable transactions only based on the relevant information of the publicly disclosed comparable transaction cases, are in line with the valuation method of Financial Leasing Company under market approach, considering the key assumptions meet the requirement of the Basic Standards for Asset Valuation, and are in line with the valuation method of Financial Leasing Company under market approach, we are of the view that the assumptions adopted by the Valuer were fair and reasonable.

Based on our review on the valuation report, we note that the valuation of any asset can be broadly classified into one of three approaches, namely market approach, asset-based approach and income approach. In view of the characteristics of the asset value of Financial Leasing Company, it is difficult to estimate the value of many assets such as customer value, operation network and others that have a great impact on their future returns by using the asset-based approach, so the asset-based approach is not adopted for valuation. We further understand that despite both market approach and income approach are applicable for the valuation of Financial Leasing Company, Financial Leasing Company has its own financial leasing license and its customer network, the valuation result under income approach only focuses on judging the profitability of enterprises and reflects the corporate value and the equity value of shareholders and does not comprehensively and reasonably reflect the value of financial license and its customer network of Financial Leasing Company; and the valuation result under market approach reflects the exchange value of the company shares recognized by the market participants of the financial leasing companies, and there are sufficient transaction cases with similar business scope, business size and development stage as Financial Leasing Company in the domestic capital market and the information in relation to the transaction cases can be obtained and available to be compared with Financial Leasing Company. After taking into consideration of the disadvantages in the income approach and the available similar transaction cases under market approach, we are of the view that the market approach adopted by the Valuer is more appropriate for the valuation of Financial Leasing Company.

The Valuer applied P/B as the value ratio in the market approach for the purpose of arriving at the valuation. We note from the Valuer that (i) to assess the applicability of different ratios such as P/E, P/B, P/S, EV/EBIT, EV/EBITD and EV/S, the Valuer conducted a linear regression analysis to on the correlation between the market prices of listed companies in the industry and their net profits, net assets and operating revenues; (ii) to enhance the effectiveness of the validity of the analysis, 28 listed companies were ultimately selected for analysis after the influence of zero, negative or invalid values for the above financial indicators was remoted from the statistics. After taking into consideration the results of the analysis of the data of listed companies in the industry of Financial Leasing Company, P/B is adopted as the value ratio for the valuation. We understand the P/B is the commonly adopted valuation multiples which applied to capital intensive business such as a financial business and Financial Leasing Company is a financial business with significant assets on the books, and based on the foregoing analysis, we consider the adoption of P/B ratio for the purpose of arriving at the valuation is reasonable.

The two commonly used specific methods of market approach are the comparison method of listed companies and the comparison method of transaction cases. The comparison method of transaction cases is selected for this valuation as the approach to select the valuation conclusion, considering prior to and after the Valuation Reference Date, there are sufficient equity transaction cases in the market with similar business scope, development stage and similar transaction background as the evaluated entity in the market of the financial leasing industry where the evaluated entity operates, which have strong comparability, and specific conditions affecting the transaction price and related indicator data are available through annual reports and public announcement published by comparable financial leasing companies.

For our due diligence purpose, we performed independent research on the comparable transactions and relevant companies selected by the Valuer and as discussed with the Valuer, we noted that the four comparable transactions were selected from over 40 transaction cases based on the following criteria, the cases with incomplete data or transactions that occurred too long ago were excluded:

(i) Consistent transaction type. The type of transaction cases includes the disposal, merger or acquisition of a business (including the acquisition of common stock and the acquisition of other interests in a business). The four selected transaction cases are equity transfer and the progress of the transaction is completed or completed filing;

(ii) Consistent company type. The companies selected should belong to the same industry and conduct similar businesses. The target enterprises in the four transaction cases selected are all in a period of rapid business development, with businesses similar to those of the target company, and basically similar future growth expectations. (a) According to the enterprise's life cycle theory, the enterprise's life cycle can be simplified into four stages: start-up stage, rapid development stage, relatively stable stage and second start-up stage. Enterprises in different stages operate in different internal and external environments with different development focus and different challenges encountered. The key factors affecting the development of enterprises are also constantly changing accordingly. The rapid development stage refers to a phase when the products or services of enterprises are good for sale, the production scale is expanded, sales capacity is enhanced and the business of enterprises grows rapidly. (b) Businesses mainly refer to the type and variety of the Company's core businesses. The comparable companies selected are similar to Financial Leasing Company, with their respective core business being financial leasing. Financial Leasing Company's revenue from leasing business accounted for 96% of its total revenue. In comparable transaction cases, such proportion of Cinda Financial Leasing, Haisheng Financial Leasing, Suyin Financial Leasing and Harbin Bank Financial Leasing was 96%, 97%, 90% and 90%, respectively. As the respective revenue from leasing business of the comparable companies accounted for around 90% of their total revenue, the comparable companies have certain similarity and comparability. (c) Growth expectations mainly refer to the expected business development and operating conditions of enterprises in the future period. Subject to the overall development trend and regulatory requirements of the financial leasing industry, all comparable companies have the same environment for future business growth, (i.e. national macroeconomic environment, industrial development environment, industrial regulatory environment and other affecting factors closely related to enterprise development), with similar affecting factors and strong comparability; and

(iii) Similar time span. The Valuation Reference Date of the selected cases is between 2020 and 2022, and the transactions have been approved or the transfer of ownership has been completed. Considering the comparability and timeliness of the trading market, if there are enough comparable cases, the comparison method of transaction cases usually selects the cases in the past three years from the Valuation Reference Date for comparison, and can be appropriately extended under special circumstances. Through the collection of market transaction cases, the number of transaction cases within the past three years from the Valuation Reference Date, being 2020–2022, is enough to meet the basic requirements of market approach valuation. Therefore, the cases in this period are selected for valuation.

Based on our review on the Valuation Report , we understand the main criteria for selecting the transaction cases according to the Practice Standards for Assets Appraisal — Asset Appraisal Approaches (Zhong Ping Xie [2019] No. 35), we obtained and reviewed the standard as mentioned above and note the selection of comparable companies is based on the following principles: i) select comparable enterprises that are identical or comparable in terms of the trading market; ii) select comparable enterprises that are identical or similar in terms of influence factors of value; iii) select comparable enterprises whose trading time is close to the Valuation Reference Date. We are of the view that the criteria of the selected cases aforementioned are in line with the requirement of the standard.

For the selected cases, we obtained and reviewed the transaction announcements of each case, together with the conducting the independent desktop search, to check whether the each transaction meet the criteria, including the transaction date, the transaction type; for the comparable companies related to the transaction cases, we conducted the desktop search to understand their business scopes, operating and financial performance including business structure, business model, the scale of enterprises, the lifecycles of companies, growth capacity indicators, operating risks etc. and cross checked the differences of their business between the comparable companies and Financial Leasing Company. As the result of our due diligence work aforesaid, we conclude that the selected transaction cases are within similar time span, and have the similar transaction type and business with the Financial Leasing Company, which meet the selecting criteria as in the Valuation Report.

For our due diligence purpose, we have reviewed the underlying calculation of the valuation, including the market value revision and the difference adjustments from the Valuer and noted that (i) considering the differences in transaction reference date and market environment of each comparable cases, the Shanghai Stock Exchange composite index is adopted to correct the market value differences of each comparable company; and (ii) certain differences adjustments also have been made on the P/B ratios in respect of business structure, business model, the scale of enterprises, the lifecycles of enterprises, growth capacity indicators, operating risks as well as efficiency indicators and operational capacity between the comparable companies and Financial Leasing Company. We further performed a comparison on the comparable companies selected with Financial Leasing Company to understand the necessity of adjustments, and noted that there are the differences in trading time between the comparable transaction cases (the period of transaction date from 2020 to 2022) and Financial Leasing Company (Valuation Reference Date as at 31 December 2023), with reference to the Valuation Report, the market value revision for the comparable companies are mainly considered in the following aspects: adjust the difference in trading time between the comparable companies and Financial Leasing Company, including the impact of market cycle fluctuations and price changes; and adjust the transaction price to 100% equity price based on the share ratio of the transaction. The comparable companies selected in the Valuation Report are consistent with Financial Leasing Company in certain aspects, including transaction market and value influencing factors, and no revision was made. Therefore, the formula of market value revision is simplified as follows:

Market value after revision = market value × revised coefficient as at the transaction date.

With reference to the Valuation Report, the SSE Composite Index is adopted as the revised indicator. Based on our independent desktop search, we understand all comparable companies register and operate in domestic, and SSE Composite has become the most influential stock index in China, which is as the main index reflecting the Chinese stock market. Index. We further note that as the SSE Composite Index is too large, to facilitate comparison, the Valuer measured and scored it within 100–110 points. We reviewed the underlying calculation of the adjustment factors, and noted that the adjustment factor of comparable companies was obtained by dividing the score of Financial Leasing Company by the comparable transaction case score, and the adjustment factors are in line with the differences of market value between the comparable companies and Financial Leasing Company. As aforesaid above, we are of the view that the market value revision through the SSE Composite Index adopted as the revised indicator is fair and reasonable.

Based on our review on the financial information of the comparable companies and the comparison analysis between comparable cases and Financial Leasing Company, we further note that though the comparable cases have the similar business structure, operation model and the enterprise's life cycle, there are the differences in the scale of enterprises, capacity indicators (e.g. revenue growth rate of Financial Leasing Company is relative lower than three of selected cases), operating risks (e.g. both capital adequacy ratio and non-performing loan ratio of Financial Leasing Company are higher than other comparable cases), return on equity and total assets turnover ratio, after taking into account the differences mentioned above, we consider the adjustment indicators are appropriate and necessary, and the revised coefficient applied in the Valuation Report are in line with the differences between Financial Leasing Company and the comparable companies.

After due adjustments in terms of the aforesaid aspects, the adjusted P/B of the adopted comparable companies are ranging from 0.93 to 1.05, the mean value of the adjusted P/B is 1.01.

Multiplying the adjusted P/B by the equity attributable to shareholders of the parent company of Financial Leasing Company, the benchmark value is obtained. The average comparative benchmark value for this valuation is approximately RMB19,995.9 million, which is taken as the total equity value of shareholders of Financial Leasing Company.

The table below illustrates the selected comparable companies by the Valuer.

No.	**Name**	**Business scope**	**Valuation reference date**	**Transaction progress**	**Adjusted P/B**
1	Cinda Financial Leasing Co., Ltd.	financial leasing	31 December 2021	completed	1.04
2	Haisheng Financial Leasing Co., Ltd.	financial leasing	31 march 2022	completed	1.02
3	Su Zhou Financial Leasing Co., Ltd.	financial leasing	30 June 2021	completed	1.05
4	Harbinbank Financial Leasing Co., Ltd.	financial leasing	31 December 2020	Signed share transfer agreement	0.93
	Mean value				1.01

Considering that (i) the selection criteria of the comparable transaction is fair and reasonable and valuation of the comparable companies are appropriate; (ii) the adjustment factors applied based on transaction date, business structure, business model, the scale of enterprises, the life cycles of enterprises, growth capacity indicators, operating risks, efficiency indicators and operational capacity are appropriate and necessary; and (iii) the Valuer has applied the adjustments based on its professional judgment and experience and are applied in the same manner as required by the valuation standards, we consider that it is justifiable for the Valuer to apply such adjustments in the valuation.

Having considered our due diligence work on the Valuation Report as mentioned above, we consider that the valuation approach and value ratio adopted and the comparable companies selected by the Valuer are reasonable. The consideration of the Disposal equals 60.0% of the total equity value. Accordingly, we consider the consideration of the Disposal to be fair and reasonable.

Independent search on comparable companies

We have conducted an independent search on the comparable companies of financial leasing industry, on a best effort basis, to cross-check the results provided by the Valuer.

We have assessed a selection of comparable companies. We are of the view that the selection criteria is fair and reasonable as the criteria cover the peers engaged in the principal business in the PRC similar to Financial Leasing Company. Also, by going through the companies whose shares are listed on the Stock Exchange, Shanghai Stock Exchange and Shenzhen Stock Exchange, we conclude that the selection of comparable companies is exhaustive, fair and reasonable and representative.

Details of the selection criteria of the comparable companies are as follows: (i) being listed in Hong Kong or Mainland China (e.g. Stock Exchange ("**SEHK**"), Shanghai Stock Exchange ("**SHSE**") and Shenzhen Stock Exchange ("**SZSE**"); (ii) deriving sales mainly in financial leasing business which contributed more than 50% of the revenue in the latest financial year; (iii) being based and operating in Mainland China; (iv) having at least two years of operating histories and positive net book value based on latest information as at 31 December 2023; and (v) financial information of the comparable companies is available to the public.

The table below illustrates the P/B of the comparable companies of our independent search, which fulfill our selection criteria stated above.

Company Name	**Stock Code/ Stock Exchange**	**Principal Business**	**P/B (x)** *(Note ii)*	**Market Capitalisation (HKD '000)** *(Note i)*	**Net Assets (HKD '000)** *(Note i)*
China Development Bank Financial Leasing Co., Ltd.	01606 SEHK	financial leasing	0.43	17,523,000	40,523,739
Haitong Unitrust International Financial Leasing Co., Ltd.	01905 SEHK	financial leasing	0.31	6,753,000	22,005,775
Jiangsu Financial Leasing Co., Ltd.	600901 SHSE	financial leasing	1.15	22,188,600	19,277,013
Shaanxi International Trust Co., Ltd.	000563 SZSE	trust and financial leasing	0.91	16,789,680	18,456,114
Bohai Leasing Co., Ltd.	000415 SZSE	financial leasing	0.44	14,293,800	49,261,900

Notes:

(i) The market capitalisations of the comparable companies are calculated based on their respective closing share prices and numbers of issued shares as at 31 December 2023. The consolidated net assets attributable to owners are extracted from the respective latest published financial reports of the comparable companies.

(ii) The P/B Ratios of the comparable companies are calculated based on their respective market capitalisations and published net asset values stated in Note (i).

We note that the P/B multiples of the comparable companies ranged from around 0.31 times to 1.15 times, with a simple average and median of around 0.62 times and around 0.43 times respectively. The P/B multiple represented by the consideration of the Disposal for the share interest in Financial Leasing Company of around 1.01 times is within the range of those of the comparable companies and is higher than the median and the average of the P/B multiples of the comparable companies. The consideration is not undervalued. For the relative lower P/B multiple of Bohai Leasing Co., Ltd. (000415.SZ), its return of equity ratio was relative lower than that of other comparable companies and Financial Leasing Company, which may result in a relatively lower market value. And due to the impact by soft market sentiment and the broader macroeconomic backdrop, the Hong Kong market has a relatively lower stock valuation at the end of year 2023, that is reflected by the relatively low P/B multiples of financial companies. The P/B multiples of Haitong Unitrust International Financial Leasing Co., Ltd (01905.HK) and China Development Bank Financial Leasing Co., Ltd. (01606.HK) are 0.31 times and 0.43 times respectively, which means their market capitalisations are much lower than their book values. The P/B multiple represented by consideration of the Disposal has been adjusted in terms of the impact of market cycle fluctuations by the Valuer. Considering the Hong Kong market environment at the end of year 2023, if excluding the comparable companies in Hong Kong market, the average of P/B multiples of the comparable companies in mainland market are 0.83 times and 0.91 times respectively, which are closed to the P/B multiple represented by the consideration of the Disposal. We are of the view that the consideration of Financial Leasing Company by 1.01 times P/B multiples is close to its net assets and represents a fair and reasonable market value, and is therefore considered to be fair and reasonable to the Group.

The possible financial effects of the Disposal

With reference to the Board Letter, as at the Latest Practicable Date, Financial Leasing Company is a direct non-wholly-owned subsidiary of the Company, and its financial results and financial position are consolidated into the Group's financial statements. Upon completion of the Disposal, the Company will hold and retain 2,502,779,316 shares of Financial Leasing Company, representing 19.92% of its issued shares. After the Disposal, Financial Leasing Company will become an associate of the Company and cease to be the Company's subsidiary, and its financial results will not be consolidated into the Group's financial statements. The Company will account for its remaining equity interest in Financial Leasing Company under "interest in associates and joint ventures".

Based on the preliminary assessment, assuming that the Disposal had taken place as at 31 December 2023, upon the Completion Date, the unaudited net profit after tax expected to be recognised in the unconsolidated financial statements of the Company due to the Disposal amounted to approximately RMB6,377.5 million. The details of the unaudited net profit and loss after tax to be recognized by the Group and the Company due to the Disposal based on the consolidated financial statements of the Group and the unconsolidated financial statement of the Company are set out in the table below:

Unit: RMB

	Items	**The Group**	**The Company**
(1)	Total consideration of the Disposal	11,997,543,239.36	11,997,543,239.36
(2)	Fair value of 2,502,779,316 shares of Financial Leasing Company retained by the Group	3,965,025,479.29	N/A
(3)	Proportion of net assets of Financial Leasing Company attributable to the Group as at 31 December 2023	15,750,369,612.37	N/A
(4)	Carrying amount of 7,538,222,567 shares of Financial Leasing Company disposed of by the Company	N/A	4,855,505,058.98
(5)	Amount of other comprehensive income related to its equity investment in Financial Leasing Company reclassified to profit or loss for the period when the Group lost control thereof as at 31 December 2023	56,379,846.29	N/A
(6)	Gains from the Disposal*	212,199,106.28	7,142,038,180.38
(7)	Estimated amount of tax to be accrued based on the consideration and investment cost*	795,966,787.96	795,966,787.96
(8)	2023 net profit of Financial Leasing Company enjoyed by the Company calculated by using the equity methods based on the percentage of remaining shareholding	N/A	31,475,791.90
	Unaudited net profit/(loss) after tax to be recognised due to the Disposal*	(527,387,835.39)	6,377,547,184.32

**Note:* The gains expected to accrue to the Group from the Disposal = (1) + (2) – (3); the gains expected to accrue to the Company from the Disposal = (1) – (4).

The estimated amount of tax to be accrued based on the consideration and investment cost is estimated based on the theoretical maximum. Taking into account the actual tax liability of the taxpayer, the ultimate and actual tax cost may not lead to a decrease in the net profit of the Group attributable to the parent company.

The unaudited net profit/(loss) after tax to be recognised by the Group due to the Disposal = (1) + (2) – (3) + (5) – (7); the unaudited net profit/(loss) after tax to be recognised by the Company due to the Disposal = (1) – (4) – (7) + (8).

Assuming that the Disposal had taken place as at 31 December 2023, upon the Completion Date, the Group's total assets and total liabilities will decrease by approximately RMB101,679.0 million and approximately RMB97,138.0 million, respectively, as a result of the Disposal. Assuming that the Disposal had been completed as at 1 January 2023, the net profit attributable to the Shareholders of the Company in 2023 would be expected to decrease by RMB95 million, without taking into account the impact on nonrecurring profit and loss resulting from the Disposal during the year.

The financial impact of the Disposal on the Group is subject to final audit by the Company's auditor upon completion of the Disposal.

Upon the Completion Date, the proceeds from the Disposal will be used to replenish the Company's capital and general working capital for the purpose of conducting the distressed asset management business. It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon completion of the Disposal.

RECOMMENDATION

Having considered the above factors and reasons, we are of the opinion that the entering into of the Share Transfer Agreement and the Transaction contemplated thereunder is on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favor of the resolution to be proposed at the EGM to approve the Share Transfer Agreement and the transaction contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Zero2IPO Capital Limited

Xu Shaobo	**Wang Qiong**
Executive Director	*Senior Vice President*

Mr. Xu Shaobo is a licensed person registered with the Securities and Futures Commission and a responsible officer of Zero2IPO Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 6 years of experience in investment banking industry.

Ms. Wang Qiong is a licensed person registered with the Securities and Futures Commission and a responsible officer of Zero2IPO Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. She has over 6 years of experience in investment banking industry.