

10 June 2022

*To the Independent Board Committee and the Independent Shareholders of  
China Wan Tong Yuan (Holdings) Limited*

Dear Sirs,

**MAJOR AND CONNECTED TRANSACTION  
EXTENSION OF LOAN**

**INTRODUCTION**

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Deed of Extension and the transaction contemplated thereunder (i.e. the Extension of Loan), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 10 June 2022 issued by the Company to the Shareholders (the “**Circular 2022**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular 2022, unless the context requires otherwise.

Reference is made to the announcement of the Company dated 7 May 2021 and its Circular dated 4 June 2021 in relation to the Loan Agreement entered between the Company as lender and China VAST as borrower, under which the Company has agreed to provide the Loan in the principal amount of RMB100,000,000 (or its equivalent in Hong Kong dollars) to China VAST for a term of one year at an interest rate of 12% per annum. The aforementioned transaction was approved by the then independent Shareholders at the extraordinary general meeting of the Company held on 24 June 2021. As at the Latest Practicable Date, the outstanding principal amount of the Loan was RMB100,000,000. As disclosed in the Circular, the Original Repayment Date is the date falling twelve (12) months after the Drawdown Date or such other date as agreed in writing between China VAST and the Company. Should the parties agree to extend the Original Repayment Date beyond twelve (12) months after the Drawdown Date, the Company will re-comply with all relevant Listing Rules requirements, including the relevant requirements under Chapter 14 and Chapter 14A of the

Listing Rules. The Loan has been drawn by China VAST on the Drawdown Date (i.e. 2 July 2021) and the Original Repayment Date is therefore 1 July 2022.

On 16 May 2022, the Company and China VAST entered into the Deed of Extension, pursuant to which the Company have conditionally agreed that, among others, to extend the Original Repayment Date for a period of 24 months to the Extended Repayment Date with effect from the Effective Date. Save for the Extended Repayment Date and other amendments disclosed under subsection headed “The Deed of Extension” mentioned in this letter, all the materials terms and conditions of the Loan Agreement shall remain in full force and effect.

## **LISTING RULES IMPLICATIONS**

As at the Latest Practicable Date, Ms. Zhao Ying is a Director and is, through The Hope Trust, interested in 700,000,000 Shares, representing 70% of the issued share capital of the Company. She is also, through The Hope Trust and Profit East, interested in an aggregate of 727,845,654 shares of China VAST, representing 44.08% of the issued share capital of China VAST. Therefore, Ms. Zhao Ying is a controlling shareholder of both the Company and China VAST. Accordingly, China VAST is a connected person of the Company under Chapter 14A of the Listing Rules.

As one or more of the relevant applicable percentage ratios (as defined under the Listing Rules) in respect of the Deed of Extension and the transactions contemplated thereunder exceeds 25% but all are less than 75%, the Extension of Loan constitutes a major and connected transaction of the Company under Chapter 14 and Chapter 14A of the Listing Rules, and is subject to the reporting, announcement, circular and independent shareholders’ approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, Tai Shing International Investment Company Limited is beneficially interested in 700,000,000 Shares, representing 70% of the issued share capital of the Company. As Tai Shing International Investment Company Limited is indirectly wholly-owned by TMF (Cayman) Ltd., the trustee of The Hope Trust (a discretionary trust founded by Ms. Zhao Ying who can influence how the trustee exercises its discretion), it and its associates are deemed to have a material interest in and will be required under the Listing Rules to abstain from voting on the relevant resolution(s) in relation to the Extension of Loan at the EGM.

In addition, as (i) Ms. Zhao Ying (chairman of the Company and a non-executive Director) is a controlling shareholder of China VAST; (ii) Ms. Wang Wei (an executive Director) is daughter of Ms. Zhao Ying and an executive director of China VAST; and (iii) Dr. Wong Wing Kuen, Albert (an independent non-executive Director) is an independent non-executive director of China VAST;

each of the above-mentioned Directors is deemed to have a material interest in the Deed of Extension and the transactions contemplated thereunder and has accordingly abstained from voting on the resolution(s) of the Board in connection with the Deed of Extension and the transactions contemplated thereunder.

Save as aforementioned, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, none of the other Directors have or are deemed to have a material interest in the Extension of Loan and is therefore required to abstain from voting at the EGM for the relevant resolution(s).

#### **THE INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee comprising Mr. Cheung Ying Kwan and Mr. Choi Hon Keung, Simon, being all the independent non-executive Directors except Dr. Wong Wing Kuen, Albert who is deemed to have a material interest in the Extension of Loan by virtue of his position as an independent non-executive director of China VAST, has been established in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders on the Extension of Loan. We, First Shanghai Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the Extension of Loan are entered into on normal commercial terms and in the interest of the Company and the Shareholders as a whole; (ii) whether the terms of the Extension of Loan are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) how the Independent Shareholders should vote in respect of the relevant resolution to be proposed at the EGM.

#### **OUR INDEPENDENCE**

We have previously acted as an independent financial adviser to the then independent board committee and the independent Shareholders of the Company regarding the connected transaction contemplated under the Loan Agreement, details of which were set out in the Circular of the Company dated 4 June 2021 (the "**Previous Engagement**"). The professional fees in connection with the Previous Engagement have been fully settled. Save for the Previous Engagement, we have not acted as an independent financial adviser in relation to any transactions of the Company in the past two years. Apart from normal professional fees payable to us in relation to the Extension of Loan, we did not have any other relationships or interests among us and the Company, China VAST or their respective substantial shareholders or associates within the past two years that could be reasonably regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as an independent financial adviser.

Given (i) our independent role in the aforesaid engagement; (ii) none of the members of our parent group is a direct party to the Deed of Extension and the transaction contemplated thereunder; and (iii) our fee for this current engagement with the Company, in addition to that for the Previous Engagement, represented an insignificant percentage of revenue of our parent group, we considered that the Previous Engagement would not affect our independence, and we considered ourselves eligible to give independent advice in respect of the Extension of Loan.

## **BASIS OF OUR OPINION**

In formulating our opinion and recommendation, we have relied on the accuracy of the information, facts and representations supplied, and the opinions expressed to us, by the Group, the Directors and the management of the Group. We have assumed that all statements of belief and intention made by the Directors in the Circular 2022 were made after due and careful enquiries. We have also assumed that all information, facts, representations and opinions made or referred to in the Circular 2022 were true, accurate and complete at the time they were made and will continue to be true, accurate and complete at the time of the EGM. We have reviewed, among others, the Deed of Extension, the Loan Agreement, the guarantee confirmation entered between the Guarantor and the Company dated 16 May 2022 (i.e. the Deed of Guarantee (as extended), the announcement of the Company dated 16 May 2022, the Circular of the Company dated 4 June 2021, the annual reports for the year ended 31 December 2021 (the “**2021 Annual Report**”) of the Company and China VAST and other information as set out in the Circular 2022. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Group, the Directors and the management of the Group. We have been confirmed by the management of the Group that no material facts have been omitted from the information provided by or referred to in the Circular 2022.

We have assumed such information to be true, accurate and reliable and have not carried out any independent verification on the truth and accuracy of such information, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospect. Such relevant information provides us with a basis on which we have been able to formulate our independent opinion.

We consider that we have reviewed sufficient information and documents to reach an informed view, to justify our reliance on the truth and accuracy of the information contained in the Circular 2022 and to provide a reasonable basis for our recommendation. Based on the foregoing, we also consider that we have performed all reasonable steps as required under Rule 13.80 of the Listing Rules (including the notes thereto) to formulate our opinion and recommendation. Details of our steps taken and analyses are set out in this letter.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation, we have taken into account the following principal factors and reasons:-

### 1. Information on the parties

#### *The Group*

The Company is an investment holding company and the Group is principally engaged in the sale of burial plots and columbarium units, provision of other burial-related services and provision of cemetery maintenance services in Langfang, Hebei province, China.

Based on the 2021 Annual Report of the Company, the Group has been enjoying stable revenue and persistent profits during the past five years. According to the 2021 Annual Report of the Company, the Group recorded revenue and profit attributable to its owners of approximately RMB43.9 million and RMB18.1 million for the year ended 31 December 2021, respectively, representing an increase of approximately 13.0% and 3.4%, respectively as compared to the prior year. The Group had net current assets of approximately RMB194.0 million and net assets of approximately RMB188.2 million, among which bank balances and cash of approximately RMB84.4 million, as of 31 December 2021. We also noted that the Group held abundant cash on hand which was more than sufficient to cover its entire current liabilities of approximately RMB20.5 million as at the same said date.

As advised by the management of the Group, while the Group does not have material immediate capital needs at present, the Group finances its daily working capital requirement mainly by internal resources. With reference to the 2021 Annual Report of the Company, net cash generated from operating activities of the Group amounted to approximately RMB18.7 million for the year ended 31 December 2021, increased by approximately 88.5% as compared to the prior year. There was no interest bearing loans or other borrowings as of 31 December 2021 and 31 December 2020.

#### *China VAST*

China VAST is a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 6166.HK). It is one of the pioneer service providers in the planning, development and operation of

large-scale industrial towns (產業市鎮) in China. The China VAST Group is principally engaged in the business of industrial town development, property development and property leasing.

According to the 2021 Annual Report of China VAST, it recorded revenue and profit attributable to its owners of approximately RMB1.5 billion and RMB159.0 million for the year ended 31 December 2021, respectively. As of 31 December 2021, China VAST had net current assets and net assets of approximately RMB4.4 billion and RMB6.2 billion, respectively. For the year ended 31 December 2021, net cash generated from operating activities of China VAST amounted to approximately RMB861.9 million. As at the Latest Practicable Date, market capitalisation of China VAST amounted to approximately HK\$3.0 billion.

As at the Latest Practicable Date, Ms. Zhao Ying is a controlling shareholder of both the Company and China VAST and is through The Hope Trust and Profit East, interested in an aggregate of 727,845,654 shares of China VAST, representing 44.08% of the issued share capital of China VAST. Accordingly, China VAST is therefore a connected person of the Company under Chapter 14A of the Listing Rules.

#### *The Guarantor*

The Guarantor is a company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is directly and ultimately and beneficially owned by Ms. Zhao Ying. The Guarantor is therefore a connected person of the Company under Chapter 14A of the Listing Rules. As at the Latest Practicable Date, the Guarantor holds 723,092,654 shares of China VAST (representing approximately 43.79% of the issued share capital of China VAST) and is principally engaged in investment holding.

## **2. Reasons for and benefit of the Extension of Loan**

With reference to the Letter from the Board, in entering into the Deed of Extension, the Company has considered a number of factors, including but not limited to (i) the Group's bank balances and cash on hand; (ii) the Group's current capital commitment and the Expected Development Sum and the budget of working capital for the next 24 months; (iii) better utilisation of idle funds; (iv) the financial and business conditions and credit profile of China VAST; and (v) the financial position of the Guarantor.

We noted that the Group had abundant cash and bank balances of approximately RMB84.4 million as at 31 December 2021, which was more than sufficient to cover its entire current liabilities of approximately RMB20.5 million as at the same said date. With reference to the 2021 Annual Report of the Company, we further noted that net cash generated from operating activities of the Group amounted to approximately RMB18.7 million for the year ended 31 December 2021, increasing by approximately 88.5% as compared to the prior year; and the gearing ratio of the Group, being total liabilities to total assets, was approximately 32.6%. Based on the bank statements provided by the Company, we also noted that as of 30 April 2022, the Group had bank balances and cash of at least RMB85.0 million. The Directors further confirmed that the Group has no intention to seek, or demand for, additional loans to finance its daily operations during the term of the Deed of Extension as the Group finances its daily working capital requirement mainly by internal resources. As such, we concur with the management that, the liquidity of the Group was still on a healthy position.

According to the 2021 Annual Report of the Company, a cemetery joint venture project located in new airport (Langfang area), relocation and settlement zone, Beijing\* (北京新機場（廊坊區域）回遷安置區公墓項目) (“**JV Cemetery Project**”) is one of the major development projects of the Group in 2021 and 2022, details of which are set out in the announcement and circular of the Company dated 30 June 2020 and 24 August 2020, respectively. The planning and tendering of the JV Cemetery Project was completed in 2021. We have obtained and reviewed the latest schedule of total estimated investment and capital expenditure of the JV Cemetery Project prepared by the Group, as at the Latest Practicable Date, the total estimated investment costs to be incurred for the JV Cemetery Project are approximately RMB60.3 million in the next 24 months from May 2022 (i.e. Expected Development Sum). As advised by the management of the Group, apart from the aforesaid Expected Development Sum, the Group has no significant capital commitments as at the Latest Practicable Date.

As advised by the management of the Group, the Group has been actively seeking business opportunities to expand its burial services business. With the impact brought by the outbreak of COVID-19, other than the JV Cemetery Project, the Group has not identified any quality and attractive investments opportunities consistent with the business plan, development strategy and risk appetite of the Group for the utilisation of its idle funds (including the outstanding principal amount of the Loan to be repaid on Original Repayment Date). The management of the Group also considered that investment opportunities such as equity investments would generally have longer financial return cycle.

We were also advised by the Company that apart from considering potential investment opportunities in burial services business, the Group also considered to invest in some principal-guaranteed products. However, the Directors were of the view that these products usually have lower interest rates and have fixed terms which will restrict the Group's ability to withdraw its funds before maturity. According to the 2021 Annual Report of the Company, the majority of bank balance which is currently placed in bank with effective interest rate of approximately 0.30% to 1.95% per annum. Based on the Deed of Extension, the Group shall be able to earn an annual interest income of RMB12.0 million (RMB24.0 million in total during the term of the Deed of Extension), representing approximately 66.2% of the Group's net profit for the year ended 31 December 2021.

After taking into account the Group's current liquidity and the Expected Development Sum, the Directors considered that the Extension of Loan will not negatively affect the working capital or daily operations of the Group. The Board is also of the view that the Extension of Loan will provide additional interest income to the Group at an interest rate higher than those available to the Group under short-term deposits and low-risk wealth management products, which then improves the return to Shareholders as a whole.

Furthermore, according to the Loan Agreement (as amended and supplemented by the Deed of Extension), the Company may at its absolute discretion deliver to China VAST an Early Repayment Request to require China VAST for early repayment of the principal of the Loan and all accrued interest on the Deed of Extension in full or in part at any time before the Repayment Date. In our opinion, such early repayment right provides an option and flexibility to the Group in the context to the Loan Agreement (as amended and supplemented by the Deed of Extension).

In relation to the financial and business conditions and credit profile of China VAST, the Company had conducted due diligence and evaluation on the financial conditions and credit risk assessment on the China VAST Group, including reviewing the consolidated audited financial statements as at 31 December 2021 of the China VAST Group (net assets value and net current assets value of approximately RMB6.2 billion and RMB4.4 billion as at 31 December 2021, respectively), the cash flow as well as understanding the business portfolio of China VAST. China VAST also had ample cash resources of which bank balances and cash of approximately RMB840.8 million as of the same said date which was more than sufficient to cover the entire Loan at principal amount of RMB100,000,000 and the accrued interest thereon. Also, to the best knowledge of the Company, China VAST have good credit history and with sizable assets.



In respect of the financial positions of the Guarantor, as stated in the Letter from the Board, based on the latest unaudited management accounts of the Guarantor as at 31 December 2021, the total assets and net assets of the Guarantor amounted to approximately HK\$2.3 billion and HK\$2.3 billion, respectively. We have also been provided with the bank statements of the Guarantor as of 31 March 2022 and noted the cash and bank balances as of the same date was approximately HK\$545.3 million, which could sufficiently cover the principal amount of the Loan and the interest thereon in the event that China VAST defaults.

Based on the above, we are of the view that the Extension of Loan represents an opportunity for the Group to continue to earn a higher rate of return as compared to bank deposits, while still keeping control over the use of funds.

### **3. The Loan Agreement**

The principal terms of the Loan Agreement are summarised as follows:

Principal Amount	:	RMB100,000,000 (or its equivalent in Hong Kong dollars)
Purpose	:	All amounts borrowed by China VAST under the Loan shall be used for general working capital and shall not be used for any other purposes.
Repayment Date	:	The Original Repayment Date, being the date falling twelve (12) months after the Drawdown Date or such other date as agreed in writing between China VAST and the Company.
Interest Rate	:	Twelve percent (12%) per annum (the "Interest Rate"), payable on the Original Repayment Date.
Repayment	:	China VAST shall repay or pay the principal of the Loan and all accrued interest on the Loan in full on the Original Repayment Date.

Notwithstanding the foregoing and without prejudice to the parties' right to mutually agree in writing on any other date as the Original Repayment Date, at any time before the Original Repayment Date, the Company may at its absolute discretion deliver to China VAST a request in writing (the

“Early Repayment Request”) at least one calendar month in advance of the intended date of early repayment of the principal of the Loan and all accrued interest on the Loan in full or in part, upon receipt of which China VAST shall have ten (10) business days (or any other period as agreed between the parties) to consent to the Early Repayment Request and make such early repayment on the date set out in the Early Repayment Request.

- Prepayment : China VAST is entitled to make early repayment of the Loan in full or in part to the Company before the Original Repayment Date by giving to the Company not less than one month’s prior written notice, specifying the amount to be repaid and the date on which the early repayment is to be made, and China VAST shall, on the date of early repayment, pay to the Company all accrued interest on the amount to be early repaid. Any prepayment notice given by China VAST under any provision of the Loan Agreement shall be irrevocable and China VAST shall be bound to make a prepayment in accordance therewith.
- Default Interest : In the event that, and for so long as, any event of default shall have occurred and be continuing, the outstanding principal balance of the Loan and, to the extent permitted by law, overdue interest in respect of the Loan, shall accrue interest at the Interest Rate plus 3% per annum (the “Default Interest”), calculated from the date such payment was due without regard to any grace or cure periods contained in the Loan Agreement up to the date of actual payment. Any default interest accruing shall be immediately payable by China VAST on demand by the Company.
- Guarantee : The Guarantor shall provide the Guarantee in favour of the Company to secure the payment of all sums outstanding under the Loan Agreement and the performance of China VAST of all its obligations under the Loan Agreement.

#### 4. The Deed of Extension

We have obtained and reviewed the major terms of the Deed of Extension, which was mutually agreed by the parties that, among others, subject to the fulfillment of the conditions precedent under the Deed of Extension, that with effect from the Effective Date, the Original Repayment Date shall be extended for a period of 24 months to the Extended Repayment Date.

The principal terms of the Deed of Extension are summarised as follows:

**Interest Rate** : China VAST shall on the Original Repayment Date pay interest on the Loan accruing from and including the Drawdown Date to and including the Original Repayment Date.

The interest rate remains unchanged at 12% per annum.

Interest on the Loan (as extended) shall accrue at the interest rate of 12% from and including the Effective Date to and including the Extended Repayment Date and shall be calculated on the basis of the actual number of days elapsed and a year of 365 days.

China VAST shall pay interest annually in arrears on the first anniversary of the Effective Date (i.e. 2 July 2023) and the second anniversary of the Effective Date (i.e. 2 July 2024).

**Guarantee** : The Guarantor and the Company have confirmed that the Guarantee remains to be effective which secures the payment of all sums outstanding under the Loan Agreement (as amended and supplemented by the Deed of Extension) and the performance of China VAST of all its obligations under the Loan Agreement (as amended and supplemented by the Deed of Extension).

**Default Interest** : The Default Interest remains to be the interest rate (i.e. 12%) plus 3% per annum (i.e. in aggregate 15% per

annum), calculated from the due date of the defaulted payment without regard to any grace or cure periods contained in the Loan Agreement (as amended and supplemented by the Deed of Extension) up to the date of actual payment. Any Default Interest accruing shall be immediately payable by China VAST on demand by the Company.

**Conditions Precedent** : The Deed of Extension shall only become effective on the Effective Date upon the fulfillment of all the following conditions precedent:

- (a) The representations and warranties of China VAST contained in the Loan Agreement shall be true and correct in all material respects on and as of the date of the Deed of Extension and the Effective Date (with the same effect as if made on and as of such date), and no event of default shall have occurred and be continuing; and China VAST shall be in compliance in all material respects with all terms and conditions set forth in the Loan Agreement (as amended and supplemented by the Deed of Extension).
- (b) The approval by the Independent Shareholders of the Deed of Extension and the transactions contemplated thereunder at the EGM in accordance with, and all other consents and acts required under, the Listing Rules being obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules having been obtained from the Stock Exchange.
- (c) The compliance with any other requirements under the Listing Rules or otherwise of the Stock Exchange or other regulatory authorities or any applicable laws and regulations which requires compliance at any time on or prior to the Effective Date (whether applicable to the Company or China VAST).

- (d) (If required) all requisite waivers, consents and approvals from any relevant governmental authority or regulatory authorities or other relevant third parties, in connection with the Deed of Extension and the transactions contemplated thereunder having been obtained.
- (e) The obligations of the Guarantor under the Guarantee remaining valid and effective in accordance with its terms, and the Guarantee not having been terminated in accordance with its terms or otherwise.
- (f) China VAST having on the Original Repayment Date paid interest on the Loan accruing from and including the Drawdown Date to and including Original Repayment Date.

Other than conditions precedent (b), (c), (d) and (e), all the conditions precedent may be waived by the Company in its sole and absolute discretion.

According to the Letter from the Board, as at the Latest Practicable Date, none of the conditions precedent has been fulfilled.

The terms of the Deed of Extension, are agreed upon by the parties after arm's length negotiations and having regard to the prevailing market terms, the financial background of China VAST, commercial practices and the Guarantee provided by Guarantor. Save for the Extension of Loan and other amendments disclosed herein, all the material terms and conditions of the Loan Agreement shall remain in full force and effect.

## **5. Comparison with Comparable Transactions**

Despite the terms of loans may vary with difference individual factors including the duration of the loan, securities and/or guarantees attached to the loan as well as the condition of economy, we are of the view that a comparison with similar transactions announced by companies listed on the Stock Exchange would still provide a comprehensive picture of similar transactions and meaningful reference to certain terms in the recent market.

Therefore, in order to further assess the fairness and reasonableness of the term, the Interest Rate, the Default Interest rate and the Deed of Guarantee (as extended), we have used our best endeavour to conduct an independent research from the website of the Stock Exchange and identified 11 comparable transactions (the “**Comparable Transactions**”) which (i) were announced by companies listed on the Stock Exchange pursuant to the Listing Rules or GEM Listing Rules from 1 February 2022 and up to 16 May 2022, being the date of the Deed of Extension, which in our view represents a sufficient period of time to reflect the prevailing market conditions for conducting such transactions; (ii) involved the provision of loan(s) to entities/ individuals (excluding connected subsidiaries, joint ventures or commonly controlled entities of the lenders) without security or collaterals; and (iii) since the Company is neither a bank nor financial institution, and it does not possess any money lending license, our research has also been conducted based on such selection criteria.

Shareholders should note that the business, operations and prospects of the Comparable Transactions may not be identical to those of the Company and we have not conducted any detailed investigation into the respective businesses and operations of the Comparable Transactions. Nevertheless, having considered the Comparable Transactions (i) are the most recent provision of loans published by companies listed on the Stock Exchange; (ii) were all granted on a no security or collaterals basis; (iii) does not possess any money lending license; and (iv) provide a comprehensive and reasonable reference as to the practice of companies listed in Hong Kong for conducting similar transactions under the Loan Agreement (as amended and supplemented by the Deed of Extension), we consider, to the best of our knowledge and ability, that the Comparable Transactions are exhaustive samples selected based on the selection criteria which are fair, relevant and indicative in assessing the fairness and reasonableness of the key terms of the Loan Agreement (as amended and supplemented by the Deed of Extension) (including the interest rate and the Default Interest rate of the Loan).

	Date of announcement	Company name	Stock code	Interest rate per annum (approximately) (Note 4)	Default interest rate per annum (approximately) (Note 5)	Term (approximately)	Guarantee (Y/N)	Connected transaction (Y/N)
1	5 May 2022	Million Cities Holdings Limited	2892	4.00%	N	36 months	Y	Y
2	22 April 2022	Metropolis Capital Holdings Limited	8621	12.00%	N	12 months	N	Y
3	20 April 2022	China Resources Pharmaceutical Limited	3320	(Note 1)	N	36 months	N	Y
4	11 April 2022	Joy City Property Limited	207	10.00%	10.00%	(Note 2)	N	N
6	6 April 2022	Asian Citrus Holdings Limited	73	6.00%	N	11 months	Y	Y
7	4 April 2022	Grandshores Technology Group Limited	1647	8.00%	18.00%	6 months	N	Y
8	31 March 2022	Zhejiang Yongan Rongong Holdings Co., Ltd.	8211	3.7% (Note 3)	N	15 months	N	Y
9	24 March 2022	China Jinmao Holdings Group Limited	817	3.7% (Note 3)	N	12 months	N	Y
10	28 February 2022	Kunming Dianchi Water Treatment Co., Ltd.	3768	8.50%	N	1 months	N	N
11	8 February 2022	Kintor Pharmaceutical Limited	9939	4.27%	N	4.73 months	N	Y

Source: The Stock Exchange

**Overall Comparable Transactions:**

Max	12.00%	18.00%	36.00
Min	3.70%	10.00%	1.00
Average	7.02%	13.00%	16.28

**Connected Comparable Transactions**

Max	12.00%	10.00%	36.00
Min	3.70%	10.00%	4.73
Average	5.95%	10.00%	16.59

<b>The Company</b>	<b>12.00%</b>	<b>15.00%</b>	<b>24.00</b>
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**Notes:**

- As disclosed in the announcement of China Resources Pharmaceutical Group Limited dated 20 April 2022, the loan carry floating interest rate based on the applicable rate offered by the People's Bank of China as at the pricing date. Except for the first pricing date which will be the first drawdown date, the subsequent pricing date(s) shall be the 21st day of the last month of each quarter of the terms of the loan agreement.
- As disclosed in the announcement of Joy City Property Limited dated 11 April 2022, there were two loans which terms of 599 days (approximately 20 months) and 761 days (approximately 25 months).
- As disclosed in the announcement of Zhejiang Yongan Rongong Holdings Co., Ltd dated 31 March 2022 and the announcement of China Jinmao Holdings Group Limited dated 24 March 2022, both of the loans bear interest of loan prime rate issued by the National Interbank Funding Centre, as at the date of this letter, the interest rate quoted from the website is 3.7%.
- Interest shall accrue based on the interest rate per annum apply on the outstanding amount of loan upon drawdown in accordance with the relevant loan agreement(s).
- Default interest rate shall come into effect when the borrower fails to fulfill the repayment obligations as set forth in the relevant loan agreement(s).

**(a) Term**

Based on the above table, we note that the term of the Comparable Transactions ranged from one month to 36 months, with an average term of approximately 16.28 months. The term of the Loan contemplated under the Deed of Extension is within the

range of and higher than the average term of the Comparable Transactions.

We also undertook a further analysis in considering only the provision of loan to connected person(s) (the “**Connected Comparable Transactions**”) and note that the term of Connected Comparable Transactions ranged from approximately four months to 36 months, with an average term of approximately 16.59 months. The term of the Loan contemplated under the Deed of Extension is within the range of and higher than the average term of the Connected Comparable Transactions.

*(b) Interest Rate*

Based on the above table, we note that the annual interest rate of the Comparable Transactions ranged from approximately 3.70% to 12.00%, with an average annual interest rate of approximately 7.02%. The interest rate of Loan Agreement (as amended and supplemented by the Deed of Extension) of 12.00% is within the range of the interest rate of the Comparable Transactions and is higher than the average interest rate of the Comparable Transactions.

We also that note the annual interest rate of the Connected Comparable Transactions ranged from approximately 3.70% to 12.00%, with an average annual interest rate of approximately 5.95%. The interest rate of the Loan Agreement (as amended and supplemented by the Deed of Extension) of 12.00% is at high end and within the range of Connected Comparable Transactions.

Based on the above, we are of the view that the interest rate of the Loan Agreement (as amended and supplemented by the Deed of Extension) is fair and reasonable so far as the Independent Shareholders are concerned.

*(c) Default Interest Rate*

Based on the above table, we note that only two out of 11 Comparable Transactions included default interest rate, ranged from approximately 10.00% to 18.00% and with an average default interest rate of approximately 13.00%. The Default Interest rate of Loan Agreement (as amended and supplemented by the Deed of Extension) of 15.00% is within the range of the default interest rate of the Comparable Transactions.

Based on the above, we are of the view that the Default Interest rate of the Loan Agreement (as amended and supplemented by the Deed of Extension) is fair and



reasonable so far as the Independent Shareholders are concerned.

*(d) Guarantee*

Based on the above table, we note that only two out of 11 Comparable Transactions were guaranteed by guarantor to secure the repayment. We also noted that only two out of the eight Connected Comparable Transactions were granted with guarantee. It is thus considered that the unconditional and irrevocable guarantee provided by the Guarantor in favour of the Company to secure the payment for the payment of all sums outstanding under the Loan Agreement (as amended and supplemented by the Deed of Extension) and the performance of China VAST of all its obligations under the Loan Agreement (as amended and supplemented by the Deed of Extension) is a favourable term to the Company. In our view, the Guarantee provides protection to the Group as regards its credit risk associated with the Loan.

Based on the aforesaid, we are of the view that the terms of the Loan Agreement (as amended and supplemented by the Deed of Extension) are fair and reasonable so far as the Independent Shareholders are concerned.

**6. Business and financial information of China VAST and the Guarantor**

*China VAST*

According to the Letter from the Board, the Company had conducted due diligence and evaluation on the financial conditions and conducted credit risk assessment on China VAST Group. Based on the Company's due diligence enquiries and review of documents and/or information, to the best of knowledge of the Company, China VAST has a good credit history with sizable assets and the Directors considered the risk of default by China VAST is remote.

We noted from the 2021 Annual Report of China VAST that it is a sizable company with substantial financial resources. Based on the 2021 Annual Report of China VAST, it recorded net assets value and net current assets value of approximately RMB6.2 billion and RMB4.4 billion as at 31 December 2021, respectively. China VAST also had ample cash resources of which bank balances and cash of approximately RMB840.8 million as of the same said date which was more than sufficient to cover the entire Loan amount of RMB100,000,000 and the accrued interest thereon. The Company has obtained and checked to the relevant fund proof of China VAST, namely its bank statements as at 30 April 2022,

to validate its financial capability for the repayment of Loan and the interest thereon. We have obtained and reviewed the repayment and drawdown schedule of interest-bearing liabilities of China VAST and we are not aware of any material irregularities which cause us to doubt its credibility. We also noted from the 2021 Annual Report of China VAST and to the best knowledge of the management of the Group, China VAST did not have any historical defaults in the repayment of outstanding borrowings for the last three consecutive financial years.

### ***The Guarantor***

The Guarantor is an investment holding company and solely holds 43.79% of the shares of China VAST with no business operation. To the best knowledge of the management of the Group, there was no material event of default of liabilities by the Guarantor for the last five consecutive financial years. We have requested and reviewed the latest unaudited management accounts of the Guarantor as at 31 December 2021. Based on the said latest management accounts, the total assets and net assets of the Guarantor amounted to approximately HK\$2.3 billion and HK\$2.3 billion, respectively. We have also been provided with the bank statements of the Guarantor as of 31 March 2022 and noted that the cash and bank balances of approximately HK\$545.3 million, which could sufficiently cover the principal amount of the Loan (as extended) and the interest thereon in the event that China VAST defaults.

On the basis of the above and assuming no material change to China VAST's and the Guarantor's financial positions, we consider that China VAST, taking into account the Guarantee provided by the Guarantor, has sufficient financial resources and substantial backing from the Guarantor to repay the Loan and the interest thereon.

## **7. Financial effects of the Extension of Loan**

The Deed of Extension are in effect an extension of the repayment term of the Loan Agreement from Original Repayment Date to Extended Repayment Date.

As at the Latest Practicable Date, the outstanding Loan amount was RMB100,000,000. There will be no further drawdown of Loan under the Deed of Extension and there will be no impact on the net asset value of the Group. Therefore, the entering into Deed of Extension is not expected to have any material impact on the Group's financial position. In terms of earnings, the Group will continue to earn an annual interest income of RMB12.0 million (RMB24.0 million in total during the term of the Deed of Extension), which

represents approximately 66.2% of the Group's net profit for the year ended 31 December 2021.

It should be noted that the above analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be after the Extension of Loan.

In view of the above financial effects, in particular, the Extension of Loan would enable the Group to earn additional interest income and accordingly enhance its earnings, we consider that the overall financial effects on the Group as a result of the Extension of Loan is acceptable.

## **8. The Internal Control Measures**

According to the Letter from the Board, in order to properly mitigate the risks associated with the Loan contemplated under the Deed of Extension, the Group implements certain internal control and risk management measures including designating specific personnel of its accounting/compliance department to monitor and report the liquidity status of China VAST to the management of the Group on a monthly basis and the senior management of the Company regularly reports the status of the Loan to the independent non-executive Directors (other than Dr. Wong Wing Kuen, Albert who is deemed to have a material interest in the Loan Agreement (as amended and supplemented by the Deed of Extension) and the Loan contemplated thereunder by virtue of his position as an independent non-executive director of China VAST) and will seek their view in the event that any potential issue in respect of the Loan/or and the Guarantee arises.

The management of the Company will also monitor the financial conditions of the Guarantor and exercise its information right in accordance with the terms and conditions of the Loan Agreement (as amended and supplemented by the Deed of Extension) so as to safeguard the Company's interest.

In relation to the internal control measures mentioned above, we have obtained and reviewed the internal control policies provided by the Company and discussed with the management of the Group and noted that, amongst others, (i) the company secretary of the Group is designated to check and monitor the Loan and business, financial and liquidity status of China VAST and report to the management of the Company regularly; (ii) the Company has regularly requested for review documents from the Guarantor, namely management accounts and bank statements, and monitored the financial and liquidity

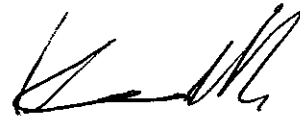
position of the Guarantor to ensure that the Guarantor is sufficient to protect the Company's interest in the event that China VAST defaults; and (iii) the senior management of the Company has regularly reported the status of Loan to the independent non-executive Directors (other than Dr. Wong Wing Kuen, Albert) and the Company is not aware of any issue in respect of the Loan and/or Guarantor that would need to bring to the attention of the independent non-executive Directors. The Company will continuously apply internal control measures to monitor the financial position and operation of China VAST and the Guarantor. Furthermore, we also noted from the 2021 Annual Report of the Company that the Board has conducted a review of the effectiveness of the risk management and internal control systems and considered them effective and adequate.

Taking the above into account, we are of the view that there are appropriate measures in place to govern the conduct of the transaction and safeguard the interests of the Independent Shareholders.

## RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that (i) the Extension of Loan are entered into on normal commercial terms and in the interests of the Company and the Shareholders as a whole and (ii) the terms of the Extension of Loan are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions be proposed at the EGM to approve the Extension of Loan.

Yours faithfully,  
For and on behalf of  
**First Shanghai Capital Limited**



**Kenneth Yam**  
*Director*  
*Corporate Finance*

*Mr. Kenneth Yam is a licensed person registered with the Securities and Futures Commission of Hong Kong and the responsible officer of First Shanghai Capital Limited to carry out Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance. Mr. Kenneth Yam has over ten years of experience in corporate finance industry.*