



1 November 2022

*To: The independent board committee and the independent shareholders  
of Top Spring International Holdings Limited*

Dear Sirs,

## **CONNECTED TRANSACTION VARIATIONS OF TERMS TO THE SECURED FACILITY 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 Second Supplemental Agreement, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 1 November 2022 issued by the Company to the Shareholders (the “**Circular**”), of which this letter of advice forms part. Capitalised terms used in this letter of advice shall have the same meanings as ascribed to them under the section headed “Definitions” in the Circular unless the context requires otherwise.

References are made to the announcement of the Company dated 26 October 2018 and its circular dated 1 November 2018 in relation to the entering into of the Secured Facility Agreement dated 26 October 2018, pursuant to which the Lenders agreed to provide the Borrower (a wholly-owned subsidiary of the Company) with the Loan in an aggregate sum of US\$120 million for 24 months from the Utilisation Date with an option of 12-month extension at the Borrower’s request. The Loan was drawn on 27 November 2018.

As security for the Loan, (a) the Company provided a corporate guarantee to the Finance Parties to irrevocably and unconditionally guarantee, among other things, the punctual performance by the Borrower of all its obligations under the Finance Documents as if it was the principal obligor; (b) the Borrower executed three Share Charges on 26 October 2018; and (c) the Borrower executed the Shareholder’s Loans Assignment on 26 October 2018.

References are also made to the announcement of the Company dated 23 November 2020 and its circular dated 9 December 2020 in relation to the entering into of the First Supplemental

Agreement, pursuant to which the term of the Loan was extended for two years and the interest rate of the Loan for the extended term was lowered from 15% to 11%.

On 11 October 2022, the Lenders, the Borrower, Metro-LKT (as the Security Agent and the Facility Agent) and the Company as the guarantor entered into the Second Supplemental Agreement, pursuant to which the parties agreed on the Variations of Terms to the Secured Facility Agreement.

As extracted from the Letter from the Board, the entering into of each of the Secured Facility Agreement and the First Supplemental Agreement constituted a connected transaction for the Company subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, and subsequently were approved by the then independent Shareholders at the extraordinary general meetings of the Company held on 16 November 2018 and 29 December 2020, respectively, in accordance with the relevant Listing Rules' requirements. The Variations of Terms contemplated under the Second Supplemental Agreement will constitute material variation to the terms of the Secured Facility Agreement (as amended and supplemented by the First Supplemental Agreement). According to the note to Rule 14A.35 of the Listing Rules, the Company is required to announce this fact and re-comply with all other applicable provisions under the Listing Rules. In this regard, the Company will have to comply with the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules for the Second Supplemental Agreement.

The Independent Board Committee comprising Mr. Cheng Yuk Wo, Professor Wu Si Zong and Mr. Chan Yee Herman (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Second Supplemental Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the entering into of the Second Supplemental Agreement is in the interests of the Company and the Shareholders as a whole and is conducted 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 Second Supplemental Agreement at the EGM. We, VBG Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

## **OUR INDEPENDENCE**

As at the Latest Practicable Date, apart from having acted as the independent financial adviser of the Company relating to the First Supplemental Agreement of which a circular dated 9 December 2020 was issued and the existing engagement, we did not have any business relationship with the Company within the past two years. Save for the normal fees payable to us in connection with this appointment, no arrangement exists whereby we shall receive any fees or benefits from the Company and its subsidiaries or the Directors, chief executive or substantial shareholders (as defined in the Listing Rules) of the Company or any of their associates. We consider ourselves independent to form our opinion in respect of the Second Supplemental Agreement.

## **BASIS OF OUR OPINION**

In formulating our opinion with regard to the Second Supplemental Agreement, we have relied on the information and facts supplied, opinions expressed and representations made to us by the management of the Group (including but not limited to those contained or referred to in the Circular). We have assumed that the information and facts supplied, opinions expressed and representations made to us by the management of the Group 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 of the Group in the 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 Circular, or the reasonableness of the opinions expressed by the Group, its management and/or advisers, which have been provided to us.

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

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 future prospects of the Group, the Lenders, Metro Group, LKT Group, Mr. Yip or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Second Supplemental 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 take into account 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 while we did not conduct any independent investigation into the accuracy and completeness of such information.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Second Supplemental Agreement, we have taken into consideration the following principal factors and reasons:

### 1. Background of and reasons for the Second Supplemental Agreement

#### *Business review of the Group*

The Group is a real estate property developer in the PRC and is principally engaged in real estate investment, property development and property management in the PRC and Hong Kong.

Set out below is the consolidated financial information of the Group for the six months ended 30 June 2022 and the two years ended 31 December 2021 as extracted from the interim report of the Company for the six months ended 30 June 2022 (the “**2022 Interim Report**”) and its annual report for the year ended 31 December 2021 (the “**2021 Annual Report**”), respectively:

	<b>For the six months ended 30 June 2022 (unaudited) HK\$'000</b>	<b>For the year ended 31 December 2021 (audited) HK\$'000</b>	<b>For the year ended 31 December 2020 (audited) HK\$'000</b>
Revenue	2,883,680	638,957	575,051
Profit/(Loss) for the period/ year	4,192	46,714	(367,536)

As depicted by the above table, the Group’s revenue for the year ended 31 December 2021 increased by approximately 11.1% to approximately HK\$639.0 million from approximately HK\$575.1 million for the year ended 31 December 2020. We noted from the 2021 Annual Report that such increase was primarily due to the increase in the Group’s income from rental income, property management and related service income. Contributed by the substantial increase in sales of properties, the Group’s revenue further increased to approximately HK\$2,883.7 million during the first half of 2022. As regards profitability, the Group was successful in reviving from loss and recorded net profit of approximately HK\$46.7 million for the year ended 31 December 2021. During the first half of 2022, a minimal net profit of approximately HK\$4.2 million was also recorded.

As advised by the Directors, the Group specialises in the development and operation of urban mixed-use communities and the development and sale of residential properties in the Greater Bay Area (including Hong Kong, Shenzhen and Dongguan), the Yangtze River Delta, the Central China, the Beijing-Tianjin and the Chengdu-Chongqing regions in the PRC. As at 30 June 2022, the Group had a total of 22 projects over 11 cities in various

stages of development, including an estimated net saleable/leasable gross floor area (GFA) of completed projects of approximately 356,208 square meters (sq.m.), an estimated net saleable/leasable GFA of projects under development of approximately 90,849 sq.m., an estimated net saleable/leasable GFA of projects held for future development of approximately 30,494 sq.m., and an estimated net saleable/leasable GFA of projects contracted to be acquired or under application for change in land use of approximately 6,497 sq.m. As at 30 June 2022, the total capital commitments outstanding but not provided for of the Group, which were mainly related to development expenditure for the Group's properties under development and acquisition cost of the Group's projects, amounted to approximately HK\$2,089.2 million.

As further advised by the Directors, the Group intends to continue leveraging its experience in identifying land parcels in and/or outside the PRC with investment potential at advantageous times and acquiring land reserves which are or will be well connected with transportation and infrastructure developments. Moreover, the Group intends to continue acquiring new land parcels or projects in locations in and/or outside the PRC with vibrant economies and strong growth potential, in particular, the Greater Bay Area, Shanghai and Sydney of Australia.

### *The Group's financial resources and liquidity*

The table below summarises the Group's unaudited financial resources and liquidity as at 30 June 2022 as extracted from the 2022 Interim Report:

	<b>As at 30 June 2022 HK\$'000</b>
Current assets	
– Restricted and pledged deposits	2,326,543
– Cash and cash equivalents	959,108
Current liabilities	
– Bank loans and other borrowings	4,743,892
– Bonds payable	252,503
Non-current liabilities	
– Bank loans and other borrowings	4,715,426

#### *Cash and bank deposits*

As at 30 June 2022, the Group had cash and bank deposits totaling approximately HK\$3,285.7 million, representing a decline of approximately 16.6% as compared to 31 December 2021. Over two-third of the Group's total cash and bank deposits were restricted and pledged.

#### *Bank loans and other borrowings*

As at 30 June 2022, the Group had total short-term and long-term bank loans and other borrowings of approximately HK\$9,459.3 million, out of which approximately HK\$4,743.9 million (including the Loan) were repayable within one year. The Group had bank loans of approximately HK\$8,277.0 million as at 30 June 2022 which carry fixed interest rates ranging from 0.7% to 7.4% per annum.

#### *The bonds payable*

On 20 September 2021, the Group entered into a subscription agreement with a third party for private offering of corporate bonds of US\$32.5 million (the "Bonds") with a term of 364 days. The amount was interest-bearing at 9% per annum and secured by the issued share capital of a subsidiary and receivables owned by the Company. The principal amount and accrued interest of the Bonds were repaid in full in September 2022.

### *Reasons for the entering into of the Second Supplemental Agreement*

As mentioned under the sub-section headed “Business review of the Group” of this letter of advice, the Group specialises in the development and operation of urban mixed-use communities and the development and sale of residential properties in the Greater Bay Area, the Yangtze River Delta, the Central China, the Beijing-Tianjin and the Chengdu-Chongqing regions in the PRC. As at 30 June 2022, the Group had a total of 22 projects over 11 cities in various stages of development, including completed projects, projects under development, projects held for future development and projects contracted to be acquired or under application for change in land use. As at 30 June 2022, the total capital commitments outstanding but not provided for of the Group, which were mainly related to development expenditure for the Group’s properties under development and acquisition cost of the Group’s projects, amounted to approximately HK\$2,089.2 million.

Taking into account the current business development plan of the Group which is of massive scale, together with the fact that, amongst others, the Group had total short-term and long-term bank loans and other borrowings of approximately HK\$9,459.3 million as at 30 June 2022, out of which approximately HK\$4,743.9 million (including the Loan) were repayable within one year, we concur with the Directors that the Group has substantial capital requirements and financing needs on an ongoing basis.

According to the 2022 Interim Report, the Group had unpledged cash and cash equivalents of approximately HK\$959.1 million only as at 30 June 2022, out of which the available cash in Hong Kong was limited. In view of its existing financial resources and liquidity position, the Group has an imminent need to obtain additional funds of sizeable amount to fulfil its capital requirements. Upon our discussion with the Directors, we understand that the Company has considered both debt financing and equity financing to raise additional funds of considerable size as the principal amount of the Loan. Nevertheless, in light of the continuance of the COVID-19 pandemic (the “Pandemic”) leading to sceptical investor behaviour, equity financing that requires underwriting (in the case of rights issue and open offer) is considered to be rather impracticable at present, not to mention that it would create dilution to the existing shareholding of the Shareholders (in the case of placing or both rights issue and open offer in the event that the Shareholders choose not to participate in). For this reason, the Company has chosen to use various means of debt financing, such as bank loans and other borrowings, and the issue of Bonds, to fund its capital requirements, and considers the entering into of the Second Supplemental Agreement to extend the term of the Loan to be advantageous to the Company as balanced against the additional interest cost for the Loan.

In light of that (i) the Group has ongoing substantial financing needs for future business development and debt repayment; and (ii) equity financing is rather impracticable for the Group at present, we concur with the Directors that the entering into of the Second Supplemental Agreement to extend the term of the Loan is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group.

**2. Principal terms of the Second Supplemental Agreement**

As extracted from the Letter from the Board, the principal terms of the Second Supplemental Agreement dated 11 October 2022 are as follows:

- Parties:
- (1) the Lenders, including Metro Property which will continue acting as a lender while Lee Kim Tah will cease to be a lender;
  - (2) the Borrower, as borrower;
  - (3) the Company, as guarantor;
  - (4) the Facility Agent, as facility agent; and
  - (5) the Security Agent, as security agent.

Subject matter: Pursuant to the Second Supplemental Agreement, the parties have conditionally agreed on the Variations of Terms as detailed below:

	<b>Original terms of the Secured Facility Agreement (as amended and supplemented by the First Supplemental Agreement)</b>	<b>Variations of Terms as contemplated under the Second Supplemental Agreement</b>
<b>“Lenders”</b>	Metro Property and Lee Kim Tah.	<b><u>Metro Property</u></b>  Lee Kim Tah will cease to be a Lender and a Party to the Secured Facility Agreement.



	<b>Original terms of the Secured Facility Agreement (as amended and supplemented by the First Supplemental Agreement)</b>	<b>Variations of Terms as contemplated under the Second Supplemental Agreement</b>
<b>“Term”</b>	24 months from the Utilisation Date, with an option of 24-month extension at the Borrower’s request subject to additional terms and conditions set out in the Secured Facility Agreement (as amended and supplemented by the First Supplemental Agreement).	<b>48</b> months from the Utilisation Date, with a <b>24</b> -month extension at the Borrower’s request subject to additional terms and conditions set out in the Secured Facility Agreement (as amended and supplemented by the First Supplemental Agreement and the Second Supplemental Agreement).
<b>“Repayment”</b>	The Borrower must repay the entire outstanding Loan and all accrued and unpaid interest and all other sums payable under the Finance Documents on the Final Repayment Date (that is, 24 months from the Utilisation Date) or the extended Final Repayment Date (that is, 48 months from the Utilisation Date).	The Borrower must repay the entire outstanding Loan and all accrued and unpaid interest and all other sums payable under the Finance Documents on the Final Repayment Date (that is, <b>48</b> months from the Utilisation Date) or the extended Final Repayment Date (that is, <b>72</b> months from the Utilisation Date).

Save for the above changes, all the terms of the Secured Facility Agreement shall remain unchanged.

***Extension of the term***

As demonstrated under the sub-section headed “Reasons for the entering into of the Second Supplemental Agreement” of this letter of advice, the Group had unpledged cash

and cash equivalents of approximately HK\$959.1 million as at 30 June 2022, which were insufficient for meeting its short-term debt repayment obligations and other capital requirements. The Group therefore has an imminent need to obtain additional funds of sizeable amount. The Company has considered both debt financing and equity financing but found the latter rather impracticable. Thus, the extension of the term of the Loan at the discretion of the Borrower will allow flexibility and relieve the imminent funding pressure of the Group in the short to medium run.

### *The Interest Rate*

Pursuant to the Second Supplemental Agreement, the interest rate for the Loan (the “**Interest Rate**”) will remain at 11% per annum. To assess the fairness and reasonableness of the Interest Rate, we have considered the following factors based on our independent research:

#### *(a) Tightened financing and liquidity of the PRC property market*

Supervision on real estate financing in the PRC has been tightened since 2018. In May 2018, the National Development and Reform Commission (“**NDRC**”) and the Ministry of Finance jointly issued the “Notice on Perfecting Market Constraint Mechanism Strictly Preventing External Debt Risk and Local Debt Risk”, restricting foreign debt funds investment by real estate enterprises. During the same month, the China Banking and Insurance Regulatory Commission (“**CBIRC**”) also issued the “Management Measures for Joint Credit Grants of Banking Financial Institutions (Trial)”, under which real estate enterprises with large debts, high leverage and insufficient solvency were prohibited from bank credit; whilst the Ministry of Housing and Urban-Rural Development (“**MOHURD**”) issued the “Notice on Further Improving the Relevant Issues Concerning the Regulation and Control of the Real Estate Market”, under which land purchase by enterprises using borrowed funds was banned.

Thereafter, the Chinese government’s supervision on real estate financing has not shown any sign of relaxation. In May 2019, CBIRC issued the “Notice on Launching the Work of Consolidating the Achievements in Rectification of Chaotic Practices and Promoting the Compliance Construction (No. 23 [2019] of the China Banking and Insurance Regulatory Commission)” which prohibited commercial banks, trusts, leasing and other financial institutions from conducting any non-compliant real estate financing. In July 2019, NDRC clearly stated that the issue of foreign debt by real estate enterprises could only be applied to replace the mid- and long-term overseas bonds due within the next year.

In 2020, the outbreak of the Pandemic posed a new downside risk to the PRC property market. Impacted by the Pandemic, sales volume of the property market plummeted and has been recovering slowly, and cash flow has been hampered. In late August 2020, MOHURD and the People’s Bank of China (“**PBOC**”) held a meeting

with several key real estate enterprises to discuss a long-term mechanism for regulating the property market. After the meeting, MOHURD and PBOC introduced new capital and financing management rules, commonly known as the “Three Red Lines”, to regulate the property market, requiring real estate enterprises to maintain (i) a debt-to-asset ratio of less than 70% excluding deposits received; (ii) a net debt ratio of less than 100%; and (iii) a cash to short-term debt ratio of greater than one. PBOC and CBIRC further decided to establish rules for management of concentrated real estate loans, and thereby jointly issued the “Notice of Establishing Rules for the Management of Concentration of Real Estate Loans of Banking Financial Institutions (No. 322 [2020] of the People’s Bank of China)” in December 2020.

In order to effectively implement the decisions and arrangements of the CPC Central Committee and the State Council in relation to promoting the stable and sound development of the property market, the “Notice Regarding Preventing the Flow of Loans for Business Purposes into the Real Estate Field in Violation of Rules (No. 39 [2021] of the General Office of the China Banking and Insurance Regulatory Commission)” was issued in March 2021.

As a result of the aforesaid stringent government control, the cost of debt financing of real estate enterprises in the PRC rose persistently from 2018 onwards. In 2021, the total interest-bearing liability of PRC’s real estate enterprises decreased by approximately 9.9% as compared to 2020. This was the first year-on-year reduction since 2011, which marked the end of the rapid development era with high liquidity and leverage. Attributable to the “Three Red Lines”, the debt-to-asset ratio excluding deposits received of real estate enterprises was approximately 71.5%, down by approximately 1.1% as compared to 2020; the net debt ratio was approximately 71.0%, down by approximately 1.3% as compared to 2020; and the cash to short-term debt ratio was approximately 1.2, down by approximately 0.18 times as compared to 2020.

*(b) Global rise of interest rates*

The global economy is facing complex challenges. Unrelenting inflation pressures, the war in Ukraine and the Pandemic have prompted the fastest rise in global interest rates since the early 1990s. The US Board of Governors of the Federal Reserve System started to raise its short-term interest rate to 0.5% in March 2022, and successively to 1%, 1.75% 2.5% and 3.25% in May, June, July and September 2022. Other developed-market central banks, such as the Swiss National Bank, the Bank of England, the European Central Bank and central banks in Australia, Brazil, Canada, India, Korea, Mexico, Poland, South Africa etc., have all followed suit. In Hong Kong, the Hong Kong and Shanghai Banking Corporation also raised the best lending rate it offered from 5% to 5.125% recently, and it seems that further rate surge is inevitable. Hence, the cost of bank loans and borrowings will be escalating in the short to medium run.

*(c) The Company's attempt to identify other means of debt financing*

As aforementioned, the Group's bank loans as at 30 June 2022 carried interest ranging from approximately 0.7% to 7.4% per annum. In this relation, the Directors advised us that those bank loans mainly consist of project loans with land, buildings and investment properties of the Group as security and interest rates of bank loans are generally lower than the interest rates of borrowings provided by other financial institutions or bonds/notes. As disclosed in 2022 Interim Report, a majority of the Group's properties and other assets were pledged to financial institutions for obtaining debt financing. In particular, over two-third of the Group's total cash and bank deposits were restricted and pledged; and approximately HK\$6,653.1 million out of approximately HK\$8,629.6 million in respect of the Group's investment properties and approximately HK\$5,578.4 million out of approximately HK\$7,488.5 million in respect of the Group's inventories were pledged to secure bank loans and other borrowings, representing approximately 77.1% of the Group's investment properties and approximately 74.5% of the Group's inventories as at 30 June 2022.

Judging from (i) the minimal net profit recorded by the Group during the first half of 2022; and (ii) that the Group has already used up most of its properties and other assets as pledges for its existing bank loans and other borrowings, we concur with the Directors that it would be rather difficult for the Group to obtain further borrowings in the amount comparable to the Loan at low interest costs without lengthy negotiations. For this reason, a closer reference would be the Bonds of US\$32.5 million which were issued by the Company to a third party in September 2021 at annual interest rate of 9% with a term of 364 days. Given that the principal amount of the Loan triples that of the Bonds and the term of the Loan is much longer than that of the Bonds, it is justifiable for the Interest Rate to be slightly higher than the interest rate of the Bonds.

*(d) Comparable analysis*

To evaluate as to whether the Interest Rate follows common market practice in loan provision regardless of business nature of the borrowers and/or the lenders, we have researched over the website of the Stock Exchange on an exhaustive basis regarding the provision of financial assistance by listed companies in Hong Kong to independent third parties. To the best of our knowledge and as far as we are aware of, there were 19 such announcements (the "Comparables") dated from 11 September 2022 to 10 October 2022 (being the 1-month period prior to the date of the Second

Supplemental Agreement). We chose the said 1-month research period due to its recency before the signing of the Second Supplemental Agreement and we consider the Comparables to be fair and representative. Summarised below are our relevant findings:

Date of announcement	Company (stock code)	Principal amount of the loan	Term of the loan	Annual interest rate	Details of security/ guarantee/collateral
7 October 2022	Global International Credit Group Limited (1669)	HK\$34,000,000	24 months	8%	A first legal charge/mortgage in respect of a residential property and two car parking spaces
6 October 2022	Hang Pin Living Technology Company Limited (1682)	HK\$20,000,000	12 months	10%	Not mentioned in the relevant announcement
6 October 2022	Cybernaut International Holdings Company Limited (1020)	HK\$36,400,000	12 months	9%	A first legal charge over 11 properties
5 October 2022	Emperor Capital Group Limited (717)	HK\$66,500,000	12 months	11%	A first mortgage over a residential unit and a parking space
1 October 2022	Yuxing InfoTech Investment Holdings Limited (8005)	HK\$60,000,000	6 months	5%	Accounts receivables and deposits as collateral
30 September 2022	Oi Wah Pawnshop Credit Holdings Limited (1319)	HK\$40,000,000	12 months	10.13% & 13.13%	A first legal charge in respect of several car parking spaces

Date of announcement	Company (stock code)	Principal amount of the loan	Term of the loan	Annual interest rate	Details of security/guarantee/collateral
30 September 2022	Yuxing InfoTech Investment Holdings Limited (8005)	HK\$41,000,000	9 months	8%	Accounts receivable as collateral
30 September 2022	Global International Credit Group Limited (1669)	HK\$22,000,000	24 months	10.8% & 10%	Two first legal charges/mortgages in respect of two residential properties
29 September 2022	SRE Group Limited (1207)	RMB380,000,000	35 months	8.5%	A list of guarantors and pledgors plus properties as security
28 September 2022	Global International Credit Group Limited (1669)	HK\$4,300,000	12 months	11%	Two first legal charges/mortgages in respect of a car parking space and a retail shop
28 September 2022	Yue Da International Holdings Limited (629)	RMB50,000,000	12 months	8% to 9.5%	A company guarantor
27 September 2022	Doyen International Holdings Limited (668)	RMB36,000,000	12 months	12%	Secured by accounts receivables
26 September 2022	Planetree International Development Limited (613)	HK\$50,000,000	12 months	6%	Nil
22 September 2022	NOVA Group Holdings Limited (1360)	RMB25,000,000	Approximately 8 or 9 months	6%	A guarantee contract

Date of announcement	Company (stock code)	Principal amount of the loan	Term of the loan	Annual interest rate	Details of security/ guarantee/collateral
22 September 2022	China Harmony Auto Holding Limited (3836)	RMB270,000,000	18 months	5%	Guaranteed by a PRC company
21 September 2022	Pinestone Capital Limited (804)	HK\$20,000,000	12 months	15%	Secured by a share charge and a guarantee
15 September 2022	Luxey International (Holdings) Limited (8041)	HK\$5,000,000	12 months	6%	A first legal charge over a property
14 September 2022	Rich Goldman Holdings Limited (0070)	HK\$6,500,000	15 years	22.74%	A second legal charge in respect of two residential properties
13 September 2022	Wan Kei Group Holdings Limited (1718)	HK\$15,000,000	6 months	7.5%	Guaranteed by guarantors

From the above table, we noted that except for the loan provided by Hang Pin Living Technology Company Limited (stock code: 1682) of which information was unavailable in the relevant announcement and the unsecured loan provided by Planetree International Development Limited (stock code: 613), loans of the Comparables were all secured in different forms, such as personal or corporate guarantees, legal charge/mortgage on properties, and charge of shares or accounts receivables. Likewise, the Loan is also a secured loan by means of corporate guarantee, charge of shares and loans assignment. Under such same circumstances, the interest rates of the Comparables ranged from 5% to 22.74% and six of the Comparables were with interest rate higher than or equivalent to the Interest Rate of 11%. At the same time, we noted that the principal amount of the Loan was much higher than that of the Comparables which would help to justify a higher interest rate. As such, the Interest Rate is not exceptional in the market.

To conclude, having taken into account (i) the PRC government's deleveraging policy on the real estate market which has severely tightened both financing and liquidity, making real estate enterprises very hard to secure funds; (ii) the trend of rising interest rates globally that will escalate the cost of bank loans and borrowings in the short to medium run; (iii) the failing attempt of the Company to identify other means of probable low costs debt financing in the short term; (iv) the Interest Rate is

comparable to the interest rate of the Bonds considering also the considerable size of the principal amount and longer term of the Loan; and (v) the results of our comparable analysis as just illustrated which show that the Interest Rate is not exceptionally high based on market comparison in particular that the principal amount of the Loan was much higher than that of the Comparables, we are of the view that the Interest Rate is fair and reasonable so far as the Independent Shareholders are concerned.

### **3. Possible financial effects of the Second Supplemental Agreement**

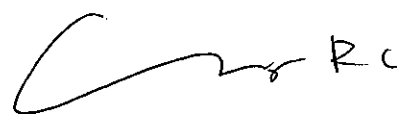
As confirmed by the Directors, it is expected that the Second Supplemental Agreement would not have any immediate material effect on the Group's asset and liability position. The Loan will be classified as a non-current liability of the Group in its consolidated statement of financial position as at 31 December 2022 after the Variations of Terms taking effect.

On the other hand, based on the Loan amount of US\$120 million and the Interest Rate of 11%, the estimated annual interest expense for the Loan would be approximately US\$13.2 million during the remainder term of the Loan.

### **RECOMMENDATION**

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Second Supplemental Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into of the Second Supplemental Agreement is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Second Supplemental Agreement, and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,  
For and on behalf of  
**VBG Capital Limited**



**Doris Sing**  
*Managing Director*

*Ms. Doris Sing is a licensed person and responsible officer of VBG Capital Limited registered with the Securities and Futures Commission to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and has over 17 years of experience in corporate finance industry.*