軟庫中華
SBI China Capital

13 December 2022

*To: The Independent Board Committee and the Independent Shareholders of
Goldstream Investment Limited*

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO PROVISION OF FINANCIAL ASSISTANCE

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether (i) the terms of the Facility Agreement are fair and reasonable and on normal commercial terms; and (ii) the provision of financial assistance under the Facility Agreement is in the ordinary and usual course of business of the Company and is in the interests of the Company and the Shareholders as a whole, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company to the Shareholders dated 13 December 2022 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 18 November 2022, the Company announced that the Company and the Borrower entered into the Facility Agreement, pursuant to which, the Company agreed to grant the Facility to the Borrower in the principal amount of up to US$30,000,000 at an interest rate of 15% per annum for a term of two years subject to further extension to a date falling no later than four years from the Utilisation Date.

As at the Latest Practicable Date, the Borrower was wholly-owned by HCG. HCG was managed by Hony Group Management Limited (as sole general partner), which was owned as to 80% by Hony Managing Partners Limited. Hony Managing Partners Limited was in turn a wholly-owned subsidiary of Exponential Fortune Group Limited, which was owned as to 49% by Mr. Zhao. As each of Hony Group Management Limited, Hony Managing Partners Limited and Exponential Fortune Group Limited is an indirect holding company of the Company and Mr. Zhao is a Director, the Borrower, being their associate, is a connected person of the Company under Chapter 14A of the Listing Rules.

Accordingly, the Facility Agreement constitutes a connected transaction under the Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the provision of financial assistance under the Facility Agreement exceeds 25%, the Facility Agreement also constitutes a major transaction under Chapter 14 of the Listing Rules and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under the Listing Rules.

As the amount of the Facility exceeds 8% under the assets ratio as defined under Rule 14.07(1) of the Listing Rules, the provision of the Facility gives rise to the general disclosure obligations of the Company under Rules 13.13 and 13.15 of the Listing Rules.

To the best of the knowledge, information and belief of the Board, having made all reasonable enquiries, Hony Gold Holdings, L.P., being an associate of the Borrower holding 7,802,539,321 Shares as at the Latest Practicable Date (representing approximately 67.87% of the issued share capital of the Company) is required to abstain from voting on the relevant resolution approving the Facility Agreement and the transactions contemplated thereunder at the EGM. To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, apart from the Borrower and its associates, no Shareholder has material interest in the transactions contemplated under the Facility Agreement and no Shareholder would have to abstain from voting at the EGM in respect of the transactions contemplated under the Facility Agreement.

An Independent Board Committee, comprising Mr. Jin Qingjun, Mr. Lee Kin Ping Christophe and Mr. Shu Wa Tung Laurence, has been established to make recommendation to the Independent Shareholders as to whether (i) the terms of the Facility Agreement are fair and reasonable and on normal commercial terms; (ii) the provision of financial assistance under the Facility Agreement is in the ordinary and usual course of business and is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote at the EGM on the ordinary resolution(s) regarding the transactions contemplated under the Facility Agreement.

In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion as to whether (i) the terms of the Facility Agreement are fair and reasonable and on normal commercial terms; (ii) the provision of financial assistance under the Facility Agreement is in the ordinary and usual course of business and is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote at the EGM on the ordinary resolution(s) regarding the transactions contemplated under the Facility Agreement. Our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the transactions contemplated under the Facility Agreement has been approved by the Independent Board Committee.

During the past two years, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence. Apart from normal professional fees payable to us in connection with this engagement, no arrangement exists whereby we will receive any 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 from the Company pursuant to Rule 13.84 of the Listing Rules.

In formulating our opinion, we have relied on the information and facts supplied and opinions expressed by the management of the Group. We have assumed that all information and representations provided by the management of the Group, for which they are solely responsible, were true and accurate at the time they were prepared or made and will continue to be so up to the Latest Practicable Date. Should there be any subsequent material changes which occurred during the period from the date of the Circular up to the date of the EGM and would affect or alter our opinion, we will notify the Independent Board Committee and the Independent Shareholders as soon as possible. We have no reason to doubt the truth, accuracy or completeness of the information and representations made to us by the management of the Group. We have been advised that no material facts have been omitted from the information supplied and opinions expressed. As such, we have no reason to suspect that any relevant information has been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided by the management of the Group to us, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business and affairs or the future prospects of the Group, nor have we carried out any independent verification of the information provided by the management of the Group.

All Directors jointly and severally accept full responsibility for the accuracy of information contained in the Circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion on the transactions contemplated under the Facility Agreement, we have taken into consideration the following principal factors and reasons:

(1) Information on the Group

The Group is principally engaged in the provision of investment management services business and strategic direct investment business. The investment management services business includes (i) the provision of advisory services on securities and asset management; (ii) securities trading; and (iii) provision of infrastructure of the investment management system. The strategic direct investment business of the Group includes proprietary investments in the financial markets.

Financial performance

The following table summarises the financial information of the Group for each of the two years ended 31 December 2020 and 2021 and the six months ended 30 June 2021 and 2022 as extracted from the annual report for the year ended 31 December 2021 the ("**Annual Report 2021**") and the interim report for the six months ended 30 June 2022 ("**Interim Report 2022**") of the Company, respectively.

	For the six months ended 30 June		**For the year ended 31 December**	
	2021	**2022**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(audited)	(audited)
Continuing operations Income	**55,484**	**(31,341)**	**167,584**	**10,704**
– Investment management services income	34,202	14,802	112,159	68,778
– Dividend income from investments	1,591	2,016	12,006	2,923
– Net fair value (losses)/gains on financial assets at fair value through profit or loss	7,410	(35,349)	22,993	(59,192)
– Share of net (losses)/profits of associates accounted for using the equity method	12,281	(12,810)	20,426	(8,370)
(Loss)/profit before income tax from continuing operations	8,835	(59,525)	7,686	(58,409)
Income tax (expense)/credit	1,002	(934)	8,480	2,911
(Loss)/profit for the period/year from continuing operations	**9,837**	**(60,459)**	**16,166**	**(55,498)**
Profit/(loss) for the period/year from discontinued operation	(5,524)	47,642	1,088	(12,231)
(Loss)/profit for the period/year attributable to owners of the Company	**4,313**	**(12,817)**	**17,254**	**(67,729)**

(a) For the six months ended 30 June 2022

Investment management services income ("**IM Services Income**")

The drop in total services income was caused by the decrease in both management fees and performance fees. Management fee dropped by approximately 33.9% from approximately HK$22.4 million to approximately HK$14.8 million resulting from the decline in the Group's average assets under management ("**AUM**") as a result of adverse and volatile market condition. Performance fees are recorded when eligible funds appreciate above their respective high watermarks at agreed performance fee crystallisation date. Driven by the unfavourable and volatile market conditions, most of the funds under management were below their high watermarks as at 30 June 2022.

Business and Strategic Direct Investment ("**SDI (losses)/gains**")

Income from the Group's SDI business mainly comprised (i) net fair value gains/losses on financial assets at fair value through profit or loss; and (ii) share of net profits/losses of associates accounted for using the equity method. Such gains/losses included fair value changes and realised gains or losses on the Company's capital invested in funds managed by the Group and external investments. Due to a multitude of unfavorable factors including high inflations, the rise in interest rates, conflict in Europe and the COVID-19 pandemic, the Group recorded a change from the profit for the six months ended 30 June 2021 to the loss for the six months ended 30 June 2022 due to adverse market condition.

Discontinued Operation

On 22 December 2021, the Company and Ms. Li Yin, a former executive Director, entered into a share purchase agreement to dispose of the customers relationship management services ("**CRMS**") business under Honor Crest Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, a wholly-owned subsidiary of the Company and the holding company of subsidiaries of the CRMS business (the "**Disposal Group**") at the consideration of HK$219,464,000 (the "**Disposal**").

During the six months ended 30 June 2022 and prior to the completion of the Disposal, the Group provided CRMS to established telecommunications service providers. Since the CRMS business is labour intensive in nature, the Group had recorded increasing loss in the past due to the rising labour costs. Rapid economic growth in the PRC in the past decade has resulted in substantial increase in cost of human capital and eroded the profit margins of the CRMS business. The Disposal was completed on 22 March 2022 and the Group recorded a gain on disposal of approximately HK$50.2 million.

(b) *For the year ended 31 December 2021*

IM Services Income

The Company's investment management business was incepted at the end of 2018 and has grown steadily since. The AUM has grown from US$355 million at the end of 2018 to US$985 million at the end of 2021, which led to a healthy growth of income from management fees and performances fees. In year 2021, the Company continued to expand its IM business and experienced a substantial growth in its AUM by the end of 2021 by almost 49% through new mandates and inflow to its investment funds. However, IM Services income decreased from approximately HK$112.2 million for the year ended 31 December 2020 to approximately HK$68.8 million for the year ended 31 December 2021. As advised by the management of the Group, the decrease was mainly because of the decrease in performance fee from approximately HK$87.0 million for the year ended 31 December 2020 to approximately HK$24.7 million for the year ended 31 December 2021.

SDI (losses)/gains

SDI is to leverage on the Group's human resources and physical capital in pursuit of outstanding risk-adjusted returns. The investments include funds, debt and equity investments and exchange traded funds ("ETF"). Having taken into consideration of the cash requirements of the Group for the next 12 months and the level of cash and cashflow position of the Group, the Group continued to make investments to generate better return on idle cash for the Group and made positive returns in these investments.

In 2021, the Company continued its SDI business approach. The market-to-market valuation of its investments was negatively impacted by the overall disappointing market conditions. The offshore Chinese bond market and equity market experienced its worst performance in history.

Discontinued Operation

The Disposal Group had received a one-off substantial pension contribution relief from the local government due to the emergence of COVID-19 which had significantly reduced the relevant staff costs and expenses and allowed the Disposal Group to maintain a net profit for the financial year ended 31 December 2020. In the absence of further pension contribution relief in 2021, combined with the rather difficult operating environment and increasing staff costs and expenses, the Disposal Group had recorded a net loss of approximately HK$12.2 million for the year ended 31 December 2021.

Financial position

The following table summarises the financial position of the Group as at 31 December 2020, 31 December 2021 and 30 June 2022 as extracted from the published Annual Report 2021 and Interim Report 2022:

	As at 31 December		**As at 30 June**
	2020	**2021**	**2022**
	(audited)	(audited)	(unaudited)
	HK$'000	*HK$'000*	*HK$'000*
Total assets	1,258,594	1,099,916	837,684
Total liabilities	428,812	324,707	90,357
Net current assets	572,509	431,856	438,004
Net assets	829,782	775,209	747,327

(a) Comparison between 31 December 2021 and 30 June 2022

Total assets decreased from approximately HK$1,099.9 million as at 31 December 2021 to approximately HK$837.7 million as at 30 June 2022 mainly attributable to the absence of assets classified as held for sale as at 30 June 2022 (as compared to approximately HK$227.8 million as at 31 December 2021), the decrease in cash and cash equivalents by approximately HK$40.8 million to approximately HK$118.6 million as at 30 June 2022 and the decrease in financial assets at fair value through profit or loss by approximately HK$52.7 million to approximately HK$248.6 million as at 30 June 2022. The above was partly offset by the increase of amount due from brokers by approximately HK$96.4 million to approximately HK$165.2 million as at 30 June 2022.

The decrease in cash and cash equivalents was mainly due to the withdrawal of short-term bank deposits, which was approximately HK$46.8 million as at 31 December 2021. The decrease in financial assets at fair value through profit or loss was mainly arising from investment funds.

(b) Comparison between 31 December 2020 and 31 December 2021

Total assets decreased from approximately HK$1,258.6 million as at 31 December 2020 to approximately HK$1,099.9 million as at 31 December 2021 mainly attributable to the decrease in non-current assets. Meanwhile, the current assets maintained at similar level due to the assets classified as held for sale of approximately HK$227.8 million was newly recorded. Property, plant and equipment decreased by approximately HK$43.7 million to approximately HK$0.5 million as at 31 December 2021, interests in associates decreased by approximately HK$24.0 million to approximately HK$74.5 million as at 31 December 2021 and investment funds, being financial assets at fair value through profit or loss under non-current assets, decreased by approximately HK$39.6 million to approximately HK$52.2 million as at 31 December 2021.

Property, plant and equipment of approximately HK$42.1 million was reclassified as held for sale in relation to the discontinued operation. Carrying value of the Group's equity interests in the two investment funds, being associates of the Company namely Goldstream Healthcare Focus Fund SP Cayman Islands and Goldstream Macro Fund SP Cayman Islands, decreased from approximately HK$54.5 million as at 31 December 2020 to approximately HK$46.3 million as at 31 December 2021; and decreased from approximately HK$43.9 million as at 31 December 2020 to approximately HK$28.2 million, respectively.

As advised by the management of the Group, due to the Disposal, the cash and bank balance of the discontinued business (CRM subsidiaries) consolidated into the accounts of the Group for the year ended 31 December 2020. As at 31 December 2021, the cash and bank balance of discontinued business was classified as asset held for sales according to applicable accounting standard. As a result, cash and cash equivalents of the Group dropped significantly from approximately HK$232.8 million for as at 31 December 2020 to approximately HK$159.4 million as at 31 December 2021.

(2) Reasons for and benefits of the Facility Agreement

As at 30 June 2022, the Group had cash and cash equivalents and financial assets at fair value through profit or loss, in total of approximately HK$367.2 million. As mentioned in the Letter from the Board, in view of the current adverse market condition and economic environment, the Group is adopting a more cautious and selective approach in deploying its capital on new investment opportunities to avoid potential losses. While keeping abreast of market developments with a view to looking for potential investment opportunities, the Company considers that the provision of financial assistance under the Facility Agreement to the Borrower allows the Group to utilise its idle cash more efficiently and generate an additional income stream in the form of interest income at the rate of 15% per annum pursuant to the Facility Agreement. In addition to the interest income, the Group will also earn arrangement fee of US$900,000, representing 3% of the principal amount of up to US$30,000,000 under the Facility Agreement.

In assessing the Group's cash position, we had discussion with the management of the Group and understood that cash and cash equivalents of the Group had been maintained at stable level since 30 June 2022. Further, we understood that amounts due from brokers represent receivables for securities sold for securities purchased that have been contracted for but not yet settled. As the due from brokers balance is held for collection, amount due from brokers can be considered as readily available cash to the Group if needed. As mentioned in the Letter from the Board, the amounts due from brokers are cash deposits with securities brokers of the Group which can be used to make investments by the Group or be returned into the bank accounts of the Group on demand. The amounts due from brokers are not classified as cash and cash equivalents in the statement of financial position of the Group, but are readily available and liquid assets of the Group that can be converted into cash and cash equivalents within one (1) business day upon request by the Company to the brokers. Upon receiving a Utilisation Request, the Group will have sufficient cash from its cash and cash equivalents and through conversion of the amounts due from brokers for the purpose of granting the loan to the Borrower under the Facility Agreement.

On the basis that (i) as at 31 October 2022, the Group had cash and cash equivalents of approximately HK$137.0 million and amount due from brokers of approximately HK$221.2 million; and the Group has reviewed and monitored its investments from time to time and intends to conduct exits for certain of its investments; (ii) as shown in the Interim Report 2022, apart from amount due to brokers arising from normal business operation, the Group did not have any material financial obligations; and (iii) the Company confirmed that (a) as at the Latest Practicable Date, the Group did not have material loans or borrowings which falls due within the next 24 months; and (b) it does not foresee any significant capital expenditure or commitment for the next 24 months, the Group will have surplus cash. Given it has not yet identified any suitable alternative investment, the provision of financial assistance under the Facility Agreement will enable the Group to make use of its surplus funds in a better way at an acceptable level of risk. The Facility will be financed by the Group from its idle cash, such that the working capital and daily operations of the Group will not be affected.

The Facility will provide member of Hony Capital group with alternative source of financing other than obtaining external loans from third-party lenders and incurring third party interest expenses. To the best knowledge of the management of the Group, the Borrower considered that it will be able to obtain financing under the Facility Agreement from the Company in a timely manner for deployment in the upcoming investments whereas approval processes for financing from banks/financial institutions or other third parties likely will be longer.

From the perspective of the Company, we are of the view that the Facility represent an opportunity for the Group to earn higher rate of return as compared to bank deposits. We have discussed with the management of the Group and understood that the Group recently obtained verbal quotes from at least one sizeable commercial bank for interest rates on US dollar time deposits from one week to one month and noted that the interest rate on the Facility of 15% per annum for a term of two to four years is way above the US Dollar time deposit interest rates quoted by the commercial bank even though for shorter terms. The Borrower is also required to pay arrangement fee of US$900,000 representing 3% of principal amount on the Utilisation Date.

(3) Background information of the Borrower

As stated in the Letter from the Board, the Borrower is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding. As at the Latest Practicable Date, the Borrower was wholly-owned by HCG, which was in turn indirectly interested in approximately 67.87% of the issued share capital of the Company. To the best of the knowledge, information and belief of the Company having made all reasonable enquiries, as at the Latest Practicable Date, HCG was managed by Hony Group Management Limited (as sole general partner), which was owned as to 80% by Hony Managing Partners Limited. Hony Managing Partners Limited was in turn a wholly-owned subsidiary of Exponential Fortune Group Limited, which was owned as to 49% by Mr. Zhao and the remaining 51% was held by Mr. Cao Yonggang and Mr. Xu Minsheng equally.

Financial information of the Borrower

The table below summarises financial information of the Borrower for the years ended 31 December 2020 and 2021 and the six months ended 30 June 2022:

	For the year ended 31 December		**For the six months ended 30 June**
	2020	**2021**	**2022**
	US$'000	*US$'000*	*US$'000*
	(unaudited)	(unaudited)	(unaudited)
Investment income *(Note)*	49,596	32,850	2,257
Net Profit/(Loss)	34,620	21,795	(1,326)

Note: investment income includes investment gains, dividend income and interest income, where applicable.

Investment income remained strong from approximately US$49.6 million for the year ended 31 December 2020 to approximately US$32.9 million for the year ended 31 December 2021. After all, the Borrower experienced approximately 37.0% decrease in net profit from approximately US$34.6 million for the year ended 31 December 2020 to approximately US$21.8 million for the year ended 31 December 2021. Investment income of approximately US$2.3 million were mainly offset by finance costs of approximately US$3.6 million for the six months ended 30 June 2022, which resulted in net loss of approximately US$1.3 million.

The unaudited total assets and total liabilities of the Borrower as at 30 June 2022 were approximately US$559.9million and approximately US$471.3 million, respectively. The unaudited net assets of the Borrower as at 30 June 2022 was approximately US$88.6 million. To the best knowledge, information and belief of the Directors after making reasonable enquiry, the Borrower has not defaulted on any of its credit obligations in the past three years.

According to the official website of Hony Capital group (https://www.honycapital.com/aboutus_en/index.aspx?nodeid=2017), it was founded in 2003, and is a leading investment management firm that specializes in private equity buyout and expands into areas including real estate, venture capital, hedge fund (Goldstream), mutual fund (Hony Horizon Fund). Hony Capital group currently has US$ 13 billion under management, with investors from China and the world's leading investment institutions, including pension funds, sovereign wealth funds, university endowment funds, insurance companies, family foundations and individual investors. Hony Capital group puts China as its top market with investments in over 100 companies in areas of pharmaceutical and healthcare, consumer products, food and beverage, entertainment, environmental protection and new energy, as well as machinery and equipment manufacturing. Total assets value of portfolio companies of Hony Capital group amounts to approximately RMB2.9 trillion. As advised by the management of the Group, the Borrower is a key investment holding vehicle in Hony Capital group and it focuses on offshore investments.

(4) Principal terms of the Facility Agreement

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

Date:	18 November 2022
Parties:	the Company, as the lender; and the Borrower, as the borrower
Subject matter:	the Company agreed to provide the Facility to the Borrower.
Principal amount:	Up to US$30,000,000 (equivalent to approximately HK$234,000,000).
Terms:	Two years from the Utilisation Date, which, subject to the prior written consent of the Company, may be further extended to a date falling no later than four years from the Utilisation Date.
Interest:	The Facility shall bear interest at a rate of 15% per annum, which shall be payable on a half-yearly basis.
Arrangement Fee:	US$900,000, representing 3% of the principal amount which is payable on the Utilisation Date.
Purpose:	To the best understanding of the Company, the Facility shall be used by the Borrower for its normal business operation to make investments in private equity funds and/or venture capital funds to generate investment income. In view of the purposes and planned uses of the Facility by the Borrower and having considered the interest income to be generated from the Facility together with other reasons as set out in the section headed "REASONS FOR AND BENEFITS OF THE FACILITY AGREEMENT" in the Letter from the Board, the Company is of the view that the grant of the Facility to the Borrower is in the interests of the Company and the Shareholders as a whole.

Availability period:	The period from and including the conditions precedent as set out below are satisfied, up to and including the date falling twelve (12) months after the date of the Facility Agreement. Having considered that (i) the availability period under the Facility Agreement is in line with market practice; and (ii) the indications provided by the Borrower to the Group that it will utilise the Facility which generate an arrangement fee of US$900,000 to the Group, the Company considers that such availability period is fair and reasonable.
Drawdown Mechanism:	The Borrower shall deliver a duly completed utilization request (the "**Utilisation Request**") to the Company no later than one (1) Business Day prior to (and not including) the proposed Utilisation Date (or such other date and time as agreed by the Company).
Repayment:	The principal amount of the Facility and any accrued unpaid interest shall be repayable in full upon expiration of the term of the Facility.
Voluntary prepayment:	During the term of the Facility, the Borrower may make prepayment of the principal amount in whole or in part (i) by giving the Company not less than one (1) month prior written notice and with prior written consent of the Company or (ii) in such manner as agreed by the Parties in writing. If the Borrower requests for prepayment of all or any part of the loan on a date which is within three (3) months of the Utilisation Date, the Borrower shall pay to the Company an amount equal to 5% on the amount of such prepayment as administrative charge ("**Prepayment Administrative Fee**") on the date of prepayment. Any prepayment shall be made together with accrued unpaid interest on the amount prepaid and up to the date of prepayment and subject to any Prepayment Administrative Fee, without premium or penalty.

Conditions precedent:	The availability of the Facility by the Company to the Borrower is subject to satisfaction of the following conditions on the date of the Utilisation Request and the proposed Utilisation Date: (i) the Company having obtained the Independent Shareholders' approval by an ordinary resolution at the EGM for the entering into of the Facility Agreement and the transactions contemplated thereunder; (ii) no default being continuing or would result from the proposed loan; (iii) all the representations, warranties and undertakings of the Borrower remaining true in all material respects; and (iv) the Company having received all of the documents and other evidence listed in the Facility Agreement in form and substance satisfactory to the Company. The condition precedent set out in paragraph (i) cannot be waived. If such condition precedent is not fulfilled by 28 February 2023, or such other date as may be agreed between the Borrower and the Company, the Facility Agreement will cease and determine and neither the Borrower nor the Company shall have any obligations and liabilities under the Facility Agreement save for antecedent breaches
Default interest:	Additional interest at the rate of 5% per annum on any unpaid sum from the due date to the date of actual repayment.

Analysis on the terms of the Facility Agreement

In assessing the fairness and reasonableness of the terms of the Facility Agreement, we have reviewed similar transactions involving the provision/receipt of loan or financial assistance to/from a connected person with a fixed interest rate announced by companies listed in Hong Kong during the period from 1 June 2022 and up to 18 November 2022, i.e. the date of the announcement of the Company in relation to the Facility Agreement (the "**Announcement**") (the "**Review Period**"), being approximately a four months period prior to the date of the Facility Agreement, which was considered to be sufficient for the purpose of our analysis set out below as we are of the view that the selected transactions to be representative. On a best effort basis and to the best of our knowledge, we identified 13 transactions (the "**Market Comparables**") which meet the aforesaid criteria and they are exhaustive.

Independent Shareholders should note that the businesses, operations and prospects of the Company and the Borrower may not be exactly the same as the Market Comparables. Nevertheless, we consider that our assessment on the Market Comparables serves a general reference to the recent market practice in respect of the transactions with connected persons regarding provision and/or receipt of loan or financial assistance under the current market condition for assessing the fairness and reasonableness of the Facility. Set out below are the details of the Market Comparables:

	Announcement date	Company name (stock code)	Size of loan (HK$' million)	Annual interest rate	Term to maturity (months)	Arrangement fee	Prepayment administrative fee	Collateral/ Guarantee
1	29-Jun-22	HC Group Inc. (2280)	Approximately HK$ 27.6 million (RMB25 million)	8%	12	No	No	No
2	29-Jun-22	Kintor Pharmaceutical Limited (9939)	HK$110.09 million	4.27%	5	No	No	No
3	15-Jul-22	Hui Xian Real Estate Investment Trust (87001)	Approximately HK$110.7 million (RMB100 million)	5.30%	60	No	No	No
4	26-Jul-22	Minmetals Land Limited (230)	Approximately HK$93.1 million (RMB84.12 million)	0%	48	No	No	No
5	2-Aug-22	China Travel International Investment Hong Kong Limited (308)	Approximately HK$232.5 million (RMB210 million)	4.35%	12	No	No	No
6	16-Sep-22	Changyou Alliance Group Limited (1039)	HK$100 million	6.50%	12	No	No	No

	Announcement date	Company name (stock code)	Size of loan (HK$' million)	Annual interest rate	Term to maturity (months)	Arrangement fee	Prepayment administrative fee	Collateral/ Guarantee
7	29-Sep-22	Arrail Group Limited (6639)	Approximately HK$86.0 million (US$11 million)	4.50%	9	No	No	No
8	29-Sep-22	Aluminium Corporation of China Limited (2600)	Approximately HK$2.2 billion (RMB2 billion)	5.35%	60	No	N/A	No
9	20-Oct-22	China South City Holdings Limited (1668)	Approximately HK$221.4 million (RMB200 million)	4.35%	36	No	N/A	Yes
10	9-Nov-22	Petro-King Oilfield Services Limited (2178)	Approximately HK$21.1 million (US$2.7 million)	7%	24	No	No	Yes
11	9-Nov-22	Petro-King Oilfield Services Limited (2178)	Approximately HK$16.6 million (RMB15 million)	7%	24	No	No	Yes
12	11-Nov-22	Furniweb Holdings Limited (8480)	Approximately HK$8.6 million (RM5 million)	6%	24	No	N/A	No
13	14-Nov-22	New Huo Technology Holdings Limited (1611)	Approximately HK$109.5 million (US$14 million)	0%	N/A	No	N/A	No
		Market Comparables:						
		Maximum	HK$2,200 million	8%	60			
		Minimum	HK$8.6 million	0%	5			
		Unsecured Interest Comparables:						
		Maximum	HK$2,200 million	8%	60			
		Minimum	HK$8.6 million	0%	5			
		Facility	Up to US$30,000,000 (equivalent to approximately HK$234,000,000)	15%	24 to 48			

Source: website of the Stock Exchange

Notes: For illustration purpose only, amounts denominated in Renminbi (RMB) have been translated into HK dollar at the rate of RMB1 = HK$1.107, amounts denominated in US$ have been translated to HK dollar at the rate of US$1 = HK$7.822 and amounts denominated in Ringgit (RM) have been translated to HK dollar at the rate of RM1 = HK$ 1.71701.

(a) Size and interest rate of the Facility

As illustrated by the table above, the loan size of Market Comparables ranges from approximately HK$8.6 million to approximately HK$2,200 million. The Facility in the principal amount of up to US$30 million (equivalent to approximately HK$234 million) falls within the range of the loan size of Market Comparables.

Interest rate of Market Comparables ranges from 0% to 8% per annum with an average of approximately 5% per annum. Interest rate of 15% per annum under the Facility Agreement is higher than the average and the high end of the range of Market Comparables. As the Facility is unsecured, we also compared the interest rate of 15% per annum under the Facility Agreement with interest rate of the ten unsecured Market Comparables (the "**Unsecured Interest Comparables**") ranging from 0% to 8% per annum with an average of approximately 4% per annum and noted that the interest rate of the Facility is also higher than the average and the high end of the range of the Unsecured Market Comparables.

Based on the above, we consider that the size and interest rate of the Facility are justifiable.

We noted from the Annual Report 2021 and Interim Report 2022 of the Company and as confirmed with the management of the Company that the Group recently has no borrowings to/from independent third parties; therefore, it is unable to compare the terms available to or from independent third parties. However, in light of (i) the range of interest rates of Market Comparables while the interest rate of 15% per annum under the Facility Agreement is above the range; (ii) based on our research on financial assistance to independent third party(s) with a fixed interest rate announced by companies listed in Hong Kong during the period from 1 November 2022 and up to 18 November 2022, being the date of the Announcement, the interest rates on the provision of loan or financial assistance to an independent third party ranges from 0% to 24% per annum; thus, the interest rate of 15% per annum under the Facility Agreement falls within the range; and (iii) the arrangement fee under the Facility Agreement is a better term as compared to the market norm, we concur with the Directors' view that the terms of the Facility are no less favourable to the Company than terms available to independent third parties.

(b) Term to maturity

As illustrated by the table above, the term to maturity of Market Comparables ranges from approximately 5 months to 60 months. The Facility Agreement has term to maturity of two years and is extendable to four years (i.e. 24 to 48 months) which falls within the range of Market Comparables. As such, we consider that the term to maturity of the Facility Agreement is fair and reasonable.

(c) Arrangement fee

As illustrated by the table above, all Market Comparables would not require arrangement fee for loan or facility drawdown. On this basis, we consider that arrangement fee under the Facility Agreement is a better term as compared to the market norm, from the perspective of the Company.

(d) Collateral/Guarantee

Having considered that the Facility is unsecured, we referred to Market Comparables on assessing whether such arrangement is in the market norm. As illustrated by the table above, 10 out of 13 Market Comparables were not secured by any collateral or guarantee. As such, we consider that it is not uncommon in the market for provision of loan to/from a connected person by/to listed companies in Hong Kong without collateral or guarantee. Based on our analysis on the Borrower's financial performance and financial position (including it had net assets of approximately US$88.6 million as at 30 June 2022) and strong background of Hony Capital group as mentioned under "(3) Background information of the Borrower – Financial information of the Borrower" above, we concur with the management of the Group that the default risk of the Borrower under the Facility Agreement will be relatively low.

As stated in the Letter from the Board, the terms and conditions of the Facility Agreement (including the interest rate and arrangement fee) have been arrived at after arm's length negotiations between the Company and the Borrower, with reference to the prevailing commercial lending rates, fees charged by commercial banks in Hong Kong, as well as the amount and tenor of the Facility. Prior to entering into the Facility Agreement, the Company has also assessed the credit quality of the Borrower by reviewing its recent financial statements and obtaining information regarding its credit history. We obtained a list of interest rates from the Company and noted that it has obtained interest rates on US dollar, RMB and Hong Kong dollar time deposits from one week to three months verbally quoted by commercial banks from time to time. We also obtained an analysis on the recent lending rate market research conducted by the Company when determining the interest rate of the Facility. Based on the analysis, we understood that the Company made references to interest rates on borrowings offered to connected persons and independent third parties of certain financial assistance transactions of listed companies.

In addition to the above, we discussed with the management of the Group and understood that they have reviewed the financial information of the Borrower for the last few years and are aware that the unaudited net assets of the Borrower as at 30 June 2022 was approximately US$88.6 million. Moreover, based on the best of their knowledge, information and belief, the Borrower has not defaulted on any of its credit obligations in the past three years.

Based on the above, we concur with the management of the Group that the risk of default by the Borrower is relatively low and manageable.

Our view

The provision of financial assistance under the Facility Agreement is in line with the objectives of the Group to generate investment returns from its surplus funds not currently required by its principal businesses.

We noted from the Annual Report 2021 that the Group had borrowings from a director of approximately HK$212.6 million as at 31 December 2021. This loan facility was unsecured and non-interest borrowing. It also mentioned that as at 31 December 2021, the Group has a fully utilised borrowing facility of HK$215 million from Ms. Li Yin for financing its business operation. Such unsecured, non-interest bearing borrowing was offset against the consideration of the Disposal which was subsequently completed on 22 March 2022. Nevertheless, having considered that the Facility will carry interest rate of 15% per annum, which is higher than the US Dollar time deposit interest rates as discussed above, the provision of financial assistance under the Facility Agreement will generate more interest income to the Group rather than placing deposit of the same amount to a commercial bank for interest earning.

On the basis of the above and assuming no material change to the financial performance and financial position of Hony Capital group, we consider that the Borrower has sufficient financial resources; and being a member of Hony Capital group, the Borrower has strong backing to honour its obligations under the Facility Agreement for the Facility.

In assessing the benefits to be received and foregone under the Facility mechanism, we have taken into consideration all material terms of the Facility Agreement, including but not limited to (i) interest rate. We compared 15% annual interest rate of the Facility with Unsecured Interest Comparable and noted that it is above the annual interest rates of all Unsecured Interest Comparables; and thus, it is favourable to the Company as a lender. Please refer to "(4) Principal terms of the Facility Agreement – Analysis on the terms of the Facility Agreement – (a) Size and interest rate of the Facility" for details of our work done; (ii) arrangement fee of US$900,000 under the Facility Agreement. We have reviewed terms of Market Comparables and noted that arrangement fee for loan or facility drawdown is uncommon as all Market Comparables would not require arrangement fee for loan or facility drawdown. It is a better term to the Company which allows it to earn more in addition to interest income; (iii) voluntary prepayment. We have reviewed terms of Market Comparables and noted that although 9 out of 13 of Market Comparables contain voluntary/early prepayment term, prepayment administrative fee for loan or facility is uncommon as all such Market Comparables would not require prepayment administrative fee for voluntary prepayment. We understand that the provision of financial assistance may cause the Group to forego the opportunities of applying its idle cash on other investment alternative, if any. In this regard, we enquired the management of the Group and noted that given it has not yet identified any suitable alternative investment, the provision of financial assistance under the Facility Agreement will enable the Group to make use of its surplus funds in a better way at an acceptable level of risk. As mentioned in the

Letter from the Board, the Group has been adopting a more cautious and selective approach in deploying its capital on new investment opportunities. In view of the above, we consider that the benefits to be received will outweigh the benefits to be foregone under the Facility mechanism and we concur with the Directors' view that the terms of the Facility Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(5) Financial effects of the provision of financial assistance under the Facility Agreement

Earnings

The Group will be entitled to earn interest income from the Facility at an interest rate of 15% per annum, therefore there would be a positive impact on the Group's earnings.

Net assets

The amount of Facility will be recorded as amount due from related parties under non-current assets of the Group. Given that the provision of the Facility will increase loan receivables and at the same time decrease the cash and cash equivalents of the Group, there would be no material impact on the net assets of the Group as a result of the provision of financial assistance under the Facility Agreement.

Liquidity and gearing

As set out in the Interim Report 2022, as at 30 June 2022, the current ratio of the Group was approximately 5.9; and the Group recorded net cash to total equity, the gearing ratio was therefore not applicable. Since the amount of the Facility will be classified as non-current assets, it is expected that the Group's current ratio will decrease. There would be no material impact arising from the provision of financial assistance under the Facility Agreement on the Group's gearing ratio.

RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that (i) the terms of the Facility Agreement are fair and reasonable and on normal commercial terms; and (ii) although the provision of financial assistance under the Facility Agreement is not in the ordinary and usual course of business of the Group, it is in the interests 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 relevant resolution at the EGM to approve the transactions contemplated under the Facility Agreement.

Yours faithfully,
For and on behalf of
SBI China Capital Hong Kong Securities Limited

Ringo Kwan	Evelyn Fan
Managing Director	*Executive Director*

Mr. Ringo Kwan and Ms. Evelyn Fan have been responsible officers of Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) since 2005 and 2012, respectively. Both of them have participated in the provision of independent financial advisory services for various types of transactions involving companies listed in Hong Kong.