



SOMERLEY CAPITAL LIMITED

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26 February 2025

*To: the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

- (1) MAJOR AND CONNECTED TRANSACTION;
- (2) CONTINUING CONNECTED TRANSACTION AND
CONNECTED TRANSACTION;
- (3) MAJOR TRANSACTION; AND
- (4) CONTINUING CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Loan Agreement (as supplemented by the Supplemental Agreement), Agreement, Second Agreement and Guaranty Fee Agreement (i.e. the Agreements) and the transactions contemplated thereunder, details of which are set out in the "Letter from the Board" contained in the circular of the Company to the Shareholders dated 26 February 2025 (the "Circular"), of which this letter forms part. Unless otherwise specified, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

(i) The Loan Agreement, Agreement and Second Agreement

As at the Latest Practicable Date, Santai is wholly-owned by Ever Peace Asia Limited, which in turn is owned as to 50% by Mr. Choi and 50% by Ms. Cheung Shui Lin (the spouse of Mr. Choi). Mr. Choi was a former non-executive Director who resigned on 23 March 2022 and had sold his entire shareholding in the Company in July 2021. Santai was an associate of Mr. Choi and a connected person of the Company at the material time when the Santai Advances were made. As such, four advances made to Santai (i.e. advances made on 15 and 19 December 2022, 26 January 2023 and 14 March 2023) constituted connected transactions of the Company under Chapter 14A of the Listing Rules. The Loan Agreement covers all tranches of the Santai Advances made (which remained outstanding as at the date of Loan Agreement and the Latest Practicable Date) and was entered into for the purpose of rectifying the Santai Advances and re-compliance with the requirements under the Listing Rules, which is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.



As at the Latest Practicable Date, to the best knowledge, information and belief of the Directors, JPO is wholly-owned by Santai. JPO was an associate of Mr. Choi and considered a connected person of the Company at the material time when the First Letter of Support (which constituted the Financial Assistance) was executed in November 2022, due to the fact that Mr. Choi was a Director in the last 12 months prior to the date of the First Letter of Support. For the purpose of rectifying the Financial Assistance and re-compliance with the requirements under the Listing Rules, the Agreement was entered into for termination of the First Letter of Support and set out the terms and conditions of, among other things, the provision of the Financial Assistance.

Subsequently, SAL executed three Letters of Support in favour of JPO from April 2023 to December 2023 (i.e. the Second Financial Assistance) which constitute major transactions of the Company under Chapter 14 of the Listing Rules. For the purpose of rectifying the Second Financial Assistance and re-compliance with the requirements of the Listing Rules, the Second Agreement was entered into for termination of the Letters of Support and to set out the terms and conditions of the provision of the Second Financial Assistance.

As the highest percentage ratio under the Listing Rules in respect of the aggregate amount of the Santai Advances, Financial Assistance and Second Financial Assistance exceeds 25%, the entering into of the Loan Agreement (as supplemented by the Supplemental Agreement), Agreement and Second Agreement constitute a major transaction of the Company under Chapter 14 of the Listing Rules.

As part of the remedial actions to prevent the occurrence of similar non-compliance incidents in the future, the Company will convene the EGM for the Independent Shareholders to, among other things, consider, approve and rectify the above transactions and therefore details of the Loan Agreement (as supplemented by the Supplemental Agreement), Agreement and Second Agreement are contained in the circular and subject to the Independent Shareholders' approval at the EGM.

(ii) The Guaranty Fee Agreement

As at the Latest Practicable Date, Ms. Wong, the Second Guarantor, is an executive Director of the Company and is a connected person of the Company as defined under Chapter 14A of the Listing Rules. Therefore, the transactions with the Second Guarantor contemplated under the Guaranty Fee Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio under the Listing Rules for the proposed annual cap for the guaranty fee payable to the Second Guarantor under the Guaranty Fee Agreement is less than 25% and the total consideration is less than HK\$10 million, the provision of guaranty fee payable to the Second Guarantor under the Guaranty Fee Agreement is subject to the reporting, annual review and announcement but is exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.



As the Guaranty Fee Agreement is inter-conditional with the Loan Agreement (as supplemented by the Supplemental Agreement), Agreement and Second Agreement, the Company will convene the EGM for the Independent Shareholders to, among other things, consider and approve the Guaranty Fee Agreement and the transactions contemplated thereunder and the Guaranty Fee Agreement is therefore subject to Independent Shareholders' approval at the EGM.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Ms. Zhang Lingling, Mr. Chow Yun Cheung and Mr. Zhao Chuan, has been established to advise the Independent Shareholders as to (a) whether the terms of the Agreements are fair and reasonable; (b) whether the Agreements are entered into in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and the Shareholders as a whole; and (c) how the Independent Shareholders should vote at the EGM with respect to the resolutions relating to the Agreements. Somerley Capital Limited has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years, there were no engagements between the Company and Somerley Capital Limited. As at the Latest Practicable Date, there were no relationships or interests between (a) Somerley Capital Limited and (b) the Group, Santai group, JPO group and Ms. Wong that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Agreements as detailed in the Circular.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and up to the date of the EGM. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group, Santai group, JPO group and Ms. Wong nor have we carried out any independent verification of the information supplied.



PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation, we have taken into account the principal factors and reasons set out below:

A. The Loan Agreement, Agreement and Second Agreement

1. *Information on the parties to the Loan Agreement, Agreement and Second Agreement*

(i) *The Company and SAL*

The Company is an investment holding company and the Group is an apparel manufacturer headquartered in Hong Kong providing a one-stop apparel manufacturing solution for its customers. The Group manufactures a wide range of apparel products such as outerwear, bottoms, tops and other products. The majority of the customers are international apparel brands that are headquartered in the U.S. with their products sold around the world. For the year ended 31 March 2024, the Group's revenue from the U.S. market accounted for approximately 99% of its total revenue. As set out in the Company's 2024 annual report, in recent years, in order to reduce reliance on its largest customer, the Group has actively diversified its customer base and product portfolio having secured several new customers, including high-end fashion brands from the U.S.

For the year ended 31 March 2024, the Group recorded revenue of approximately HK\$571.4 million, representing a decrease of approximately 8.3% compared to that of the previous year as a result of the challenging macro-economic environment of high interest rates and weakening consumer confidence. The decrease in sales was from both newer accounts which the Company developed in recent years in order to have a more diversified customer base, and from its long-term and largest customer, the sales revenue from which was lower by around 7% compared to previous year.

For the year ended 31 March 2024, the Group recorded a loss after tax of approximately HK\$18.4 million, primarily as a result of decrease in gross profit of approximately HK\$15.8 million and increase in expected credit loss recognised on trade and other receivables of approximately HK\$23.7 million, compared to a profit of approximately HK\$19.9 million in the previous year.

SAL is a company incorporated in Hong Kong with limited liability and is wholly-owned by the Company. It is principally engaged in trading of apparel products.



ii) *Santai & JPO*

Santai is a company incorporated in Hong Kong with limited liability and is principally engaged in investment holdings. As at the Latest Practicable Date, Santai is wholly-owned by Ever Peace Asia Limited, which in turn is owned as to 50% by Mr. Choi and 50% by Ms. Cheung Shui Lin (the spouse of Mr. Choi). Mr. Choi was a former non-executive Director who resigned on 23 March 2022 and had sold his entire shareholding in the Company in July 2021.

As at the Latest Practicable Date, Santai legally and beneficially owns 100% of the issued share capital of JPO (which is the only investment of Santai). Ms. Wong and Mr. Siu, each being an executive Director of the Company, had sold their then respective shareholding of approximately 6.7% and 5% in JPO to Santai in September 2024. According to the latest SEC Form S-1 filed with the Securities and Exchange Commission (SEC) in January 2024 (the "Prospectus"), JPO is a Delaware, U.S. registered company and is a collection of purpose-led, lifestyle brands offering apparel and accessories for men and women through its two complementary brands, The J. Peterman Company and the Territory Ahead. JPO's products are available to customers online through JPO-owned websites, including its newly created online outlet store beginning in May 2023 and through the use of third parties that provide logistics and fulfilment services. JPO looks to grow primarily via developing its existing brands and acquisitions of additional loyalty-inducing brands. The business relationships between The J. Peterman Company (the predecessor company to JPO) and the Group began in the 1990's where the Group has been a trusted supplier of garments and related products to the J. Peterman brand. Pursuant to the License Agreement entered into between Asiamax, a wholly-owned subsidiary of the Company and JPO LLC in May 2019, the Group shall be the exclusive manufacturer and/or sourcing agent for all apparel products and fashion accessories sold by JPO LLC under the J. Peterman brand. The License Agreement has a term of twenty (20) years and possible successive ten (10) year renewal. As set out in the Prospectus, for the year ended 31 December 2022, JPO recorded revenue and net loss of approximately US\$26.1 million and US\$6.1 million respectively. JPO has sustained working capital deficits (approximately US\$10.4 million as at 31 December 2022 and approximately US\$8.3 million as at 30 September 2023) in recent years impacted by inflation and the pandemic. As advised by the executive Directors, JPO has plan to re-file its listing application and currently targets to list on NASDAQ by 2025.

2. *Background to and reasons for the Loan Agreement, Agreement and Second Agreement*

As disclosed in the Announcements, the Santai Advances (with outstanding amount of approximately US\$4.2 million as at the date of the Loan Agreement) were (i) advances made by the Group to Santai and/or JPO; and (ii) payment made by the



Group on behalf of JPO in tranches from the period from December 2022 to October 2023. As discussed with the executive Directors, JPO faced cashflow difficulties and the Santai Advances provided by the Company were made to support JPO's business and ultimately in its efforts to recapitalise its business via a listing on NASDAQ so that JPO would succeed in its growth strategy of brand acquisitions. It is currently expected by the executive Directors that JPO will be listed on NASDAQ by 2025. The executive Directors believe that a recapitalised and growing JPO (which in turn benefits Santai through liquidity of the JPO shares) will enhance the recoverability of the Company's receivables from JPO and Santai.

The Santai Advances, when made, were interest-free, uncollateralised, had no fixed repayment date and are payable on demand. In order to rectify the Santai Advances and to re-comply with the relevant Listing Rules as further detailed in the "Letter from the Board" of the Circular, the Company and Santai entered into the Loan Agreement on 30 August 2024. Further details of the terms of the Loan Agreement are set out in the "Letter from the Board" of the Circular and this letter below.

As set out in the section headed "Continuing Connected Transaction and Connected Transaction" in the "Letter from the Board" of the Circular, on 18 November 2022, SAL executed the First Letter of Support in favour of JPO, pursuant to which SAL agreed (i) to continue to supply Inventories to JPO; and (ii) not to enforce its right to collect from JPO any trade payable for Inventories supplied until the earlier of 1 January 2024 or JPO receives its initial public offering proceeds, which constituted a financial assistance provided by SAL to JPO (the "**Financial Assistance**"). For the purpose of rectifying the Financial Assistance and re-compliance with the Listing Rules, on 30 August 2024, SAL entered into the Agreement with Santai and JPO, pursuant to which the parties agreed to, among other things, terminate the First Letter of Support and set out the terms and conditions of (i) the supply of Inventories; and (ii) provision of the Financial Assistance. The amount of Trade Payables during the Supply Term (i.e. a period starting from 18 November 2022 and ended on 23 March 2023) was approximately HK\$6 million and therefore, the amount of the Financial Assistance provided under the First Letter of Support was HK\$6 million.

Furthermore, on 13 April, 20 September and 28 December 2023, SAL executed the second Letter of Support, the third Letter of Support and the fourth Letter of Support (collectively the "**Letters of Support**") respectively in favour of JPO, pursuant to which SAL agreed, among other things, not to enforce its right to collect from JPO any trade payable for Inventories supplied until JPO receives its initial public offering proceeds. From the date of the second Letter of Support up to the date of the Second Agreement, the maximum amount of outstanding Trade Payables during the MT Term (i.e. a period starting from 13 April 2023 and ending on 30 August 2024) was approximately HK\$27.5 million. SAL agreed not to enforce its right to collect this amount from JPO under the Letters of Support which constituted financial assistance provided by SAL to JPO (the "**Second Financial Assistance**"). For the purpose of rectifying the Second Financial Assistance and re-compliance with the Listing Rules, on 30 August 2024, SAL, Santai and JPO entered into the



Second Agreement to, among others, terminate the Letters of Support and set out the terms and conditions of the provision of the Second Financial Assistance (i.e. HK\$27.5 million).

The total amount of the Santai Advances, Financial Assistance and Second Financial Assistance amounted to HK\$66,359,926 or US\$8,507,683. Based on the information provided by the Company, JPO and Santai have made payment to settle outstanding amount due to the Group in an aggregate amount of approximately US\$0.6 million since the making of the Santai Advances up to the Latest Practicable Date, which represents approximately 7% of the total amount of the Santai Advances, Financial Assistance and Second Financial Assistance of approximately US\$8.5 million. Since March 2024, the Group stopped accepting new orders from JPO except for any goods paid by cash before delivery.

We discussed with the executive Directors and understood that the Group has been actively liaising with Santai and JPO regarding settlement of the outstanding amount due to the Group. A demand letter was sent by the Group to each of Santai and JPO respectively on 25 July and 26 July 2024, details of which are set out in the announcement of the Company dated 29 July 2024. Santai/JPO indicated to the Group that they would pay down the outstanding amount due to the Group from their own cashflows. We noted from the Prospectus that, under the impact of inflation and the pandemic, JPO recorded a net loss of approximately US\$6.1 million for the year ended 31 December 2022 and had sustained working capital deficits of approximately US\$10.4 million as at 31 December 2022 and approximately US\$8.3 million as at 30 September 2023. We further understand from the executive Directors that JPO's financial performance has adversely affected the repayment schedule of Santai and JPO.

As JPO faced cashflow difficulties as mentioned above, based on current assessment by the executive Directors, immediate repayment of the Santai Advances, Financial Assistance and Second Financial Assistance by Santai and/or JPO, which in total amount to approximately HK\$66.4 million or US\$8.5 million, is highly unlikely. As at 31 March 2024, included in the Group's trade and other receivables are gross balances of approximately HK\$141.3 million and HK\$28.7 million due from Santai and JPO (approximately HK\$170 million in total). Allowance for expected credit losses of approximately HK\$63.3 million and HK\$6.7 million have been provided to such trade and other receivables due from Santai and JPO respectively (approximately HK\$70 million in total). This results in net balances due from Santai and JPO of approximately HK\$78.0 million and HK\$22.0 million as at 31 March 2024 (approximately HK\$100 million in total). We understand from the executive Directors that the assessment of the unlikelihood of immediate repayment of the Santai Advances, Financial Assistance and Second Financial Assistance of approximately HK\$66.4 million by Santai/JPO is in line with the assessment made for determining the accumulated allowance of expected credit loss of approximately HK\$70 million recorded by the Group as at 31 March 2024 for receivables due from Santai and JPO. Based on the executive Directors' assessment of the current situation, the costs of taking legal action against Santai/JPO for the outstanding amount due to the Group may not be justifiable at this stage.



As set out in the “Letter from the Board” of this Circular, JPO has plans to re-file its listing application and currently targets to get listed on NASDAQ by 2025. A successful listing of JPO would be expected to enhance its cashflow level with the listing proceeds to be received and therefore enhance the recoverability of the Group’s receivables from JPO and Santai. However, there is no assurance that the listing application will be successful. The Group has been actively liaising with Santai and JPO regarding settlement of the outstanding amount due to the Group. Nevertheless, the entering into of the Loan Agreement (as supplemented by the Supplemental Agreement), Agreement and Second Agreement enable valid legal documents to be in place creating binding documentation to govern the rights of the Group with respect to the Santai Advances, Financial Assistance and Second Financial Assistance under these agreements. Such rights would remain legally enforceable regardless of the success of the initial public offering of JPO.

The Santai Advances, Financial Assistance and Second Financial Assistance provided by the Group to JPO and/or Santai are currently interest-free, uncollateralised and have no fixed repayment date. Entering into the Loan Agreement (as supplemented by the Supplemental Agreement), Agreement, Second Agreement, and approving such agreements at the EGM enable valid legal documents to be in place to govern the lending terms of the Santai Advances, Financial Assistance and Second Financial Assistance, including but not limited to, repayment period, interest rate, amount of security and events of default, which is an improvement to the Group as a lender, as compared to the case without these agreements being entered into.

Considering the above, particularly (i) the purpose of entering into of the Loan Agreement, Agreement and Second Agreement is to re-comply the relevant Listing Rules and rectify the Santai Advances, Financial Assistance and Second Financial Assistance (which are currently interest-free, uncollateralised and without fixed repayment term) by enabling legal documents to be in place to govern the lending terms for the interests of the Company and its Shareholders; (ii) based on the Directors’ current assessment, the immediate repayment of the Santai Advances, Financial Assistance and Second Financial Assistance from Santai/JPO is highly unlikely in view of JPO’s current financial position as discussed above; and (iii) the terms of the Agreements have been negotiated on arm’s length basis and are considered fair and reasonable (further details of which are discussed in this letter below), we are of the view that the entering into of the Loan Agreement, Agreement and Second Agreement, although not in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Agreements and the transactions contemplated thereunder.



3. *Principal terms of the Loan Agreement (as supplemented by the Supplemental Agreement), Agreement and Second Agreement*

(i) *The Loan Agreement and Supplemental Agreement*

The principal terms of the Loan Agreement (as supplemented by the Supplemental Agreement) are summarized below. Further details of the Loan Agreement are set out in the section headed “(1) Major and Connected Transaction” of the Circular.

Date: 30 August 2024

Parties: (1) SAL (as the lender); and

(2) Santai (as the borrower)

Principal amount of the Santai Advances: US\$4,212,811 (equivalent to HK\$32,859,926)

Repayment: Santai shall repay the Santai Advances in full in one lump sum together with all outstanding interest accrued thereon on the Repayment Date, being the date falling two (2) years from the date of the Loan Agreement. There is no penalty for prepayment of principal and relevant interest amount at any time.

Interest Rate: Interest on the Santai Advances shall accrue from and including the date of the relevant advances made at the interest rate of 7% per annum on the principal amount of the Santai Advances. All interest accrued will be payable in arrears in one lump sum as stipulated in the Loan Agreement when full repayment of the Santai Advances and the outstanding interests accrued thereon shall be repaid by Santai. Interest shall be calculated on the actual number of days elapsed and accrued on a daily basis.

On the Repayment Date, SAL will be entitled to receive approximately HK\$4.6 million under the Loan Agreement.



The rate of interest of 7% per annum is determined after arm's length negotiation between SAL and Santai after taking into account the prevailing market interest rates and practices, including the interest rate of approximately 6-7% per annum offered by commercial banks for loans to the Group.

If Santai fails to pay any sum payable under the Loan Agreement when due, Santai shall pay a default interest from and including the due date to the date of actual payment at the rate of 10.5% per annum calculated on the actual number of days elapsed and accrued on a daily basis.

The rate of default interest of 10.5% per annum is determined after arm's length negotiation between SAL and Santai after taking into account (i) the interest rate of 7% per annum on the principal amount of the Santai Advances; and (ii) premium to be charged by SAL to compensate for the default.

**Conditions
Precedent:**

The Loan Agreement shall be conditional upon:

- (1) the Independent Shareholders having passed a resolution at the EGM to be convened and held to approve the Loan Agreement and the transactions contemplated hereunder;
- (2) SAL having received from Santai (i) the original documentation(s) in relation to the JPO Shares Charge duly executed by Santai as a collateral to ensure the due performance by Santai of its obligations under the Loan Agreement; and (ii) a copy certified as true and correct by a director of Santai of the resolution(s) of the director(s) of Santai authorising the execution, delivery and performance of the Loan Agreement and the JPO Shares Charge and authorising a person or person(s) to sign on its behalf the Loan Agreement and the JPO Shares Charge;
- (3) the representations and warranties given by Santai under the Loan Agreement remaining true and accurate in all respects; and



- (4) the satisfaction of all conditions precedent set out in the Guaranty Fee Agreement (save for the condition in relation to the satisfaction of all conditions precedent of the Loan Agreement).

None of the above conditions are waivable and if the above conditions have not been satisfied on or before 30 April 2025 (or such later date as SAL and Santai may agree), the Loan Agreement shall cease and determine and neither party shall have any obligations and liabilities towards each other thereunder.

For the purpose of the JPO Shares Charge, Santai as pledgor and SAL as pledgee have entered into a stock pledge agreement (the "**Stock Pledge Agreement**"), which is governed by the laws of the State of Delaware, USA and the Company is advised by its US lawyers that the Stock Pledge Agreement shall become effective upon the complete execution of the Stock Pledge Agreement by both parties and the delivery of original stock certificate(s) representing the pledged stock to SAL and the Stock Pledge Agreement is legal, valid, binding, and enforceable against the parties thereto in accordance with its terms.

As at the Latest Practicable Date, save as condition precedent (2) that the JPO Shares Charge has been executed (but the delivery of the share certificates for those charged shares of JPO will be made after Independent Shareholders' approval of the Agreements at the EGM) and condition precedent (3) which remains satisfied, all other conditions precedent are remained to be satisfied.

SAL is entitled to request Santai for immediate repayment of the principal amount and accrued interest (if any) of the Santai Advances in the event the above conditions have not been satisfied on or before 30 April 2025 (or such later date as the parties to the Loan Agreement may agree).

Completion of the Loan Agreement (as supplemented by the Supplemental Agreement) is inter-conditional with the completion of the Guaranty Fee Agreement and is conditional upon, amongst others, the satisfaction of all conditions precedent set out in the Guaranty Fee Agreement (save for the condition in relation to the satisfaction of all conditions precedent of the Loan Agreement).



Security:

The principal amount of the Santai Advances is secured by the JPO Shares Charge, being the charge of 3,139,367 shares of JPO, the value of which will be sufficient to cover the aggregate of (i) the entire amount of the Santai Advances; (ii) the entire amount of the Financial Assistance; and (iii) the entire amount of the Second Financial Assistance (i.e. HK\$66,359,926 or US\$8,507,683), by Santai in favour of SAL duly executed by Santai on 10 January 2025 as a collateral to ensure the due performance by Santai of its obligations under the Loan Agreement, Agreement and Second Agreement.

The aggregate number of JPO shares charged by Santai to SAL of 3,139,367 JPO shares was calculated based on the value of US\$2.71 per JPO share. The value of US\$2.71 per JPO share is based on latest valuation of the fair market value of the common equity of JPO as at 1 June 2024 conducted by an independent professional valuer.

The aggregate number of JPO shares is determined based on the aggregate value of the collateral (i.e. 3,139,367 JPO shares of US\$2.71 per share in the total value of approximately US\$8,507,684) representing the total amount of the Santai Advances, Financial Assistance and Second Financial Assistance (i.e. HK\$66,359,926 or US\$8,507,683).

**Undertakings by
Santai:**

Santai undertakes to SAL that, among other things, for so long as any part of the Santai Advances or interest thereon or any other amounts payable under the Loan Agreement remain outstanding:

- (1) it will procure JPO not to charge, pledge or dispose of its intellectual properties and other major assets as long as JPO remains a private company;
- (2) it will maintain not less than 50% shareholding interest in JPO as long as JPO remains a private company; and
- (3) it will procure JPO to produce and deliver to SAL a copy of the financial statements of JPO upon request by SAL.



Events of default: There shall be an event of default of the Loan Agreement if any one of the following events shall have occurred or is continuing:

- (1) Non-payment: Santai fails to pay any principal amount due from it under the Loan Agreement in the manner specified therein on the due date for payment, or fails to pay any accrued interest on the due date for payment; or
- (2) Other obligations: Santai commits any breach of or omits to observe any of its undertakings or obligations under the Loan Agreement and such breach or omission, if capable of remedy, is not remedied within ten (10) Business Days of notice to Santai from SAL requiring remedy of the same; or
- (3) Breach of representation: any representation or warranty made by Santai pursuant to the Loan Agreement is or proves to have been incorrect in any material respect when made and, if capable of remedy at the absolute discretion of SAL, is not remedied within ten (10) Business Days of notice to Santai from SAL requiring remedy of the same.

Upon the occurrence of an event of default and at any time thereafter, SAL may by notice in writing to Santai declare the Santai Advances, all interest accrued thereon and all other monies payable under the Loan Agreement to be forthwith due and payable whereupon the same shall be forthwith due and payable.

Asiamax, a wholly-owned subsidiary of the Company and JPO LLC entered into the License Agreement pursuant to which, among other things, the Group shall be the exclusive manufacturer and/or sourcing agent for all apparel products and fashion accessories sold by JPO LLC under the J. Peterman brand. The License Agreement has a term of twenty (20) years and possible successive ten (10) year renewal. Details of the License Agreement are summarised in the announcement of the Company dated 31 May 2019.

The Company and Santai are of the view that the License Agreement would in effect give SAL the exclusive right to be the supplier of JPO with the first right of refusal for the purchase of apparel, garment accessories, textiles and other relevant products from manufacturers/factories and all other sources of supply worldwide and therefore render the condition precedent (3) of the Loan Agreement redundant and duplicative. SAL and Santai have therefore agreed to enter into the Supplemental Agreement to make certain amendments to the Loan Agreement.



The principal terms of the Supplemental Agreement are summarized below. Further details of the Supplemental Agreement are set out in the paragraph headed “Supplemental Agreement” of the Circular.

- Date:** 20 February 2024
- Parties:**
- (1) SAL (as the lender); and
 - (2) Santai (as the borrower)
- Amendments:**
- (a) the condition precedent (3) “SAL having entered into a written agreement with JPO to appoint SAL as its exclusive supplier with the first right of refusal for the purchase of apparel, garment accessories, textiles and other products as may be agreed by the parties from time to time from manufacturers/factories and all other sources of supply worldwide for a term of five years” of the Loan Agreement be deleted in its entirety; and
 - (b) the long stop date for the satisfaction of the conditions precedent of the Loan Agreement be extended from 30 November 2024 to a date falling on or before 30 April 2025.

Save as disclosed above, all other terms and conditions of the Loan Agreement remain unchanged and in full force and effect in all respects.

Commentary

As noted from the Company’s 2024 annual report, the effective interest rate on bank borrowings of the Group is approximately 5.4% to 7.2%. According to the facility letters issued by commercial banks to members of the Group, the effective interest rates on the Group’s existing borrowings from April to August 2024 ranged from approximately 6.7% to 7.1% with an average of approximately 6.9%. Furthermore, as noted from the official website of HSBC, the latest published Hong Kong dollar best lending rate is 5.25% per annum as at 20 December 2024. The interest rate of 7% per annum under the Loan Agreement (i) is above the average of the recent effective interest rates charged by commercial banks on the Group’s existing borrowings; (ii) approximates the upper range of the Group’s cost of capital as set out in the Company’s 2024 annual report; and (iii) is above the benchmark lending rate in Hong Kong.



Furthermore, the principal amount of the Santai Advances is secured by the JPO Shares Charge in favour of the Company, being the charge of 3,139,367 shares of JPO, the value of which (at US\$2.71 per JPO share) covers 100% of the amount of the Santai Advances, Financial Assistance and Second Financial Assistance (i.e. HK\$66,359,926 or US\$8,507,683). The value per JPO share is determined based on the latest valuation of the fair market value of the common equity of JPO as at 1 June 2024 conducted by an independent professional valuer. It is proposed under the Stock Pledge Agreement that upon completion of the anticipated initial public offering of JPO, the number of shares of the pledged stock shall be equitably adjusted based upon the JPO per share price of its common stock in the initial public offering with annual adjustment thereafter. This mechanism allows the sufficient number and value of JPO shares to be pledged in favour of SAL to cover 100% of the total value of the Santai Advances, Financial Assistance and Second Financial Assistance. The executive Directors consider that the JPO Shares Charge serves as a protective mechanism for the benefit of the Group as lender based on arm's length negotiation, which we concur in this regard. The management will decide the best course of action prior to and in case of a default of repayment. Whilst exercising the JPO Shares Charge is one potential action, this course will be taken only if this is the best outcome to the Company and its Shareholders as a whole. The management of the Group has been and will continue to monitor the performance and financial position of JPO closely, taking into account its proposed plan of fund-raising and public offering. Upon the enforcement of the JPO Shares Charge, all monies received in respect of the disposition of the pledged JPO shares will be applied towards payment of the Santai Advance, Financial Assistance and Second Financial Assistance and if such proceeds are insufficient, this will not prejudice the rights of the Company to claim against other assets of Santai (including but not limited to other JPO shares held by Santai, which represent approximately 79.1% of total issued share capital of JPO with a value of approximately US\$32,154,000 based on the value of US\$2.71 per JPO share) to cover for such deficiency.

Under the Loan Agreement, Santai shall repay the Santai Advances in full in one lump sum together with all outstanding interest accrued thereon on the date falling two (2) years from the date of the Loan Agreement. If Santai fails to pay any principal amount or any accrued interest on the due date of payment (being one of the events of default), SAL may by notice in writing to Santai declare the Santai Advances and all payables under the Loan Agreement to be forthwith due and payable.



Taking into account the above, in particular, (i) the background of and reasons to the Loan Agreement as set out in the section headed “Reasons for and Benefits of Entering into the Loan Agreement” in the “Letter from the Board” of the Circular and the sub-section headed “Background to and reasons for the Loan Agreement, Agreement and Second Agreement” in this letter above; (ii) the purpose of the Loan Agreement to re-comply the relevant Listing Rules and rectify the Santai Advances (which are currently interest-free, uncollateralised and without fixed repayment term) by enabling a legal document to be in place to govern the lending terms which is an improvement to the Group as a lender compared to the case without such agreement being entered into; (iii) the analysis on interest rate and JPO Shares Charge as discussed above; and (iv) the repayment term and events of default under the Loan Agreement to legalise the recoverability of the Santai Advances as discussed above, the executive Directors consider, and we concur, that the terms of the Loan Agreement (as supplemented by the Supplemental Agreement) are fair and reasonable in the circumstances in which the Company finds itself.

(ii) *The Agreement*

The principal terms of the Agreement are summarised below. Further details of the Agreement are set out in the section headed “(2) Continuing Connected Transaction and Connected Transaction” of the Circular.

Date: 30 August 2024

Parties: (1) SAL;
(2) Santai; and
(3) JPO

(a) *Supply of Inventories*

Pursuant to the terms of the Agreement, SAL agreed to sell and/or supply and JPO agreed to purchase the Inventories at the Purchase Price pursuant to such Purchase Order as may from time to time be given by JPO and accepted by SAL during the Supply Term and the actual sale during the Supply Term was approximately HK\$6,000,000 and hence, the Sales Cap is set in the amount of HK\$6,000,000 for the purpose of Rule 14.53 of the Listing Rules.

The Purchase Price was determined after arm’s length negotiations between the parties with reference to (i) the existing prices of similar Inventories in the market in respect of each Inventory as agreed between JPO and SAL from time to time; and (ii) comparable selling prices of similar Inventories to other customers of SAL. In any event, the Purchase Price was no more favourable than those provided by SAL to third-party customers. For the years ended 31 March 2023 and 2024, the sales from the Group to JPO were HK\$19,950,802 and HK\$28,339,746, respectively.



We have reviewed an analysis of the Group's gross profit margin obtained from the Company for the year ended 31 March 2023, which covers the Supply Term as stipulated in the Agreement. The gross profit ratio of sales to JPO for 2023 is higher than the gross profit ratio of total sales to customers other than JPO. Accordingly, the basis for determining the Purchase Price charged to JPO was no more favourable than those offered by the Group to other customers for 2023 and the pricing basis for the supply of Inventories under the Agreement is considered fair and reasonable.

(b) The Financial Assistance

Financial Assistance Amount: HK\$6,000,000

Repayment: Santai or JPO shall repay the Financial Assistance in full in one lump sum together with all outstanding interest accrued thereon on the TP Repayment Date, being the date falling two (2) years from the date of the Agreement (or such earlier date as may be notified in writing by Santai or JPO to SAL in advance). There is no penalty for prepayment of the Financial Assistance and the relevant interest amount at any time.

Interest Rate: Interest on the Financial Assistance shall accrue from and including the date of the Agreement at the interest rate of 7% per annum (which is no less favourable than the market rate and having taken into account the prevailing market interest rates and practices, including the interest rate of approximately 6-7% per annum offered by commercial banks for loans) up to the TP Repayment Date. All interest shall be payable in arrears in one lump sum on the TP Repayment Date. Interest shall be calculated on the actual number of days elapsed and accrued on a daily basis.



If JPO or Santai fails to pay any sum payable under the Agreement when due, JPO or Santai shall pay a default interest from and including the due date to the date of actual payment at the rate of 10.5% per annum calculated on the actual number of days elapsed and accrued on a daily basis. The rate of default interest of 10.5% per annum is determined after arm's length negotiation between SAL, JPO and Santai after taking into account (i) the interest rate of 7% per annum; and (ii) premium to be charged by SAL to compensate for the default.

On the TP Repayment Date, SAL will be entitled to receive approximately HK\$833,000 interest under the Agreement.

**Conditions
Precedent:**

The Agreement shall be conditional upon, among others, the Independent Shareholders having passed a resolution at the EGM to be convened and held to approve the Agreement and the transactions contemplated hereunder; and the satisfaction of all conditions precedent set out in the Guaranty Fee Agreement (save for the condition in relation to the satisfaction of all conditions precedent of the Agreement).

None of the conditions is waivable and if the above conditions have not been satisfied on or before 30 April 2025 (or such later date as SAL, Santai and JPO may agree), the Agreement shall cease and determine and neither party shall have any obligations and liabilities towards each other thereunder.

SAL is entitled to request Santai and/or JPO for immediate repayment of the principal amount and accrued interest (if any) of the Financial Assistance in the event the above conditions have not been satisfied on or before 30 April 2025 (or such later date as the parties to the Agreement may agree).



For the purpose of the JPO Shares Charge, Santai as pledgor and SAL as pledgee will enter into the Stock Pledge Agreement, which will be governed by the laws of the State of Delaware, USA and the Company is advised by its US lawyers that the Stock Pledge Agreement shall become effective upon the complete execution of the Stock Pledge Agreement by both parties and the delivery of original stock certificate(s) representing the pledged stock to SAL and the Stock Pledge Agreement is legal, valid, binding, and enforceable against the parties thereto in accordance with its terms.

As at the Latest Practicable Date, save as condition precedent (2) that the JPO Shares Charge has been executed (but the delivery of the share certificates for those charged shares of JPO will be made after Independent Shareholders' approval of the Agreements at the EGM) and condition precedent (3) which remains satisfied, all other conditions precedent are remained to be satisfied. Completion of the Agreement is inter-conditional with the completion of the Guaranty Fee Agreement and is conditional upon, amongst others, the satisfaction of all conditions precedent set out in the Guaranty Fee Agreement (save for the condition in relation to the satisfaction of all conditions precedent of the Agreement).

Security:

The Financial Assistance is secured by the JPO Shares Charge, being a charge of shares of JPO by Santai in favour of SAL duly executed by Santai on 10 January 2025 as a collateral to ensure the due performance by Santai of its obligations under the Agreement.

**Undertakings by
Santai and JPO:**

Santai undertakes to SAL that, among other things, for so long as any part of the Financial Assistance or interest thereon or any other amounts payable under the Agreement remain outstanding:

- (1) it will procure JPO not to charge, pledge or dispose of its intellectual properties and other major assets as long as JPO remains a private company;



- (2) it will maintain not less than 50% shareholding interest in JPO as long as JPO remains a private company; and
- (3) it will procure JPO to produce and deliver to SAL a copy of the financial statements of JPO upon request by SAL.

JPO further undertakes to SAL that, for so long as any part of the Financial Assistance or interest thereon or any other amounts payable under the Agreement remain outstanding:

- (1) it will not charge, pledge or dispose of its intellectual properties and other major assets as long as it remains a private company; and
- (2) it will produce and deliver to SAL a copy of its financial statements upon request by SAL.

Commentary

The amount of the Financial Assistance is equal to the maximum amount of Trade Payables during the Supply Term under the Letter of Support, representing the actual amount of the supply of inventories by SAL to JPO during the Supply Term (i.e. the Sales Cap). In view of (i) the background of and reasons to the Agreement as set out in the section headed "Reasons for and Benefits of the Agreement" in the "Letter from the Board" of the Circular; (ii) the purpose of the Agreement to re-comply the relevant Listing Rules and to rectify the supply of Inventories and the Financial Assistance (which are currently interest-free, uncollateralised and without fixed repayment term) by creating binding documentation to govern the lending terms which is an improvement to the Group as a lender, and to terminate the First Letter of Support; (iii) the pricing policy of the Supply of Inventories, under which the Purchase Price was no more favourable to JPO than those provided by SAL to third-party customers as mentioned above; (iv) the interest rate and the JPO Shares Charge (as a protective measure) as discussed in the paragraph headed "Commentary" under the section headed "(i) The Loan Agreement and Supplemental Agreement" of this letter above; and (v) the repayment term of two (2) years under the Agreement to legalise the recoverability of the Financial Assistance, the executive Directors consider, and we concur, that the terms of the Agreement are fair and reasonable.



(iii) *The Second Agreement*

The principal terms of the Second Agreement with respect to the Second Financial Assistance are summarised below. Further details of the Second Agreement are set out in the section headed “Major Transaction” of the Circular.

Date:	30 August 2024
Parties:	(1) SAL; (2) Santai; and (3) JPO
Second Financial Assistance Amount:	HK\$27,500,000
Repayment:	Santai or JPO shall repay the Second Financial Assistance in full in one lump sum together with all outstanding interest accrued thereon on the MT Repayment Date, being the date falling two (2) years from the date of the Second Agreement (or such earlier date as may be notified in writing by Santai or JPO to SAL in advance). There is no penalty for prepayment of the Second Financial Assistance and the relevant interest amount at any time.
Interest Rate:	Interest on the Second Financial Assistance shall accrue from and including the date of the Second Agreement at the interest rate of 7% per annum (which is no less favourable than the market rate and having taken into account the prevailing market interest rates and practices, including the interest rate of approximately 6-7% per annum offered by commercial banks for loans to the Group) up to the MT Repayment Date. All interest shall be payable in arrears in one lump sum on the MT Repayment Date. Interest shall be accrued on a daily basis and calculated on the actual number of days elapsed and accrued on the basis of a 365-days year.



If JPO or Santai fails to pay any sum payable under the Second Agreement when due, JPO or Santai shall pay a default interest from and including the due date to the date of actual payment at the rate of 10.5% per annum calculated on the actual number of days elapsed and accrued on a daily basis. The rate of default interest of 10.5% per annum is determined after arm's length negotiation between SAL, JPO and Santai after taking into account (i) the interest rate of 7% per annum; and (ii) premium to be charged by SAL to compensate for the default.

On the MT Repayment Date, SAL will be entitled to receive approximately HK\$3.86 million interest under the Second Agreement.

**Conditions
Precedent:**

The Second Agreement shall be conditional upon, among others, the Independent Shareholders having passed a resolution at the EGM to be convened and held to approve the Second Agreement and the transactions contemplated hereunder; and the satisfaction of all conditions precedent set out in the Guaranty Fee Agreement (save for the condition in relation to the satisfaction of all conditions precedent of the Second Agreement).

None of the conditions is waivable and if the above conditions have not been satisfied on or before 30 April 2025 (or such later date as the parties to the Second Agreement may agree), the Second Agreement shall cease and determine and neither party shall have any obligations and liabilities towards each other thereunder.

SAL is entitled to request Santai and/or JPO for immediate repayment of the principal amount and accrued interest (if any) of the Second Financial Assistance in the event the conditions have not been satisfied on or before 30 April 2025 (or such later date as SAL, Santai and JPO may agree).



For the purpose of the JPO Shares Charge, Santai as pledgor and SAL as pledgee have entered into the Stock Pledge Agreement, which will be governed by the laws of the State of Delaware, USA and the Company is advised by its US lawyers that the Stock Pledge Agreement shall become effective upon the complete execution of the Stock Pledge Agreement by both parties and the delivery of original stock certificate(s) representing the pledged stock to SAL and the Stock Pledge Agreement is legal, valid, binding, and enforceable against the parties thereto in accordance with its terms.

As at the Latest Practicable Date, save as condition precedent (2) that the JPO Shares Charge has been executed (but the delivery of the share certificates for those charged shares of JPO will be made after Independent Shareholders' approval of the Agreements at the EGM) and condition precedent (3) which remains satisfied, all other conditions precedent are remained to be satisfied.

Completion of the Second Agreement is inter-conditional with the completion of the Guaranty Fee Agreement and is conditional upon, amongst others, the satisfaction of all conditions precedent set out in the Guaranty Fee Agreement (save for the condition in relation to the satisfaction of all conditions precedent of the Second Agreement).

Security:

The Second Financial Assistance is secured by the JPO Shares Charge, being a charge of shares of JPO by Santai in favour of SAL executed by Santai as a collateral to ensure the due performance by Santai of its obligations under the Second Agreement.

**Undertakings by
Santai and JPO:**

Santai undertakes to SAL that, among other things, for so long as any part of the Second Financial Assistance or interest thereon or any other amounts payable under the Second Agreement remain outstanding:

- (1) it will procure JPO not to charge, pledge or dispose of its intellectual properties and other major assets as long as JPO remains a private company;
- (2) it will maintain not less than 50% shareholding interest in JPO as long as JPO remains a private company; and



- (3) it will procure JPO to produce and deliver to SAL a copy of the financial statements of JPO upon request by SAL.

JPO further undertakes to SAL that, for so long as any part of the Second Financial Assistance or interest thereon or any other amounts payable under the Second Agreement remain outstanding:

- (1) it will not charge, pledge or dispose of its intellectual properties and other major assets as long as it remains a private company; and
- (2) it will produce and deliver to SAL a copy of its financial statements upon request by SAL.

Commentary

The principal amount of the Second Financial Assistance is arrived at based on the actual MT Trade Payables incurred during the MT Term. In view of (i) the background of and reasons for the Second Agreement as set out in the section headed "Reasons for and Benefits of the Second Agreement" in the "Letter from the Board" of the Circular; (ii) the purpose of the Second Agreement to re-comply the relevant Listing Rules and rectify the Second Financial Assistance (which are currently interest-free, uncollateralised and without fixed repayment term) by creating binding documentation to govern the lending terms which is an improvement to the Group as a lender, and to terminate the Letters of Support; (iii) the interest rate and the JPO Shares Charge (as a protective measure) as discussed in the paragraph headed "Commentary" under the section headed "(i) The Loan Agreement and Supplemental Agreement" of this letter above; and (iv) the repayment term of two (2) years under the Second Agreement to legalise the recoverability of the Second Financial Assistance, the executive Directors consider, and we concur, that the terms of the Second Agreement are fair and reasonable.

B. The Guaranty Fee Agreement

(i) Background of and reasons for the Guaranty Fee Agreement

As outlined in the "Chairperson's Statement" of the Company's 2024 annual report, the long trade cycle of the Group's business requires significant bank facilities and the banks have turned conservative as the economic environment of Hong Kong is less than robust. The Group has secured total credit facilities of approximately HK\$250 million under the Facilities, in which approximately 76% of the total credit facilities amount, i.e. approximately HK\$189 million, has been drawn down by the Group as at 31 March 2024. The total drawdown amount of



approximately HK\$189 million is regarded as current liabilities of the Company as at 31 March 2024 and to be due within one year. The Second Guarantor (i.e. Ms. Wong) has been providing various personal guarantees and properties pledge amounted to approximately HK\$218.6 million to secure the Facilities and at the bank's request will provide a pledge of her other one property with a value of approximately HK\$50 million to secure the HSBC Facilities. The First Guarantor (i.e. Mr. Choi), at the bank's request, will also provide a personal guarantee of not less than HK\$40 million and not more than HK\$50 million to secure the HSBC Facilities.

As discussed with the management of the Company, the credit facilities granted to the Company under the Facilities allow the Group to manage short-term cash flow fluctuations and are crucial to the Group's operational flexibility and financial resilience. The cash balances of the Group only amounted to approximately HK\$27 million as at 31 March 2024. According to the Company's announcement dated 8 January 2025, a placing was completed and the net proceeds receivable by the Group amounted to approximately HK\$3.95 million. With limited cash amount on hand, the Group needs to secure the Facilities to fulfil the Group's working capital requirement and for renewal of existing loans with the banks. According to the cash flows statement in the Company's 2024 annual report, the net cash used by the Group in operating activities amounted to approximately HK\$16.8 million for the year ended 31 March 2024. Other than the working capital requirement, the Facilities is essential for the Group to renew the bank borrowings of approximately HK\$189 million to be due within one year of 31 March 2024 as mentioned above.

The terms and conditions of the Guaranty Fee Agreement were negotiated on an arm's length basis between the parties with reference to the prevailing market rates for other guaranty fee transactions. Considering the necessity of the Facilities for the Group to maintain its working capital and renew the bank borrowings, the executive Directors consider that it is fair and reasonable to compensate and pay the Guarantors a guaranty fee subject to the terms and conditions of the Guaranty Fee Agreement. With limited cash amount available to the Group, we concur with the executive Directors that the continuation of the Facilities is crucial to the Group's financial stability and allows the Group to have flexibility with its working capital and cash flow management for its operations and development. Approving the Guaranty Fee Agreement and the transactions contemplated thereunder at the EGM enables the Group to maintain the Facilities which require various guarantees from the Guarantors by compensating the Guarantors with a guarantee fee. As set out in the paragraph headed "Analysis of the guaranty fee basis and rate" below, we consider the calculation of guaranty fee based on the aggregate amount of guarantee provided to secure the Facilities is not unreasonable, and the guaranty fee rate is fair and reasonable. On this basis, we consider that although the entering into of the Guaranty Fee Agreement is not in the ordinary and usual course of business of the Group, it is beneficial to the Group's operations from working capital perspective by maintaining the Facilities.



We understand from the executive Directors that the terms of the Agreements were negotiated among the parties as a whole, to maintain a stable working capital position for the Group (via securing the Facilities), while enhancing the recoverability of the Group's receivable from JPO and Santai. The First and Second Guarantors were former business partners and controlling shareholders of the Company. Ms. Wong has been pivotal in developing the Group's business since the early 1990s. After the Guarantors ceased to be shareholders of the Company, they continued to show support to the Company by providing personal guarantees and personal properties as collaterals in order for the Group to secure bank facilities to support the Group's working capital. All parties involved in the Agreements (including Ms. Wong) acknowledged the strategic alignment of interests of all parties to achieve an outcome in the interest of the Company as mentioned above. Having taken into account (i) the reasons and purposes of the Agreements (that is, to allow the Group to maintain sufficient bank facilities to meet its operational and working capital needs, and enhancing the recoverability of the Group's receivable from JPO and Santai); and (ii) the terms of the Agreements to be fair and reasonable as discussed in this letter, we consider the inter-conditionality of the Agreements is acceptable.

(ii) Principal terms of the Guaranty Fee Agreement

A summary of the principal terms of the Guaranty Fee Agreement is set out below. Further details of the Guaranty Fee Agreement are set out in the section headed "(4) Continuing Connected Transaction" of the Circular.

Subject:

On 30 August 2024, SAL, Mr. Choi as the First Guarantor and Ms. Wong as the Second Guarantor entered into the Guaranty Fee Agreement, pursuant to which the Company, Mr. Choi and Ms. Wong agreed to, among other things, set out the terms and conditions to compensate and pay the Guarantors a guaranty fee.

Guaranty Fees:

The First Guarantor, Mr. Choi (the former non-executive Director who resigned on 23 March 2022), will provide a personal guarantee to secure the HSBC Facilities. Subject to the fulfilment of the conditions precedent and the limitations set out in the Guaranty Fee Agreement, the First Guarantor is entitled to receive a guaranty fee, and such guaranty fee shall, commencing from the date of provision of the personal guarantee by the First Guarantor in favour of HSBC, accrue at a rate of 2.5% per annum on the amount to be provided by the First Guarantor to secure the HSBC Facilities.

The Second Guarantor, Ms. Wong (the chairperson, executive Director and chief executive officer of the Company), has been providing various personal guarantees and properties pledge to secure the Facilities, and will provide a pledge of a further property to secure the HSBC Facilities. Subject to



the fulfilment of the conditions precedent and the limitations set out in the Guaranty Fee Agreement, the Second Guarantor is entitled to receive a guaranty fee, and such guaranty fee shall, commencing from the date of the Guaranty Fee Agreement, accrue at a rate of 2.5% per annum on the aggregate amount of guarantee provided by the Second Guarantor to secure the Facilities (including various personal guarantees and properties pledge provided by the Second Guarantor to secure the Facilities as at the date of the Guaranty Fee Agreement).

The guaranty fee shall be accrued on a daily basis and calculated on the basis of the actual number of days elapsed on the basis of a 365-day year. Should the amount of the guarantee provided by the First Guarantor and/or the Second Guarantor be adjusted at the request of relevant banks and has been effectively adjusted, the guaranty fee payable to the Guarantors in the above manner shall accrue based on the adjusted amount of the guarantee provided by the First Guarantor and/or the Second Guarantor.

The drawdown amount (i.e. the outstanding balance) under the HSBC Facilities as at 31 March 2023 and 31 March 2024 were approximately HK\$44 million and HK\$71 million, respectively, the maximum for which is HK\$75 million. The drawdown amount (i.e. the outstanding balance) under the HS Facilities as at 31 March 2023 and 31 March 2024 were approximately HK\$91.2 million and HK\$97.3 million respectively, the maximum for which is HK\$145 million. The drawdown amount (i.e. the outstanding balance) under the Citibank Facilities (which became available to the Group at the end of 2023) as at 31 March 2023 and 31 March 2024 were HK\$Nil and approximately HK\$20.7 million respectively, the maximum for which is HK\$30 million.

Limitations:

Upon the occurrence of any of the following events, no guaranty fee of the relevant Guarantors shall accrue further: (a) the relevant Guarantors cease to provide any security/collateral/guarantee to secure the relevant Facilities; or (b) the relevant Facilities are terminated by the relevant banks; or (c) the expiry of the Term.

Payment and Term:

The Guaranty Fee Agreement has a term of two years. The accrued guaranty fee shall be payable to the Guarantors on the date falling two (2) years from the date of the Guaranty Fee Agreement.

Conditions Precedent:

The Guaranty Fee Agreement shall be conditional upon:

- (1) the Independent Shareholders having passed a resolution at the EGM to be convened and held to approve the Guaranty Fee Agreement and the transactions contemplated hereunder; and



- (2) the satisfaction of all conditions precedent set out in (i) the Loan Agreement; (ii) the Agreement; and (iii) the Second Agreement (for all of the above agreements, save for the condition in relation to the satisfaction of all conditions precedent of the Guaranty Fee Agreement).

None of the above conditions are waivable and if the above conditions have not been satisfied on or before 30 April 2025 (or such later date as the parties to the Guaranty Fee Agreement may agree), the Guaranty Fee Agreement shall cease and determine. Thereafter the Guarantors will not be entitled to any guaranty fee under the Guaranty Fee Agreement and no parties shall have any obligations and liabilities towards the others thereunder save for any antecedent breaches of the terms thereof. As at the Latest Practicable Date, none of the above conditions has been satisfied.

Completion of the Guaranty Fee Agreement is inter-conditional with the completion of the Loan Agreement, Agreement and Second Agreement and is conditional upon, amongst others, the satisfaction of all conditions precedent set out in the Loan Agreement, Agreement and Second Agreement (save for the condition in relation to the satisfaction of all conditions precedent of the Guaranty Fee Agreement).

(iii) Analysis of the guaranty fee basis and rate

Pursuant to the Guaranty Fee Agreement, the guaranty fee accrues at a rate of 2.5% per annum on the aggregate amount of guarantee provided by the Guarantors to secure the Facilities.

As at the date of the Guaranty Fee Agreement, the Second Guarantor provided existing guarantees of approximately HK\$218.6 million to secure the Facilities of approximately HK\$250.0 million, and a property with a value of approximately HK\$50 million is going to be pledged by the Second Guarantor as an additional security for the HSBC Facilities at the bank's request.

The existing guarantees of approximately HK\$218.6 million provided by the Second Guarantor comprised of (a) the pledging of two properties with a value of HK\$97.6 million; and (b) personal guarantees in the aggregate amount of approximately HK\$121.0 million. Granting of the Facilities by the banks were conditional upon the properties pledged and personal guarantee provided by the Second Guarantor. The properties pledged by the Second Guarantor shall be held by the bank until the Facilities are terminated. The Second Guarantor has no rights to transfer the legal titles or carry out refinancing on the properties without consent of the bank.



The guaranty fee, calculated on the aggregate amount of guarantee provided by the Guarantors to secure the Facilities, serve to compensate the total risk exposure of the Guarantors. Based on our analysis below, the guaranty fee rate of 2.5% per annum under the Guaranty Fee Agreement is considered fair and reasonable. Also, the payment of guaranty fee based on the aggregate amount of guarantee provided to secure the Facilities forms part of the arm's length commercial terms for the Guarantors to continue to provide guarantee to the Group for maintaining a sound credit condition.

Considering (a) the continuation of the Facilities is crucial to the Group's financial stability and allows the Group to have flexibility with its working capital and cash flow management for its operations and development; (b) the terms of the Guaranty Fee Agreement are on normal commercial terms and are fair and reasonable; (c) guarantees provided by the Guarantors are pre-conditions for the granting of Facilities by the banks; and (d) amount of properties pledged and amount guaranteed by the Second Guarantor represent her total risk exposure, the calculation of guaranty fee based on the aggregate amount of guarantee provided to secure the Facilities is not unreasonable.

The guaranty fee rate under the Guaranty Fee Agreement is 2.5% per annum based on the aggregate amount of the existing guarantees provided by the Guarantors. To assess the reasonableness of the guaranty fee rate under the Guaranty Fee Agreement, we have conducted a search on Bloomberg and identified four companies listed on the Main Board of the Stock Exchange that were engaged in the provision of financial guarantee services for the financial year ended 31 December 2023, and identified guaranty fee rates which are publicly disclosed by the aforesaid four listed companies in their (i) latest published annual reports; and/or (ii) announcements from 1 January 2021 up to the date immediately before the Latest Practicable Date (together, the "Reference Cases"). Details of the guaranty fee rates disclosed in the Reference Cases are set out below:

(a) *Guaranty fee rates disclosed in annual report*

Company	Date of annual report	Guaranty fee rate disclosed
China Success Finance Group Holdings Limited (stock code: 3623)	28 March 2024	Between approximately 0.3% and 3.5% of the total sum guaranteed by the group



(b) *Guaranty fee rates disclosed in announcements*

Company	Date of announcement	Guaranty fee rate disclosed
Guangdong Join-Share Financing Guarantee Investment Co., Ltd. (stock code: 1543)	6 February 2024	Not exceeding 4.8% of the guaranteed amount per annum
	30 March 2023	Not exceeding 4.8% of the guaranteed amount per annum
	6 March 2023	2.5% of the guaranteed amount per annum
	22 December 2022	Not exceeding 8% of the guaranteed amount per annum
	8 December 2022	2.3% of the guaranteed amount per annum
	17 August 2022	Not exceeding 8% of the guaranteed amount per annum
	29 October 2021	Maximum 4% per annum based on the actual principal of the facilities
	8 September 2021	4% per annum based on the actual principal of the facilities
Differ Group Auto Limited (stock code: 6878)	2 March 2021	3.1% of the guaranteed amount per annum
SY Holdings Group Limited (stock code: 6069)	4 January 2022	0.5% of the weighted average balance of guaranteed amount per annum
	Average	4.2% per annum
	Median	4.0% per annum
	Maximum	8.0% per annum
	Minimum	0.5% per annum
	The guaranty fee rate under the Guaranty Fee Agreement	2.5% per annum

Source: The website of the Stock Exchange (hkexnews.hk) and Bloomberg

Based on the table above, the guaranty fee rate of 2.5% per annum under the Guaranty Fee Agreement is below the average and the median of the guaranty fee rates disclosed in the announcements of the Reference Cases. Furthermore, we have noted in the latest published annual report of China Success Finance Group Holdings Limited (stock code: 3623) ("**China Success**") that it charged its customers a fee of approximately 0.3% to 3.5% of the total sum guaranteed by China Success group. The guaranty fee rate of 2.5% per annum under the Guaranty Fee Agreement is within the range of the guaranty fee rates charged by China Success. Based on the above, we are of the view that the guaranty fee rate of 2.5% per annum under the Guaranty Fee Agreement is fair and reasonable.



(iv) Proposed annual cap

The annual cap of the guaranty fee payable to the Second Guarantor pursuant to the Guaranty Fee Agreement is HK\$7 million, which is equivalent to a rate of 2.5% per annum charged on the aggregate amount of the existing guarantees provided by the Second Guarantor of approximately HK\$218.6 million to secure the Facilities as at the date of the Guaranty Fee Agreement and a property with a value of approximately HK\$50 million to be pledged by the Second Guarantor as an additional security for the HSBC Facilities.

We have reviewed the banking facilities letters with respect to the Facilities, correspondence with the bank regarding the HSBC Facilities, and the valuation on the properties pledged by the Second Guarantor to secure the Facilities as at 31 March 2024, and note that the value of the guarantees provided/to be provided by the Second Guarantor to secure the Facilities is consistent with the figure adopted by the Company in estimation of the proposed annual cap. Taking into account the above and our view that guaranty fee rate is fair and reasonable as stated in the paragraph headed “Analysis of the guaranty fee basis and rate” above, we concur with the executive Directors that the basis for determining the proposed annual cap for payment of the guaranty fee to the Second Guarantor is reasonable.

(v) Conditions of the continuing connected transaction

In compliance with the Listing Rules, the transactions contemplated under the Guaranty Fee Agreement are subject to a number of conditions which include, among other things:

- (i) the proposed annual cap for the transactions contemplated under the Guaranty Fee Agreement for a term of two years will not be exceeded;
- (ii) the independent non-executive Directors must, in accordance with the Listing Rules, review annually the transactions contemplated under the Guaranty Fee Agreement and confirm in the Company’s annual report whether the transaction contemplated under the Guaranty Fee Agreement have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the Guaranty Fee Agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (iii) the auditors of the Company must, in accordance with the Listing Rules, review annually the transactions contemplated under the Guaranty Fee Agreement and they must confirm in a letter to the Board whether anything has come to their attention that causes them to believe that the transactions contemplated under the Guaranty Fee Agreement: (a) have not been approved by the Board; (b) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions



contemplated under the Guaranty Fee Agreement involve the provision of goods or services by the Group; (c) were not entered into, in all material respects, in accordance with the Guaranty Fee Agreement governing the transactions; and (d) have exceeded the proposed annual cap with respect to the transactions contemplated under the Guaranty Fee Agreement;

- (iv) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or the auditors cannot confirm the matters as required;
- (v) the Company must allow, and ensure that the Second Guarantor allows, the auditors of the Company sufficient access to their records of the transactions contemplated under the Guaranty Fee Agreement for the purpose of the auditors' reporting on the transactions contemplated under the Guaranty Fee Agreement. The Board must state in the annual report whether the auditors of the Company have confirmed the matters set out in Rule 14A.56 of the Listing Rules; and
- (vi) the Company must comply with the applicable provisions of the Listing Rules governing continuing connected transactions in the event that the total amount of the transactions contemplated under the Guaranty Fee Agreement exceed the relevant proposed annual cap, or that there is any material amendment to the terms of the Guaranty Fee Agreement.

In light of the conditions imposed on the transactions contemplated under the Guaranty Fee Agreement, in particular, (1) the limit of the value of the transactions contemplated under the Guaranty Fee Agreement by way of the relevant proposed annual cap; (2) the on-going review by the independent non-executive Directors and auditors of the Company regarding the terms of the transactions contemplated under the Guaranty Fee Agreement; and (3) the on-going review by the auditors of the Company confirming the relevant proposed annual cap not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the transactions contemplated under the Guaranty Fee Agreement and to safeguard the interests of the Independent Shareholders.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors, we consider that (a) the terms of the Loan Agreement (as supplemented by the Supplemental Agreement), Agreement, Second Agreement and Guaranty Fee Agreement are on normal commercial terms and are fair and reasonable; and (b) although not in the ordinary and usual course of business of the Group, the entering into of the Loan Agreement (as supplemented by the Supplemental Agreement), Agreement, Second Agreement and Guaranty Fee Agreement is in the interests of the Company and the Shareholders as a whole.



Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Agreements and the transactions contemplated thereunder.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

Stephanie Chow
Director

Ms. Stephanie Chow is a licensed person registered with the SFC and a responsible officer of Somerley Capital Limited, which is licensed under the Securities and Futures Ordinance to carry out Type I (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. She has over sixteen years' experience in the corporate finance industry.