

28 March 2025

Yunfeng Financial Group Limited  
Rooms 1803 – 1806, 18th Floor, YF Life Centre  
38 Gloucester Road, Wanchai, Hong Kong

*To the Independent Board Committee and  
the Independent Shareholders of  
Yunfeng Financial Group Limited*

Dear Sirs,

**MAJOR AND CONNECTED TRANSACTION  
ASSET-BACKED HYBRID FACILITY/INVESTMENT AGREEMENT WITH  
NEW ALTERNATIVE AND YUNFENG CAPITAL**

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Asset-Backed Hybrid Facility/Investment Agreement (“**AHF/I Agreement**”) and the transactions contemplated thereunder, details of which are set out in the “**Letter from the Board**” (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 28 March 2025 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalized terms used in this letter shall have the same meanings as those defined in the Circular.

On 7 March 2025 (after trading hours), YF Life (as the Lender, an indirect subsidiary of the Company held as to 69.8% by the Company), New Alternative (as the Borrower) and Yunfeng Capital (as the Guarantor), entered into the AHF/I Agreement, pursuant to which YF Life agreed to provide New Alternative with a secured, non-revolving term loan facility in the principal amount of HK\$7.6 billion subject to the terms and conditions of the AHF/I Agreement.

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules with respect to the Facility being granted to New Alternative exceeds 100%, but the transaction is neither an acquisition nor a disposal, the grant of the Facility constitutes a major transaction of the Company and is subject to the reporting, announcement, circular and shareholders’ approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, New Alternative is a wholly-owned subsidiary of Yunfeng Capital, in turn, which in turn is 60% owned by Mr. Yu Feng and 40% owned by Mr. Jack Ma. Mr. Yu Feng is the Chairman, a non-executive Director and a controlling shareholder of the Company indirectly interested in 47.25% of the issued shares of the Company as at Latest Practicable Date, and hence, is a connected person of the Company. As such, both New Alternative and Yunfeng Capital, being associates of Mr. Yu Feng, are connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, the grant of the Facility also constitutes a connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.



As the total amount of the Facility available to New Alternative under the AHF/I Agreement exceeds 8% under the assets ratio as defined under Rule 14.07(1) of the Listing Rules, the AHF/I Agreement is also subject to the general disclosure obligations under Rule 13.15 of the Listing Rules.

Mr. Yu Feng, the chairman and a non-executive Director, is considered to have material interests in the AHF/I Agreement. He and his associates shall, therefore, abstain from voting at the EGM with respect to the resolution approving the AHF/I Agreement and the transactions contemplated thereunder pursuant to the Listing Rules.

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Qi Daqing, Mr. Chu Chung Yue, Howard, and Mr. Xiao Feng, has been established to advise the Independent Shareholders on the AHF/I Agreement and the transactions contemplated thereunder. We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the AHF/I Agreement are fair and reasonable, and the transactions contemplated thereunder are conducted in the ordinary and usual course of the Company's business and are on normal commercial terms, and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on whether to vote in favour of the resolutions to be proposed for approving the AHF/I Agreement at the EGM.

## **INDEPENDENCE**

We did not have any relationships or interests in the Company, the Lender, the Borrower, the Guarantor or any other parties to the transactions contemplated under the AHF/I Agreement that could reasonably be regarded as relevant to our independence, nor did we serve as a financial adviser to the Company, the Lender, the Borrower, the Guarantor or any other parties to the transactions contemplated under the AHF/I Agreement within 2 years prior to our engagement.

In light of the above, for the purpose of Rule 13.84 of the Listing Rules, we are of the view that we are independent to act as the Independent Financial Adviser.

## **BASIS OF OUR OPINION**

In formulating our opinion, we have relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Company, the Directors and other representatives of the Company for which they are solely and wholly responsible. We have assumed that all information and representations that have been provided by the Directors are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the entering into the AHF/I Agreement. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.



The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirmed that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement as contained therein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the businesses and affairs or prospects of the Company, YF Life, New Alternative, Yunfeng Capital, or their respective subsidiaries or associates, nor have we considered the taxation implication on the Company or the Shareholder as a result of the transactions contemplated under the AHF/I Agreement. Our opinion is based on the financial, economic, market, and other conditions in effect and the information made available to us up to the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion, and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise, or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any shares or other securities of the Company.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion in respect of the entering into the AHF/I Agreement and the transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons.

### **1. Background information of the parties and the Group**

#### ***(a) Information of the Group and YF Life***

The Company is an investment holding company. The principal activities of the Group are long term assurance business, the provision of securities brokerage, consultancy and advisory services and investment research, wealth management and principal investment.

YF Life is a non-wholly-owned subsidiary of the Company, held as to 69.8% by the Company. It is an authorised insurer licensed to carry on life and annuity, linked long term, permanent health, and retirement scheme management long term insurance businesses in Hong Kong. It is also registered as a principal intermediary for carrying out mandatory provident fund regulated activities. YF Life operates in Macau through a branch office and is licensed to sell life insurance products in Macau.



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**(b) Information of New Alternative and Yunfeng Capital**

*New Alternative, the borrower*

New Alternative is an investment holding company newly incorporated in the British Virgin Islands with limited liability and is a wholly-owned subsidiary of Yunfeng Capital. As at the Latest Practicable Date, New Alternative does not have any assets under management.

*Yunfeng Capital, the guarantor*

Yunfeng Capital, a company incorporated in the Cayman Islands, owned as to 60% by Mr. Yu Feng and as to 40% by Mr. Jack Ma, was founded in 2010 and is a private equity fund manager with a 15-year established track record. Since its establishment, Yunfeng Capital has managed multiple funds and has invested in and added value to over 200 Asian, European and U.S. companies, mainly in the growth sectors of technology, healthcare, advanced technology and consumer goods. Yunfeng Fund L.P. and Yunfeng Fund II L.P., being completed or maturing funds, which were inceptioned for more than 12 years managed by Yunfeng Capital. YF Fund I, which matured and was dissolved in December 2023, generated over 31% net internal rate of return (net of fees and expenses since inception up to 31 December 2023). YF Fund II generated over 22% net internal rate of return (net of fees and expenses since inception up to the Latest Practicable Date).

**2. Financial information of the Group**

Set out below is the analysis of the consolidated total assets of the Group as at 30 June 2024, 31 December 2023 and 31 December 2022 as extracted from its Interim Report 2024 for the six months ended 30 June 2024 (“**2024 Interim Report**”) and Annual Report 2023 for the year ended 31 December 2023 (“**2023 Annual Report**”). As the figures for the year ended 31 December 2022 were restated in the 2023 Annual Report to account for the adoption of HKFRS 17, the figures for the year ended 31 December 2022 were extracted from 2023 Annual Report for comparability.

	As at 30 June 2024 HK\$' million	As at 31 December 2023 HK\$' million	As at 31 December 2022 HK\$' million
Investments	76,566.1	74,126.6	66,754.8
Fixed bank deposits with original maturity over 3 months	1,173.1	1,259.1	1,625.0
Cash and cash equivalents	4,564.9	3,973.8	2,547.9
Other assets	10,963.5	10,789.8	10,841.6
<b>Total assets</b>	<b>93,267.6</b>	<b>90,149.3</b>	<b>81,769.3</b>



The total assets of the Group were HK\$93.3 billion, HK\$90.1 billion and HK\$81.8 billion as at 30 June 2024, 31 December 2023 and 2022 respectively, representing a change of +3.46% and +10.25% during the six months ended 30 June 2024 and the year ended 31 December 2023, respectively. Among the total assets, investments accounted for 82.1%, 82.2% and 81.6% of the total assets as at 30 June 2024, 31 December 2023 and 31 December 2022, respectively.

The investments as at 30 June 2024, 31 December 2023 and 31 December 2022 were further broken down into the following table, which was extracted from the 2024 Interim Report and the 2023 Annual Report.

	As at 30 June 2024 HK\$' million	As at 31 December 2023 HK\$' million	As at 31 December 2022 HK\$' million
Debt securities	59,306.5	56,982.2	48,909.4
Loan and receivables	4,797.1	4,940.1	5,702.6
Unit trusts	8,758.4	8,587.4	8,651.1
Listed equity and other securities	508.9	276.6	484.7
Unlisted equity and other securities	3,066.2	3,119.6	2,911.6
Derivative assets	129.0	220.7	95.4
<b>Total investments</b>	<b>76,566.1</b>	<b>74,126.6</b>	<b>66,754.8</b>

Among the investments of the Group, debt securities and loan and receivables, in aggregate, contributed 83.7%, 83.5%, and 81.8% as at 30 June 2024, 31 December 2023 and 2022 respectively. This indicates that debt-related assets consistently account for a significant portion of the Group's investment portfolio.

### 3. Background of and reasons for entering into the AHF/I Agreement

#### **Background**

The Group, through its subsidiary YF Life, is engaged in the insurance business, including the life and annuity, linked long term, permanent health, and retirement scheme management long term insurance businesses. YF Life invests premium received from insurance policies it underwrites to generate return for satisfying future insurance claims and dividend obligations. As disclosed in the Letter of the Board, as at 30 June 2024, YF Life's investment portfolio (excluding Mandatory Provident Fund (MPF) scheme assets) was approximately HK\$83.24 billion, comprising debt securities, mortgage loans, private debt, private equity, equity securities, alternative investments and cash for investment.

To improve the investment return from the portfolio, YF Life has been continuously seeking investment opportunities. In 2024, YF Life had made investment in debt securities and have been working with various global assets managers, primarily in North America and Europe, with superior and consistent investment track record. As disclosed in the Letter of the Board, YF Life has invested over HK\$8.36 billion in debt and equity securities and continue to expand its global asset managers network by committing to invest in alternative funds in 2024.



As of the end of the year ended 31 December 2024, YF Life had approximately 11% of its investment portfolio allocated to equity assets, including public equity and alternative funds. To optimize the investment returns of the portfolio, YF Life targeted to change the equity assets mix to reach over 24% of the entire YF Life's investment portfolio in the next five years, due to the projected increase of participating business as part of the overall business mix. Together with a target growth rate of 10% per annum of YF Life's investment portfolio over the next five years, YF Life targets to increase its investments in equity assets, including public and alternative funds, by over HK\$21.5 billion over the next five years. To achieve this, YF Life will continue to invest in third-parties managed funds and may consider investment opportunities which are expected to generate equity-like investment return with downside protection.

#### ***Reasons for entering into the AHF/I Agreement***

In light of the above, the AHF/I Agreement with New Alternative and Yunfeng Capital, aligns with YF Life's strategy to diversify its investments and enhance returns, and the Directors are of the view that this is in line with the ordinary and usual course of business of the Group.

Under the AHF/I Agreement, YF Life may receive in total interest income that represents 80% of the net return from the Investments, including a guaranteed Base Interest of 5.5% simple rate per annum. The Base Interest under the AHF/I Agreement offers investment return similar to the yield generated from debt securities in the existing portfolio of YF Life.

Further to the Base Interest, the Bonus Interest provides equity-like upside of 80% of the net return from the Investments to be made by New Alternative under the AHF/I Agreement. As disclosed in the Letter of the Board, in assessing the Bonus Interest, the Board considered the established track record of Yunfeng Capital, who will act as the investment manager for the Investments in New Alternative. Background information of Yunfeng Capital has been discussed above.

Together with the credit enhancement, AHF/I Agreement generates investment return through a credit enhanced-structure from its underlying diversified portfolio to be constructed by Yunfeng Capital in compliance with the Investment Guidelines.

#### **4. Principal terms of the AHF/I Agreement**

Set out below are the principal terms of the AHF/I Agreement, details of which are contained in the Letter of the Board.

##### ***Date***

7 March 2025

##### ***Parties***

- (1) YF Life (as lender);
- (2) New Alternative (as borrower); and





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(3) Yunfeng Capital (as guarantor).

***Principal amount***

The principal amount of the Facility under the AHF/I Agreement is HK\$7.6 billion and is non-revolving in nature.

This represents approximately 8.15% of the total assets and 9.93% of the investments of the Group as at 30 June 2024 (before enlargement by the Facility to be advanced).

***Purpose***

New Alternative shall only use the principal amount of the loan(s) drawdown under the AHF/I Agreement to make the Investments in compliance with the Investment Guidelines and for the settlement of related management and other fees and/or expenses arising out of the Investments.

This means that the return profile of the Facility will be highly correlated with the underlying Investments in New Alternative, with a floor of the Base Interest.

***Term***

Twelve (12) years commencing on the next Business Day following the date on which Independent Shareholders' approval for the AHF/I Agreement is obtained.

***Utilisation Period***

For the purpose of making the Investments and payment of fees and expenses, in the first six (6) years of the Term; and for the purpose of payment of fees and expenses only, in the second six (6) years of the Term.

***Base Interest***

Simple interest rate of 5.5% per annum on the Outstanding Amount, which shall accrue daily and is calculated on the basis of the actual number of days elapsed (first and last days inclusive) and a year of 365 days.

New Alternative shall pay accrued Base Interest on the last Business Day of each quarter (being March, June, September and December), beginning from the quarter New Alternative or any SPV receives any return from the Investments until all Base Interest YF Life is entitled under the AHF/I Agreement is paid. However, New Alternative is not obligated to pay any Base Interest due in full in any quarter provided that the full amount of return from Investments received by New Alternative or any SPV by the relevant quarter has been paid to YF Life. New Alternative shall resume paying Base Interest (including any overdue Base Interest) in the quarter immediately after it or any SPV next receives any return from the Investments.





We have checked the average daily treasury par yield curve. The average of 10-year yield during 2022, 2023 and 2024 were 2.95%, 3.96% and 4.12% respectively. The average of 10-year yield from 2025 to the Latest Practical Date was 4.47%, and the highest of that during the same period was 4.79%. The Base Interest rate of 5.5% per annum is greater than the US 10-year treasury yield.

After reviewing the list of debt investments YF Life made in 2023 and 2024, we note that the weighted average yield of YF Life's debt investments purchased in 2023 and 2024 is 5.4% and 5.5%, respectively. We also assessed several comparable transactions under the paragraphs headed "6. Comparable transactions".

### ***Bonus Interest***

Apart from the Base Interest, YF Life is entitled to the Bonus Interest, which shall be calculated as follows:

$$\text{Bonus Interest} = (\text{Total Investment Return} - \text{Total Utilised Amounts}) \times 80\% - \text{Base Interest}$$

- Total Investment Return: the total amount of return generated from the Investments, including but not limited to (i) interest income, (ii) dividends (including scrip dividends) and (iii) proceeds from the disposals of the Investments received, such amounts as determined based on the audited accounts (consolidated where applicable) of New Alternative and all SPVs concerned
- Total Utilised Amounts: the total aggregate amounts of drawdowns of the Facility made by New Alternative pursuant to the AHF/I Agreement

The Bonus Interest is not payable if the resulting amount of the above formula is a negative figure.

The interest provisions in the AHF/I Agreement, which include the Base Interest and the Bonus Interest as described above, are structured in a way so that New Alternative shall pay at least the Base Interest, being simple interest rate of 5.5% per annum on the Outstanding Amount and also, where applicable, the Bonus Interest. Therefore, YF Life may receive, in total, interest income that represents 80% of the net return from the Investments.

This structure of the investment return under the AHF/I Agreement allows an equity-like upside exposure to the Group while having a floor of the Base Interest.

### ***Drawdown/Utilisation***

During the Utilisation Period, drawdowns may be requested by New Alternative by delivering a utilisation request (in the form substantially agreed under the AHF/I Agreement) not later than 11:00 a.m. on the 20th Business Day before the proposed Utilisation Date.





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The drawdown amount under each utilisation request shall not exceed 5% of the principal amount of the Facility.

### ***Repayment***

The loan drawn down under the AHF/I Agreement, the Bonus Interest and amounts which may become due and payable (including any outstanding Base Interest) under the AHF/I Agreement shall be repayable in full no later than the last day of the Remaining Period (i.e. the last day of the second six (6) years of the Term).

### ***Early repayment***

New Alternative may make early repayments in full or in part at any time during the Term. New Alternative shall notify YF Life in writing 10 Business Days in advance of the early repayment.

### ***Conditions precedent***

The Facility under the AHF/I Agreement would only be obliged to be made available by YF Life subject to the satisfaction of the following conditions precedent:

- (1) on the date of utilisation request and on the proposed Utilisation Date, the repeating representations as set out in the AHF/I Agreement are true in all respects and no event of default or potential event of default as set out in the AHF/I Agreement is continuing or would result from the proposed loan;
- (2) YF Life has received and is satisfied with all the documents and other evidence as requested by YF Life in relation to the proposed loan;
- (3) New Alternative and YF Capital have entered into an investment management agreement whereby New Alternative has engaged YF Capital to be an investment manager to advise on the Investments;
- (4) YF Capital has executed a share charge over the shares of New Alternative in favour of YF Life; and
- (5) Independent Shareholders' approval of the AHF/I Agreement and the transactions contemplated thereunder have been obtained at the EGM.

### ***Guarantee***

Yunfeng Capital unconditionally and irrevocably guarantees to New Alternative the full and prompt payment and performance of all obligations under the AHF/I Agreement by New Alternative.

In the event New Alternative fails to pay or perform any of the obligations under the AHF/I Agreement when due, Yunfeng Capital shall, upon written demand from YF Life, immediately pay or perform such obligations in accordance with the terms of the AHF/I Agreement.

### ***Security***

Pursuant to the AHF/I Agreement, a share charge having been executed by Yunfeng Capital over the shares of New Alternative in favour of YF Life in respect of the obligations of New Alternative under and arising from the AHF/I Agreement is a condition precedent to any drawdown under the Facility.

Apart from the above share charge, pursuant to the AHF/I Agreement, New Alternative undertakes that it shall execute the share charge(s) (in the form substantially agreed under the AHF/I Agreement) in favour of YF Life over the shares of any SPV as security for the obligations of New Alternative under and arising from the AHF/I Agreement.

The above share charges effectively provide YF Life with New Alternative's interests in all Investments as security for the Facility.

## **5. Investment manager, investment guidelines and investment limits**

Pursuant to the condition precedent to drawdown under the Facility in the AHF/I Agreement, Yunfeng Capital shall be engaged by New Alternative as its investment manager to advise on the Investments.

According to the AHF/I Agreement, the management fee and performance fee payable by New Alternative to Yunfeng Capital shall be computed as shown below:

Management fee being the sum of:

Item	Percentage	Denominator	Period	Periodicity	Payable
(i)	2% per annum	Total principal amount, being HK\$7.6 billion	First six years of the Term	Annually	Annually
(ii)	2% per annum	Outstanding Amount	Remaining Period	Daily, simple interest	Annually

And the performance fee is calculated by deducting Total Utilised Amounts, Base Interest and Bonus Interest from Total Investment Return.



The rate and the other terms of the management fee payable under the investment management agreement are determined with reference to (i) the management fee charged by Yunfeng Capital for the US dollar private equity funds managed by it, where it charges 2% per annum on the total capital commitment of the fund (for the investment period of the fund) and 2% per annum on the total capital contributed in respect of unrealised investments (for the rest of the life of the fund); and (ii) the rate and terms of management fee charged by fund managers for other private equity funds, which are the same or similar as that charged by Yunfeng Capital. For reference only, YF Life paid between 1.5% to 2.25% per annum for the private equity funds it invested from 2021 to 2024. Similarly, for these private equity funds invested by YF Life, the per annum management fee rate applies to the total capital commitment for each year during the investment period and to the capital contributed or value attributable to the unrealised investments for each year after the investment period until the maturity of the funds.

We have independently conducted research on listed private equity companies (“**Listed Private Equity Research**”), focusing in particular on performance fees and management fees. Based on the Listed Private Equity Research, we note that the S&P Listed Private Equity Index, which was launched since March 12, 2007, follows the performance of the leading publicly listed private equity companies that meet specific size, liquidity, exposure, and activity requirements. As of the Latest Practicable Date, the Top 10 Constituents are 3i Group, Brookfield Corporation, Blackstone Inc., Partners Group Holding, KKR & Co. Inc., Brookfield Asset Management Ltd., Apollo Global Management Inc., Ares Capital Corp., Intermediate Capital Group, and EQT AB. We have reviewed the available public information of the Top 10 Constituents and note that the rate of management fee among them is from 0.4% to 2% of committed capital or investment. Accordingly, the management fee payable by New Alternative to Yunfeng Capital is within the aforementioned range.

The rate and other terms of the performance fee payable under the investment management agreement is determined with reference to (i) the performance fee/carried interest charged by Yunfeng Capital for the US dollar private equity funds managed by it, where it charges 20% carried interest of the net return from the underlying investments; and (ii) the rate and terms of performance fee charged by fund managers for other private equity funds, which are the same or similar as that charged by Yunfeng Capital. For reference only, all except one private equity funds invested by YF Life from 2021 to 2024 provided for a carried interest or performance fee of 20% or above. According to the Listed Private Equity Research that we have independently performed and following review of the public information available of the Top 10 Constituents, we found that the mode of carried interests or performance fees rate of the Top 10 Constituents is 20%, which is the same as the rate of performance fee payable by New Alternative to Yunfeng Capital.

For the avoidance of doubt, the management fee and the performance fee under the investment management agreement are payable by New Alternative (and not by the Company) to Yunfeng Capital.



The Investment Guidelines issued by YF Life provide the framework for New Alternative's investment decisions. Under the Investment Guidelines, the proposed Investments include private equity and private debt investment opportunities in global markets, with particular focus in Asia and in high growth areas including new economy such as hard tech, business services, green energy, modern agriculture and biotech, as well as sectors that fit the investment objective of generating superior, long-term capital appreciation and/or interest income, which may include consumption sectors and companies backed by real assets. The proposed Investments may also include private credit investment opportunities with downside protection and alternative funds focused on compounding capital at high absolute rates of return while avoiding the risk of permanent loss.

The following Investment limits, as set out in the Investment Guidelines, apply to the Investments:

- (i) no more than 5% of the total amount of the Facility (i.e. HK\$380 million) shall be allocated to any single investment or counterparty;
- (ii) any single holding shall not exceed 10% interest of the relevant Investment; and
- (iii) no more than 40% of the total amount of the Facility (i.e. HK\$3.04 billion) shall be invested in any financial year during the Utilisation Period.

As set out in the Letter form the Board in this circular, the Directors consider that the Investment Guidelines and the investment restrictions which govern the Investments to be made allow the potential of generating a considerable return from the Investments while ensuring that there is a diversified portfolio of at least 20 Investments to be made if the Facility is utilised in full, thereby reducing any concentration in any single sector or investment. We have reviewed the Investment Guidelines and note that according to the Investment Guidelines, a compliance certificate specifying that the drawdown is in full compliance of the Investment Restrictions and any other requirements as required in the AHF/I Agreement, has to be provided to the Lender in advance, together with the drawdown notice.

Furthermore, we have reviewed the monitoring processes of YF Life with respect to the provision of the Facility provided by the Company, which includes as follows:

- In terms of investment restrictions, YF Life monitors and controls the amount proposed for utilization. If any utilization request suggests a proposed drawdown amount exceeding HK\$380 million, or if an aggregate drawdown amount for any year exceeding HK\$3.04 billion, YF Life ensures compliance by refusing the request.
- As part of its monitoring process, YF Life has prepared a template of the utilization request to ensure adherence to the investment guidelines and the restriction that no single holding may exceed 10% of the relevant investment. Through such template, New Alternative is required to provide a detailed description of the proposed investment and the proposed holding percentage, enabling YF Life to assess compliance with the investment guidelines and restrictions.



- New Alternative is also required to provide a compliance certificate, which forms part of YF Life's monitoring framework. This certificate serves as a confirmation from New Alternative to YF Life that all the investment guidelines and investment restrictions have been duly complied with in relation to the proposed drawdown.
- It is noted that one of the conditions precedents to a drawdown of the Facility is that YF Life has received and is satisfied with all the documents and other evidence as requested by YF Life. These include the utilization request and the compliance certificate, which are integral to the monitoring process.
- By reviewing information provided in the utilization request, YF Life is able to conduct compliance checks against all relevant investment restrictions and guidelines. The compliance certificate further strengthens monitoring process, providing additional assurance before YF Life processes the relevant drawdown.

The Company views that the abovementioned monitoring process could ensure compliance with the applicable investment restrictions and guidelines including requirements from Insurance Authority. We concur with the Company's view that such monitoring process is effective.

## 6. Comparable transactions

To evaluate the fairness and reasonableness of the terms of the AHF/I Agreement, an independent analysis was conducted based on comparable transactions obtained from publicly available sources. The comparable transactions referenced in our analysis (the "**Comparable Loan Transactions**") include an exhaustive list of all transactions which involved the provision of financial assistance (including granting credit or lending money) by companies listed in Hong Kong to its connected persons excluding those with convertible mechanisms and were announced by the listed companies during the period from 1 January 2024 to the date of the AHF/I Agreement (the "**Comparable Period**"). We consider the Comparable Period an appropriate time frame for benchmarking the prevailing market practices concerning the loan provisions to connected entities as it contains sufficient number of reference cases happened in the recent time.

The Independent Shareholders should note that this analysis on Comparable Loan Transactions only provides a reference, specific terms and conditions of each Comparable Loan Transactions are unique to their specific scenarios and we have not delved into the details of each Comparable Loan Transactions. However, the Comparable Loan Transactions provide a general reference in relation to provision of financial assistance by companies listed in Hong Kong to their respective connected persons. We consider this analysis provides an appropriate basis for assessing the fairness and reasonableness of the 5.5% annual rate of Base Interest. Moreover, in forming our opinion on the 5.5% annual rate of Base Interest, we have considered the results of the comparisons with the Comparable Loan Transactions together with other factors as stated in this letter as a whole.

Accordingly, to the best of our knowledge and on a best-effort basis, we have identified an exhaustive list of 37 Comparable Loan Transactions which meet the specified selection criteria, summary of the terms of each of them are set out below.



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Date of announcement	Company	Stock code	Financing amount	Term	Security/ Guarantee	Annual Interest Rate (Note 1)	Financing Amount/ Total Assets (Note 2)
04/01/2024	3D Medicines Inc.	1244	RMB60 million	14 days	Yes	8%	4.20%
15/01/2024	Central Wealth Group Holdings Limited	139	HK\$66 million	3 years	Yes	7%	6.35%
09/02/2024	Kinetic Development Group Limited	1277	RMB57 million	1 year	No	3.5% + 1-year loan market quoted interest rate by National Interbank Funding Center (3.4% on 09/02/2024)	0.52%
26/02/2024	China Healthwise Holdings Limited	348	Up to HK\$9 million	2 years	No	3% + HSBC Prime Rate (5.875% on 26/02/2024)	6.01%
07/03/2024	Hengxin Technology Ltd.	1085	In aggregate RMB250 million	1 year	Yes	4.9%	5.89%
08/03/2024	JY Gas Limited	1407	In aggregate RMB118 million	2.5 months to 4 months	No	6.00%	21.48%
22/03/2024	China Boqi Environmental (Holding) Co., Ltd	2377	RMB22 million	8 years	No	3.00%	0.44%
15/04/2024	Ingdan, Inc.	400	RMB90 million	3 years	Yes	3.80%	0.88%
24/04/2024	China Pipe Group Limited	380	HK\$5 million	2 years	Yes	7%	0.53%
30/05/2024	Changyou Alliance Group Limited	1039	In aggregate, up to HK\$200 million	6 years	No	8%	124.99%



Date of announcement	Company	Stock code	Financing amount	Term	Security/ Guarantee	Annual Interest Rate (Note 1)	Financing Amount/ Total Assets (Note 2)
31/05/2024	Uni-Bio Science Group Limited	690	RMB5.8 million	16 months	Yes	3.45%	1.51%
17/06/2024	JH Educational Technology INC.	1935	RMB55 million	2 years	No	3.10%	1.32%
24/06/2024	Lifestyle China Group Limited	2136	Up to RMB60 million	3 years	No	To be determined, but reference to benchmark lending rate or loan prime rate by PBOC (3.45% on 24/06/2024)	0.35%
02/07/2024	Kinetic Development Group Limited	1277	RMB200 million	1 year	No	2.5% + 1-year loan market quoted interest rate by National Interbank Funding Center (3.45% on 02/07/2024)	1.70%
02/07/2024	iMotion Automotive Technology (Suzhou) Co., Ltd.	1274	RMB13.7 million	3 years	No	3.45%	0.86%
11/07/2024	Asian Citrus Holdings Limited	73	RMB5 million	6 months	No	4%	3.12%
16/07/2024	Capital Environment Holdings Limited	3989	RMB7 million	1 year	No	6.50%	0.03%
19/07/2024	MicroPort CardioFlow Medtech Corporation	2160	RMB10 million	2 years	Yes	1-year LPR (3.45% on 19/07/2024)	0.40%

Date of announcement	Company	Stock code	Financing amount	Term	Security/ Guarantee	Annual Interest Rate (Note 1)	Financing Amount/ Total Assets (Note 2)
22/07/2024	A-Living Smart City Services Co., Ltd	3319	RMB51.8 million	Until 31/12/2024 (~ 5 months)	Yes	3.45%	0.24%
25/07/2024	Chinney Alliance Group Limited/ Chinney Kin Wing Holdings Limited	385/ 1556	HK\$250 million	1 year (subject to 1 year extension)	No	6%	4.22% 13.01%
09/08/2024	Jenscare Scientific Co., Ltd.	9877	RMB11 million	3 years	No	Reference to interest rate by PBOC (3.35% on 09/08/2024)	0.93%
16/08/2024	Henan Jinyuan Hydrogenated Chemicals Co., Ltd	2502	RMB30 million	1 year	No	5.00%	1.76%
30/08/2024	Sterling Group Holdings Limited	1825	US\$4.21 million	2 years	Yes	7.00%	10.21%
12/09/2024	Dida Inc.	2559	US\$7.5 million	18 months	Yes	5.35%	2.87%
19/09/2024	Hui Xian Real Estate Investment Trust	87001	RMB40 million	5 years	No	Over 5-year LPR (3.85% on 19/09/2024)	0.11%
30/09/2024	S-Enjoy Service Group Co., Limited	1755	RMB120 million	3 years	Yes	Higher of 1-year LPR or 6.05%	1.72%
07/10/2024	Minshang Creative Technology Holdings Limited	1632	HK\$9.5 million	1 year	No	8%	6.33%
10/10/2024	GBA Holdings Limited	261	HK\$4.5 million	1 year	No	8.00%	0.64%





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Date of announcement	Company	Stock code	Financing amount	Term	Security/ Guarantee	Annual Interest Rate (Note 1)	Financing Amount/ Total Assets (Note 2)
25/10/2024	China Shuifa Sinyes New Materials Holdings Limited	8073	RMB30 million	3 years	No	6%	11.50%
01/11/2024	Jilin Province Chuncheng Heating Company Limited	1853	RMB300 million	Until 31/12/2029 (~5 years)	No	4.5%	14.65%
11/11/2024	Furniweb Holdings Limited	8480	RM5 million	2 years	No	6%	2.56%
11/11/2024	Zhong Ji Longevity Science Group Limited	767	HK\$30 million	Until 31/12/2027 (~3 years)	Yes	10%	6.01%
19/11/2024	SCE Intelligent Commercial Management Holdings Limited	606	RMB900 million	2 years	Yes	5.5%	25.31%
29/11/2024	Tianjin Capital Environmental Protection Group Company Limited	1065	RMB24.35 million	3 years	No	5%	0.10%
			RMB15.65 million	1 year			0.06%
29/11/2024	Devgreat Group Limited	755	RMB639.5 million	3 years	Yes	11.9%	13.75%

Date of announcement	Company	Stock code	Financing amount	Term	Security/ Guarantee	Annual Interest Rate (Note 1)	Financing Amount/ Total Assets (Note 2)
30/12/2024	Redboy Education Holding Company Limited	2385	RMB3 million	1 year	No	3.95%	0.47%
10/1/2025	GCL New Energy Holdings Limited	451	RMB181 million in aggregate	Until 31/7/2027 (~2 years)	No	3.85%	2.81%
					Maximum	11.90%	124.99%
					Mean	5.66%	7.69%
					Median	5.50%	1.76%
					Minimum	3.00%	0.03%

*Notes:*

1. In the case of floating rates, the reference rates on quoted on the date of the announcements were used in the analysis above.
2. Total assets refer to the amount as of the latest reporting date, immediately prior to the date of the announcement of the corresponding transactions for each company.
3. The foreign exchange rates of USD.HKD = HK\$7.8 and RMB.HKD = HK\$1.07 were in the above analysis for illustration purposes.

In light of (i) the above list being exhaustive and (ii) the financing amount to total assets ratio of the Facility being approximately 8.1%, which is within the range of the Comparable Loan Transactions (from 0.03% to 124.99% and with 8 Comparable Loan Transactions having financing amount to total assets ratio of over 8%), we are of the view that the sampled population and sample size are fair and representative, thereby justifying the Base Interest of 5.5% per annum.

**(a) Interest rate**

The Comparable Loan Transactions have annual interests rate ranged from 3.0% to 11.9%, with a mean of 5.66% and median of 5.50%.

The 5.5% Base Interest rate falls within the range of annual interest rates observed in Comparable Loan Transactions. It aligns closely with the mean and median annual interest rates of these Comparable Loan Transactions.



As set out in the Letter from the Board, the Base Interest assures YF Life a guaranteed rate of return of 5.5% over a long term of up to 12 years. Such interest rate is comparable to the weighted average yield of YF Life's debt investments purchased in 2023 and 2024 of 5.4% and 5.5%, respectively, based on the list of debt investments YF Life made in 2023 and 2024 provided by the Company.

The Bonus Interest provides the Group with an upside return so that YF Life may receive in total interest income that represents 80% of the net return from the Investments. We have reviewed an exhaustive list of all the private equity fund investments, totalling 13, that YF Life made from 2021 to 2024, as provided by the Company and noted that all except one private equity funds invested by YF Life from 2021 to 2024 provided for a carried interest or performance fee (as the case may be) of 20% or above. We have also reviewed a list of US dollar private equity funds, totalling four, being all principal US dollar private equity funds managed by Yunfeng Capital (including YF Fund I which matured in December 2023), as provided by the Company and noted that the US dollar private equity funds managed by Yunfeng Capital provide for a carried interest of 20% of the net return from the underlying investments. In light of the abovementioned exhaustive lists, which include both historical and recent carried interest or performance fees arrangements, we are of the view that the sampled population is fair and representative. Also, having considered funds from the Facility will be used for investments to be made by the Borrower and managed by a private equity fund manager, we consider that net returns to private equity fund investors (i.e. net investment returns minus the fund performance fee) could serve a reasonable reference when considering whether the Bonus Interest is on normal commercial terms. In light of the fund performance fee of 20% which is not uncommon in market practice based on the observations mentioned above, we consider the Bonus Interest, being 80% of net return of investments, is on normal commercial terms.

Furthermore, we found from the research report *The 2024 Preqin Private Capital Fund Terms Advisor*, published by Preqin Ltd., that the carried interest rate used by direct private equity funds (raising and closing funds in 2023 and 2024) has a mode of 20%. According to the website of Preqin Ltd. (<https://www.preqin.com/>), Preqin Ltd. is a leading provider of financial data and information for the alternative assets industry, which is committed to providing coverage, amongst others, in private equity.

Accordingly, we view that the Base Interest, together with the Bonus Interest, is in the interest of the Company and fair and reasonable so far as the Independent Shareholders are concerned and are on normal commercial terms.

**(b) Term of maturity**

As illustrated by the above table, the term of maturity of the Comparable Loan Transactions ranges from 1 year to 5 years. The term of the AHF/I Agreement of 12 years is longer than the aforesaid range of Comparable Loan Transactions. Nevertheless, we note that the weighted average duration of YF Life's debt investments purchased in 2023 and 2024 is 14.5 years and 14.1 years, respectively. Therefore, we view that the term of the Facility is on normal commercial terms.

As shown in the above table, 14 Comparables had securities or guarantees attached to their respective loans while the remaining 23 Comparables did not have any securities or guarantees. It is understood that in general, having attached securities or guarantees to a loan will inevitably provide more assurances to the respective lender but the inclusion of securities or guarantees is discretionary and would normally depends on different factors such as the size of the loan, the financial position of the borrower and the credibility of the borrower, etc.

We concur with the view of the Directors that the share charges over the shares of New Alternative and the SPV(s) that will be used to hold the Investments, respectively, effectively provide YF Life with security over the underlying Investments that are made for the purpose of generating return to support the payment of the Base Interest and the Bonus Interest, as well as the repayment of the Facility.

In light of the above, we are of the view that the major terms of the AHF/I Agreement are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

## **RECOMMENDATION**

Having considered the above principal factors and reasons, we are of the opinion that (i) the terms of the AHF/I Agreement has been entered into on normal commercial terms and in the ordinary and usual course of business of the Group, the terms of which are fair and reasonable in so far as the Independent Shareholders are concerned and the entering into of the AHF/I Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution be proposed at the SGM to approve the AHF/I Agreement and the transactions contemplated.

Yours faithfully,  
For and on behalf of  
**Oriental Patron Asia Limited**



**Benson Chan**  
*Director*

*Note:* Benson Chan is a licensed person under the Securities and Futures Ordinance (Chapter 571) permitted to carry out Type 6 (advising on corporate finance) regulated activity and is a responsible officer of Oriental Patron Asia Limited, and he has over 15 years of experience in corporate finance.