

# ALTUS CAPITAL LIMITED

21 Wing Wo Street, Central, Hong Kong

Tel : (852) 2522 6122

Fax : (852) 2522 6992

E-mail Address:

mail@altus.com.hk

24 March 2023

*To the Independent Board Committee and the Independent Shareholders*

**KangLi International Holdings Limited**

2408, World-Wide House

19 Des Voeux Road Central

Central, Hong Kong

Dear Sir/Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION:  
PROVISION OF FINANCIAL ASSISTANCE –  
THE LOAN AGREEMENT**

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Loan Agreement and the transaction contemplated thereunder, details of which are set out in the “Letter from the Board” contained in the circular of the Company dated 24 March 2023 (the “**Circular**”). Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 28 February 2023, the Loan Agreement was entered into amongst Jiangnan Precision, an indirect wholly owned subsidiary of the Company, as lender, Jiangnan Tiehejin, as borrower, and Mr. Mei, as guarantor. Pursuant to the Loan Agreement, Jiangnan Precision has agreed to grant the Loan in the principal amount of RMB20,000,000 to Jiangnan Tiehejin for a term of three years.

Pursuant the Loan Agreement, one of the conditions precedent to the drawdown of the Loan include Jiangnan Precision and Jiangnan Tiehejin having entered into the Option Agreement. The Option Agreement was entered into between Jiangnan Precision and Jiangnan Tiehejin on 28 February 2023, pursuant to which the Property Acquisition Option will be granted to Jiangnan Precision, at nil consideration, to acquire the Property, subject to the fulfilment of all the conditions precedent in the Loan Agreement.

## **LISTING RULES IMPLICATIONS**

As at the Latest Practicable Date, Jiangnan Tiehejin is owned as to approximately 90.0% by Mr. Mei and approximately 10.0% by Ms. Chen Yunjuan, mother of Mr. Mei. Mr. Mei is one of the Controlling Shareholders and an executive Director. As such, Jiangnan Tiehejin is regarded as a connected person of the Company and the grant of the Loan therefore constitute a connected transaction pursuant to Chapter 14A of the Listing Rules.

As one of the applicable percentage ratios (as defined in the Listing Rules) is more than 5% but less than 25%, the transaction contemplated under the Loan Agreement constitute a discloseable (under Chapter 14 of the Listing Rules) and connected transaction (under Chapter 14A of the Listing Rules) of the Company, and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules and the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The grant of the Property Acquisition Option under the Option Agreement would be treated as a transaction and classified by reference to the percentage ratios (as defined under the Listing Rules) pursuant to Rules 14.04(1)(b) and 14.73 of the Listing Rules. The exercise of the Property Acquisition Option is at the discretion of Jiangnan Precision. According to Rules 14.75(1) and 14A.79(2) of the Listing Rules, on the grant of the Property Acquisition Option, only the premium (which is nil) will be taken into consideration for calculating the relevant percentage ratios. The Company will comply with the relevant requirements under the Listing Rules upon the exercise and non-exercise of the Property Acquisition Option (as the case may be).

## **THE INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Lau Ying Kit, Mr. Yang Guang and Mr. Cao Cheng, has been established to consider and advise the Independent Shareholders as to (i) whether the terms of the Loan Agreement are fair and reasonable; (ii) whether the entering into the Loan Agreement and the transaction contemplated thereunder is on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant resolution to be proposed at the EGM, after taking into account the recommendation of the Independent Financial Adviser.

## **THE INDEPENDENT FINANCIAL ADVISER**

As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the terms of the Loan Agreement are fair and reasonable; (ii) whether the entering into the Loan Agreement and the transaction contemplated thereunder is on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant resolution to be proposed at the EGM.

We have not acted as an independent financial adviser or financial adviser for other transactions of the Group in the last two years prior to the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the Loan Agreement and the transaction contemplated thereunder is at market level and not conditional upon successful passing of the relevant resolution to be proposed at the EGM, and that our engagement is on normal commercial terms, we are independent of and not associated with the Company, its controlling shareholder(s) or connected person(s).

## **BASIS OF OUR ADVICE**

In formulating our opinion, we have reviewed, amongst others, (i) the annual report of the Company for the year ended 31 December 2021 (the “**2021 Annual Report**”); (ii) the interim report of the Company for the six months ended 30 June 2022 (the “**2022 Interim Report**”); (iii) the Loan Agreement; (iv) the Option Agreement; and (v) other information contained or referred to in the Circular.

We have also relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Group (the “**Management**”). We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Company, the Directors and the Management were reasonably made after due and careful enquiry and were true, accurate and complete at the time they were made and continued to be so as at the date of the EGM.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading at the time they were made or will be untrue, inaccurate or misleading at the date of the EGM, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us to be untrue, inaccurate or misleading. We have assumed that all the statements, information, opinions and representations for matters relating to the Company contained or referred to in the Circular and/or provided to us by the Company and the Management have been reasonably made after due and careful enquiry. We consider that we have been provided with and have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have relied on such statements, information, opinions and representations and have not conducted any independent investigation into the business, financial conditions and affairs or future prospects of the Group.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

### 1. Background

#### 1.1 Information of the Group

The Company is a company incorporated in Cayman Islands with limited liability and is principally engaged in the manufacture and sales of hard steel coil, unpainted galvanised steel products and painted galvanised steel products. Jiangnan Precision, an indirect wholly-owned subsidiary of the Company, is a company established in the PRC and is principally engaged in steel processing.

#### 1.2 Financial information of the Group

Set out below is a summary of the audited consolidated financial information of the Group for the years ended 31 December 2020 (“FY2020”) and 2021 (“FY2021”), which has been extracted from the 2021 Annual Report; and (ii) the unaudited consolidated financial information of the Group for the six months ended 30 June 2021 (“1H FY2021”) and 2022 (“1H FY2022”), which has been extracted from the 2022 Interim Report.

#### Extract of consolidated statement of profit or loss

	For the year ended		For the six months ended	
	31 December		30 June	
	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	1,606,146	2,035,409	992,642	764,715
Gross profit	176,470	234,201	124,581	34,401
Profit/(loss) for the year/period	72,411	98,097	64,394	(5,144)

#### Extract of consolidated statement of financial position

	As at 31 December		As at 30 June
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(unaudited)
Total assets	1,891,617	1,912,366	1,886,764
– Cash at bank and on hand	243,545	216,064	255,799
– Trade and bills receivables	685,303	721,918	631,765
Total liabilities	1,209,467	1,151,142	1,155,760
– Bank and other loans	511,150	503,927	500,607
Net assets	682,150	761,224	731,004
Current ratio <sup>1</sup>	1.4 times	1.4 times	1.3 times
Gearing ratio <sup>2</sup>	0.7 times	0.7 times	0.7 times

Notes:

1. Current ratio is calculated as current assets over current liabilities of the Group.
2. Gearing ratio is calculated as total bank and other loans over total equity of the Group.

*FY2020 vs FY2021*

The Group recorded revenue of approximately RMB2,035.4 million in FY2021, representing an increase of approximately 26.7% from approximately RMB1,606.1 million in FY2020 mainly due to the increase in overall average selling price of the steel products as a result of the upsurge of raw material prices. The Group recorded gross profit of approximately RMB234.2 million in FY2021, representing an increase of approximately 32.7% from approximately HK\$176.5 million in FY2020 mainly due to (i) the increase in revenue as discussed above; and (ii) improvement in overall gross profit margin, in particular the painted galvanized steel products. As a result of the above, the Group recorded a substantial increase in net profit of approximately 35.5% to approximately RMB98.1 million in FY2021 from approximately RMB72.4 million in FY2020.

As at 31 December 2020 and 2021, the Group's total assets mainly consisted of (i) property, plant and equipment; (ii) trade and bills receivables; (iii) inventories; (iv) cash at bank and on hand; and (v) prepayments, deposits and other receivables. The Group's total assets remained stable at approximately RMB1,891.6 million and approximately RMB1,912.4 million as at 31 December 2020 and 2021 respectively. The Group's cash at bank and on hand was approximately RMB216.1 million as at 31 December 2021, representing a decrease of approximately 11.3% from approximately RMB243.5 million as at 31 December 2020 mainly due to the net cash outflow from investing activities and financing activities, which was partially offset by the net cash generated from operating activities. The Group's trade and bills receivables, which were mostly due within one month, were approximately RMB721.9 million as at 31 December 2021, representing an increase of approximately 5.3% from approximately RMB685.3 million as at 31 December 2020, and was generally in line with the Group's increased business activities.

As at 31 December 2020 and 2021, the Group's total liabilities mainly consisted of (i) trade and bills payables; and (ii) short-term bank and other loans. The total liabilities of the Group decreased by approximately 4.8% to approximately RMB1,151.1 million as 31 December 2021 from approximately RMB1,209.5 million as at 31 December 2020 mainly due to the decrease in trade and bills payables from approximately RMB588.2 million as at 31 December 2020 to approximately RMB515.8 million as at 31 December 2021. As a result of the above, the Group's net assets improved by approximately 11.6% from approximately RMB682.2 million as at 31 December 2020 to approximately RMB761.2 million as at 31 December 2021.

The current ratio and gearing ratio of the Group remained stable at approximately 1.4 times and 0.7 times as at each of 31 December 2020 and 2021 respectively.

*1H FY2021 vs 1H FY2022*

The Group recorded revenue of approximately RMB764.7 million in 1H FY2022, representing a decrease of approximately 23.0% from approximately RMB992.6 million in 1H FY2021 mainly due to the decrease in overall sales volume of the Group's steel products, in particular the unpainted galvanized steel products. The Group recorded gross profit of approximately RMB34.4 million in 1H FY2022, representing a decrease of approximately 72.4% from approximately RMB124.6 million in 1H FY2021 primarily due to the (i) decrease in overall revenue as discussed above; and (ii) deterioration of gross profit margin from approximately 12.6% in 1H FY2021 to 4.5% in 1H FY2022 mainly due to the increase in average production costs resulting from the drop in sales and production volume, as some of these costs were fixed in nature. As a result of the above, the Group recorded a net loss of approximately RMB5.1 million in 1H FY2022 as compared to a net profit of approximately RMB64.4 million in 1H FY2021.

The major components of the Group's total assets were substantially the same as at 31 December 2021 and 30 June 2022. The total assets of the Group remained stable at approximately RMB1,912.4 million and approximately RMB1,886.8 million as at 31 December 2021 and 30 June 2022 respectively. The Group's cash at bank and on hand was approximately RMB255.8 million as at 30 June 2022, representing an increase of approximately 18.4% from approximately RMB216.1 million as at 31 December 2021 mainly due to the net cash generated from operating activities. The Group's trade and bills receivables, which were mostly due within one month, was approximately RMB631.8 million as at 30 June 2022, representing a decrease of approximately 12.5% from approximately RMB721.9 million as at 31 December 2021. The major components of the Group's total liabilities were substantially the same as at 31 December 2021 and 30 June 2022 where they remained stable at approximately RMB1,151.1 million and RMB1,155.8 million as at 31 December 2021 and 30 June 2022 respectively. The Group's net assets also remained stable at approximately RMB761.2 million and RMB731.0 million as at 31 December 2021 and 30 June 2022 respectively.

The current ratio of the Group decreased slightly from approximately 1.4 times as at 31 December 2021 to approximately 1.3 times as at 30 June 2022. The gearing ratio of the Group remained stable at 0.7 as at 31 December 2021 and 30 June 2022 respectively.

### **1.3 Outlook of the Group**

As stated in the 2021 Annual Report, the Group expects that the steel industry will see a new round of structural optimisations. These are expected to result in steel prices being at relatively high levels, and as downstream player in the steel industry, high steel prices will imply higher selling prices for the Group's products which would enhance the Group's revenue.

Meanwhile as reported in the 2022 Interim Report, the Group's new production lines are progressively becoming operational. The expanded production capacity will be able to uplift production efficiency and reduce production costs. In particular, the use of smart slitting and cutting production line and 3D smart storage will uplift the production efficiency of galvanized steel plates and painted galvanized steel plates, enhancing product quality and reducing production costs, placing the Group in a good position for its future business development and market growth.

### **1.4 Information of Jiangnan Tiehejin**

Jiangnan Tiehejin is a company established in the PRC with limited liability and is principally engaged in the processing, production and sales of various types of ferroalloy, including ferrotitanium and ferroaluminium. It is owned as to approximately 90.0% by Mr. Mei and approximately 10.0% by Ms. Chen Yunjuan, mother of Mr. Mei. The unaudited consolidated net current asset value and net asset value of Jiangnan Tiehejin as at 31 December 2021 and 2022 each amounted to over RMB1 billion.

## **2. The Group's rationale for entering into the Loan Agreement and the Option Agreement**

According to the 2021 Annual Report and 2022 Interim Report, the Group had stable (i) cash at bank and on hand of approximately RMB216.1 million and RMB255.8 million; (ii) trade and bills receivables, which were mostly due within one month, of approximately RMB721.9 million and RMB631.8 million; (iii) net assets of approximately RMB761.2 million and RMB731.0 million; (iv) current assets of approximately RMB1,558.1 million and RMB1,527.0 million (accounting for over 80% of the Group's total assets); and (v) current ratio of 1.4 times and 1.3 times as at 31 December 2021 and 30 June 2022 respectively. We consider that the Group's financial resources on hand is sufficient to cover its current borrowings. We have discussed with the Management and noted that the Group is in a healthy financial position where there is more than sufficient working capital to run the Group's operations. As such, the grant of the Loan, which is not material to the overall financial position of the Group, will not impose material impact on the working capital nor daily operations of the Group. The Management considers that the grant of the Loan enables the Group to optimise the return on its assets as it enables the Group to generate interest income.

Under the Loan Agreement, one of the conditions precedent to the drawdown of the Loan includes Jiangnan Precision and Jiangnan Tiehejin having entered into the Option Agreement, pursuant to which the Property Acquisition Option will be granted to Jiangnan Precision, at nil consideration, to acquire the Property with reference to the final price under the “commercial-housing pre-sale contract” and such Property Acquisition Option is exercisable at the sole discretion of the Group. Under the Option Agreement, the Group has the right to select which two floors of the New Office Building to be acquired at its sole discretion. The maximum purchase price of the Property upon the exercise of the Property Acquisition Option is capped at RMB22,000,000. The option exercise price of RMB22,000,000 was determined with reference to, among other things, (i) the prevailing market prices of properties of similar nature and grading available in the localities; and (ii) the current property market sentiment in Changzhou City, Jiangsu Province. Further details of the Property Acquisition Option and the Option Agreement are set out in the “Letter from the Board” of the Circular.

The Property consists of two storeys of office units, each storey being approximately 1,500 sq.m. As advised by the Management, the current office of the Group situated at Wuyi County, Hengshanqiao Town, Wujin District, Changzhou City, Jiangsu Province, the PRC is a leased property. It occupies an area of approximately 800 sq.m. and is steadily reaching its maximum capacity with limited space for further increase of workstations. The Group is seeking to acquire new property for office use in support of the continued business growth of the Group, in particular, the expansion of the color-coating business since 2021.

We concur with the Management’s view that the possible acquisition of the Property in the foreseeable future can save on rental expenses and provides flexibility for long term planning. To the extent that the Property is not immediately fully utilised by the Group for own-use, the vacant spaces may be leased out on a short-term basis to generate rental income or be sold. There is also potential for capital appreciation in the long run. Further details of the Property are set out in the “Letter from the Board” of the Circular.

Having considered that (i) the grant of Loan will not have material financial impact on the Group while enabling the Group to generate interest income; and (ii) the Property Acquisition Option is exercisable at the sole discretion of Group, which provides flexibility and potential benefits to the Group as further discussed in the section headed “The Property Acquisition Option” below, we are of the view that the entering into the Loan Agreement and the Option Agreement is in the interests of the Company and the Shareholders as a whole.



### 3. Principal terms

Set out below is a summary of the principal terms of the Loan Agreement and the Option Agreement, details of which are set out in the “Letter from the Board” of the Circular.

#### *The Loan Agreement*

Date	:	28 February 2023
Parties	:	(1) Jiangnan Precision, as lender (2) Jiangnan Tiehejin, as borrower (3) Mr. Mei, as guarantor
Principal	:	RMB20,000,000
Interest Rate	:	5.5% per annum, which is determined with reference to the Group’s existing cost of capital in the range of approximately 4.0% to 4.5%.

All interests accrued pursuant to the Loan Agreement shall be repayable by Jiangnan Tiehejin to Jiangnan Precision at the maturity of the Loan. If Jiangnan Precision chooses to exercise the Property Acquisition Option and Jiangnan Precision and Jiangnan Tiehejin have formally entered into a “commercial-housing pre-sale contract” (《商品房預售合同》) for the acquisition of the Property, all interests under the Loan Agreement will be waived, and the principal amount of the Loan shall be used to offset the purchase price for the acquisition of the Property.

Repayment	:	The repayment date of the principal amount and all outstanding interests shall be three years from the Drawdown Date. Subject to compliance with laws and regulations (including the Listing Rules), Jiangnan Precision and Jiangnan Tiehejin may enter into agreement with terms mutually agreed for the extension of the Loan.
Early repayment	:	Jiangnan Precision has the right to request the Borrower to repay the principal amount of the Loan and all accrued interest in full ahead of the repayment date of the Loan by giving to the Borrower one month’s prior written notice.

- Security : The Loan will be secured by the personal guarantee provided by Mr. Mei, pursuant to which Mr. Mei agreed to guarantee to Jiangnan Precision the payment obligation of Jiangnan Tiehejin under the Loan Agreement, which includes but is not limited to the principal amount of the Loan, interest, damage compensation, and liquidated damages, and all costs (including litigation, legal fees and enforcement fees, etc.) attributed from Jiangnan Tiehejin's repayment obligation under the Loan Agreement. The guarantee period shall end when the repayment obligation of Jiangnan Tiehejin under the Loan Agreement is fulfilled.
- Event of default : If Jiangnan Tiehejin defaults on the repayment of the Loan, Jiangnan Precision has the right to take remedial measures, including (a) requiring Jiangnan Tiehejin to rectify the breach; (b) requiring Jiangnan Tiehejin to bear the losses suffered by Jiangnan Precision; and (c) requiring Jiangnan Tiehejin to immediately repay the Loan and unpaid interests and all fees paid by and all losses incurred by Jiangnan Precision pursuant to the Loan Agreement. Other events of default pursuant to the Loan Agreement include: (i) Jiangnan Tiehejin fails to fully and punctually perform or comply with its obligations under the Loan Agreement; (ii) any representations, warranties and undertaking made or given by Jiangnan Tiehejin pursuant to the Loan Agreement are untrue or misleading in material respects; (iii) any provision of the Loan Agreement becomes invalid, unenforceable or Jiangnan Tiehejin's consent or approval to perform its obligations under the Loan Agreement is revoked or amended for whatever reason; or (iv) any debt of Jiangnan Tiehejin is declared due prior to the expiry of the term; or any guarantee or similar obligation of Jiangnan Tiehejin is not released after the expiry of the term.

### ***The Option Agreement***

Pursuant to the Loan Agreement, one of the conditions precedent to the drawdown of the Loan is Jiangnan Precision and Jiangnan Tiehejin having entered into the Option Agreement. The Option Agreement was entered into between Jiangnan Precision and Jiangnan Tiehejin on 28 February 2023, pursuant to which the Property Acquisition Option will be granted to Jiangnan Precision, at nil consideration, to acquire the Property with reference to the final price under the “commercial–housing pre-sale contract”, subject to the fulfillment of certain conditions precedent. Further details of the Property Acquisition Option, the Option Agreement and the Property are set out in the “Letter from the Board” of the Circular.

### **3.1 Evaluation of the principal terms of the Loan Agreement**

#### ***Interest rate***

The Management informed that the interest rate under the Loan Agreement is determined with reference to (i) the existing cost of capital of the Group, which represents the cost of obtaining financing to fund its operations; (ii) the loan prime rates promulgated by the People’s Bank of China, which reflect general market conditions; and (iii) the credit assessment on Jiangnan Tiehejin, as further discussed in the section headed “Security and default risk” below.

According to the 2022 Interim Report and the Management, (i) the Group’s existing cost of capital ranged from 4.0% per annum to 4.5% per annum, (ii) the one-year and over five-year loan prime rate promulgated by the People’s Bank of China are 3.65% per annum and 4.30% per annum, and (iii) the average interest rate of the Group’s existing term deposits is 1.9% per annum. The interest rate of 5.5% per annum under the Loan Agreement is higher than all of the above rates. Accordingly, we consider that the interest rate under the Loan Agreement to be fair and reasonable.

#### ***Security and default risk***

The Loan will be secured by the personal guarantee provided by Mr. Mei, pursuant to which Mr. Mei agreed to guarantee to Jiangnan Precision the payment obligation of Jiangnan Tiehejin under the Loan Agreement, which includes but is not limited to the principal amount of the Loan, interest, damage compensation, and liquidated damages, and all costs (including litigation, legal fees and enforcement fees, etc.) attributed from Jiangnan Tiehejin’s repayment obligation under the Loan Agreement. The guarantee period shall only end when the repayment obligation of Jiangnan Tiehejin under the Loan Agreement is fulfilled.

We note that Mr. Mei is the Controlling Shareholder of both Jiangnan Tiehejin and the Company. As advised by the Management, the Group has the right to request for, and Jiangnan Tiehejin and Mr. Mei have agreed to, on a timely basis update the Group on the usage of the Loan as well as the construction progress of the Property. They will also regularly provide the Group with Jiangnan Tiehejin's financial statements for the Group to continually assess the credit standing of Jiangnan Tiehejin.

We have reviewed the unaudited financial statements including balance sheets for 2021 and 2022 of Jiangnan Tiehejin and personal financial information from Mr. Mei, including bank statements and Mr. Mei's Shares held in the Company through Newrich Limited by virtue of interest in controlled corporation and concur with the Management that Jiangnan Tiehejin is in a healthy financial position and each of Jiangnan Tiehejin and Mr. Mei has sufficient financial resources for repaying the Loan. We understand from the Management that as Jiangnan Tiehejin is a private company incorporated in the PRC, its financial statements are not subject to annual audit requirements under the relevant PRC rules and regulations and therefore, audited financial statements are not available. The Management informed that Jiangnan Tiehejin files its tax return to the relevant PRC authorities based on such unaudited financial information. We have reviewed Jiangnan Tiehejin's tax filings for 2021 and 2022 and noted that the figures submitted to the PRC authorities are the same as those of the unaudited financial statements. We consider the use of unaudited financial statements for this purpose to be reasonable and adequate.

Having taken into account the above, we concur with the Management's view that the guarantee provided by Mr. Mei can effectively safeguard the interests of the Company and the default risk of the Loan is relatively low.

#### ***Repayment and Early repayment***

Pursuant to the Loan Agreement, the repayment date of the principal amount and all outstanding interests shall be three years from the Drawdown Date. Although the Group will not receive interest income on a regular basis under such repayment arrangement, the interest amount to be received is not material relative to the Group's scale of operations and the Group does not rely on it as a material source of income.

Notwithstanding that the principal amount and all outstanding interests shall be repaid at the maturity date, as the Loan is subject to early repayment upon the demand of the Group, despite the amount of the Loan is not material to the overall financial position of the Group as discussed above, in the event that the Group faces liquidity needs, the Group has full rights to request Jiangnan Tiehejin to repay the Loan and all accrued interest in full ahead of the repayment date of the Loan in the case of liquidity needs. We therefore consider the overall repayment arrangement is fair and reasonable.

### ***The Property Acquisition Option***

Under the Loan Agreement, one of the conditions precedent to the drawdown of the Loan is Jiangnan Precision and Jiangnan Tiehejin having entered into the Option Agreement, pursuant to which the Property Acquisition Option will be granted, at nil consideration, to Jiangnan Precision to acquire the Property at a maximum purchase price capped at RMB22,000,000, and such Property Acquisition Option is exercisable at the sole discretion of the Group.

The Property Acquisition Option, which is exercisable at the sole discretion of the Group, merely represents an additional option available to the Group at the point of settlement of the Loan. Such Property Acquisition Option is favorable to the Group as it provides flexibility for the Group to opt for (i) receiving an interest income from the Loan at maturity or when the Group requests for early repayment; or (ii) exercising the Property Acquisition Option where it can purchase the Property at a price capped at RMB22,000,000, potentially enjoying an upside in the event that the market value of the Property exceeds RMB22,000,000 plus the accrued interests of the Loan, at the time of the exercise of the Property Acquisition Option. The Management informed that the option exercise price of RMB22,000,000 was determined with reference to, among other things, (i) the prevailing market prices of properties of similar nature and grading available in the localities; and (ii) the current property market sentiment in Changzhou City, Jiangsu Province.

Notwithstanding that all interests under the Loan Agreement will be waived if the Company chooses to exercise the Property Acquisition Option, the Company would only exercise such option where the then prevailing market prices of properties of similar nature and grading available in the localities is notably higher than the exercise price of RMB22,000,000 plus the accrued interests of the Loan. For illustrative purposes, assuming that the Property is completed at the end of three years-time when the Loan Agreement matures, if the then market value of the Property is less than RMB25,300,000 (being the aggregate of the option exercise price of RMB22,000,000 and total interest income of RMB3,300,000 to be waived upon the exercise of the Property Acquisition Option), the Group would choose to receive interest income instead of exercising the Property Acquisition Option.

Based on the above, we concur with the Management's view that the Property Acquisition Option, which represents an alternative settlement arrangement of the Loan with extra flexibility and potential benefits to the Company, is fair and reasonable and is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

## RECOMMENDATION

Having considered the above principal factors, we are of the view that (i) the terms of the Loan Agreement are fair and reasonable; and (ii) although the entering into the Loan Agreement and the transaction contemplated thereunder is not in the ordinary and usual course of business of the Group, it is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution to be proposed at the EGM to approve the Loan Agreement.

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



**Chang Sean Pey**  
Executive Director



**Leo Tam**  
Executive Director

*Mr. Chang Sean Pey (“Mr. Chang”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and permitted to undertake work as a sponsor. He is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Mr. Chang has over 25 years of experience in banking, corporate finance advisory and investment management. In particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.*

*Mr. Leo Tam (“Mr. Tam”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. He has over eight years of experience in corporate finance and advisory in Hong Kong, in particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions. Mr. Tam is a certified public accountant of the Hong Kong Institute of Certified Public Accountants.*