

10 November 2022

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

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 Transactions, details of which are set out in the section headed “Letter from the Board” (the “**Board Letter**”) in the Company’s circular dated 10 November 2022 to the Shareholders, of which this letter forms part. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee. Terms used in this letter shall have the same meanings as defined in this circular unless the context requires otherwise.

Reference is made to the Joint Announcement. On 3 October 2022, GNS, a wholly owned subsidiary of the Company, and Mr. Hung (a non-executive Director and the chairman of the Board), entered into the Financing Services Agreement, pursuant to which GNS may (but not obliged to), provide or procure any other company amongst the Group to provide the Financing Services to Mr. Hung and/or the Controlled Companies from time to time during the Term, on a non-exclusive basis.

As at the Latest Practicable Date, apart from his positions and capacities in GN Holdings, Mr. Hung is also a non-executive Director and the chairman of the Board. Therefore Mr. Hung is a connected person of the Company and the Financing Services Agreement constitutes continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios for the Proposed Annual Caps calculated under the Listing Rules are over 5% and the aggregate amount exceeds HK\$10,000,000, the Transactions are subject to the reporting, announcement, annual review and independent shareholders’ approval requirements of the Company under Chapter 14A of the Listing Rules.

Any Shareholder with a material interest in the Transactions is required to abstain from voting on the resolution in relation to the Transactions at the EGM. Mr. Hung and his associates (including GN Holdings), who are deemed to be interested in 1,875,000,000 Shares, representing 75% of the issued share capital of the Company, are required to abstain from voting at the EGM.

Save and except for Mr. Hung and his associates, to the best of the Directors' knowledge, information and belief, as at the Latest Practicable Date, no other Shareholder has a material interest in the Transactions and is required to abstain from voting on the relevant resolution in relation to the Transaction at the EGM.

The Independent Board Committee has been formed to advise the Independent Shareholders as to the fairness and the reasonableness of the terms of the Transactions and as to how to vote at the EGM. We, Nuada Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Transactions.

During the past two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser, there were no other engagements between the Group and Nuada Limited. Apart from normal professional fees for our services to the Company in connection with this appointment as the Independent Financial Adviser and the engagement with GN Holdings in connection with the Transactions, no other arrangement exists whereby we have received/will receive any fees and/or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, pursuant to Rule 13.84 of the Listing Rules, we are independent from, and are not associated with the Company or their respective substantial shareholder(s) or connected person(s) as defined under the Listing Rules, and accordingly are considered eligible to give independent advice on the Transactions.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in this circular and the information and representations provided to us by the Company, the Directors and the management of the Company ("**Management**"). We have no reason to believe that any information or representation relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in this circular, which have been provided by the Company, the Directors and the Management and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be true up to the Latest Practicable Date and should there be any material changes after the despatch of this circular, the Shareholders would be notified as soon as possible.

The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in this circular and have confirmed in this circular, having made all reasonable inquiries, that to the best of their knowledge, opinion expressed in this circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in this circular misleading.

Our review and analysis were based upon, among other things, (i) the Financing Services Agreement; (ii) the financial information of the Group for the three years ended 31 March 2020 (“FY2020”), 31 March 2021 (“FY2021”) and 31 March 2022 (“FY2022”) respectively as shown in the annual reports of the Company for FY2021 (the “**Annual Report 2021**”) and FY2022 (the “**Annual Report 2022**”); (iii) the historical transaction amounts under the 2019 Financing Services Agreement; (iv) the internal credit manual of GNS; (v) the internal control policy for continuing connected transactions of the Group; (vi) Mr. Hung’s investment plan; (vii) the auditor’s letters on the continuing connected transactions of the Group for FY2020, FY2021 and FY2022; (viii) the annual review reports of continuing connected transactions by independent non-executive Directors for FY2020, FY2021 and FY2022; (ix) the margin loan clients list of GNS as at 31 August 2022 and (x) this circular.

We consider that we have reviewed sufficient information, including relevant information and documents provided by the Company and the Directors and the information published by the Company, to enable us to reach an informed view and to justify reliance on the accuracy of the information contained in this circular to provide a reasonable basis for our opinions and recommendations. We have not, however, carried out any independent verification of the information provided by the Company and the Directors, nor have we conducted an independent in-depth investigation into the business and affairs, financial condition and future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation in respect of the terms of the Transactions, we have taken into account the following principal factors and reasons:

1. Background information of the Group and Mr. Hung

(i) Information of the Company, GN Holdings and GNS

The Company is an investment holding company and the Group is principally engaged in the provision of financial services including securities dealing and broking, futures and options broking, asset management, underwriting and placements, securities margin financing and corporate finance services in Hong Kong. The Company is owned as to 72.99% by GN Holdings.

GN Holdings is an investment holding company and GN Holdings Group (including the Group) is principally engaged in (i) money lending; (ii) property development and holding and investment in financial instruments; (iii) real estate broking; and (iv) the provision of financial services.

GNS, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company. GNS is a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO.

(ii) *Information of Mr. Hung*

As at the Latest Practicable Date, apart from his positions and capacities in GN Holdings, Mr. Hung is also a non-executive Director and the chairman of the Board. As such, Mr. Hung is a connected person of the Company.

(iii) *Financial information of the Group*

The table below summarises the financial results of the Group for FY2020 and FY2021 as extracted from the Annual Report 2021 and the financial results for the Group for FY2022 as extracted from the Annual Report 2022.

Table 1: Consolidated statement of profit or loss and other comprehensive income of the Group

	For FY2022	For FY2021	For FY2020
	(audited)	(audited)	(audited)
	HK\$'000	HK\$'000	HK\$'000
Revenue	354,827	381,320	369,362
–Broking	62,721	73,812	43,938
–Securities margin financing	287,051	306,603	325,167
–Corporate finance	2,672	905	257
–Asset management	2,383	–	–
–Investments	–	–	–
Profit before taxation	499,720	257,884	171,265
Profit for the year	466,867	213,209	139,782

For FY2022 and FY2021

The Group recorded a revenue of approximately HK\$354.83 million for FY2022, representing a decrease of approximately 6.95% as compared with that of approximately HK\$381.32 million for FY2021. As disclosed in the Annual Report 2022 and according to the Management, the decrease was mainly attributable to the decrease in underwriting and placing commission and proof of funds commission with lower turnover and decrease in interest income from margin financing during the year. However, the profit for the year of the Group increased from approximately HK\$213.21 million for FY2021 to approximately HK\$466.87 million for FY2022, representing a significant increase of approximately 118.97%. According to the Annual Report 2022, such increase was mainly attributable to (i) gain on disposal of subsidiaries (i.e. from nil in FY2021 to approximately HK\$338.82 million in FY2022 according to note 10 to the consolidated financial statements in Annual Report 2022) and (ii) decrease in finance costs resulted from reduction in bank borrowings, clients' accounts and loan from the immediate holding company.

For FY2021 and FY2020

The Group recorded an increase of revenue from approximately HK\$369.36 million for FY2020 to approximately HK\$381.32 million for FY2021, representing a slight increase of approximately 3.24%. As stated in the Annual Report 2021 and according to the Management, the increase in revenue was mainly attributable to the increase in brokerage commission with higher turnover during the year. The profit for the year of the Group increased from approximately HK\$139.78 million for FY2020 to approximately HK\$213.21 million for FY2021, which represents an increase of approximately 52.53%. As stated in the Annual Report 2021, such increase was mainly attributable to (i) decrease in net impairment loss on account receivable from margin clients and (ii) decrease in finance costs resulted from the absence of imputed interests of convertible bonds.

As shown in the table above, For FY2020, FY2021 and FY2022, the revenue generated from securities margin financing amounted to approximately HK\$325.17 million, HK\$306.60 million and HK\$287.05 million respectively, representing approximately 88.04%, 80.40% and 80.90% of the total revenue of the Group for respective financial years. Broking segment was the second largest source of revenue of the Group based on the segment revenue for FY2022, the revenue generated from the broking segment of the Group amounted to approximately HK\$43.94 million, HK\$73.81 million and HK\$62.72 million for FY2020, FY2021 and FY2022 respectively, representing approximately 11.90%, 19.36%, 17.68% of the total revenue of the Group for respective financial years.

With reference to the Annual Report 2022 and Annual Report 2021, for FY2020, FY2021 and FY2022, the segment profits generated from securities margin financing segment of the Group amounted to approximately 98.11%, 91.84% and 97.07% of the total consolidated segment profits from all segments of the Group. The segment profit margin of the securities margin financing segment of the Group (calculated by the segment profit divided by the segment revenue x 100%) was approximately 65.80%, 81.83% and 54.69% for FY2020, FY2021 and FY2022 respectively. On the other hand, the segment profits generated from broking segment of the Group amounted to approximately 1.81% and 7.94% of the total consolidated segment profits from all segments of the Group for FY2020 and FY2021 respectively and recorded segment loss of approximately HK\$700,000 for FY2022. The segment profit margin of the broking segment of the Group was approximately 9.0% and 29.39% for FY2020 and FY2021 respectively. Based on the above, securities margin financing segment has been the major source of revenue of the Group with relatively high profit margin and has been essential to the profitability of the Group in recent financial years.

Table 2: Financial position of the Group

	As at 31 March 2022 (audited) HK\$'000	As at 31 March 2021 (audited) HK\$'000
Current assets	4,550,902	4,749,143
–Accounts receivable	2,826,396	3,655,082
–Bank balances – general accounts and cash	1,226,573	328,186
Current liabilities	531,729	751,166
–Accounts payable	517,124	695,799
–Deposits received for disposal of a subsidiary	–	37,000
Non-current assets	326,000	28,201
Net current assets	4,019,173	3,993,760
Total equity	4,337,962	4,021,046

As stated in the Annual Report 2022, as at 31 March 2022, the current assets of the Group amounted to approximately HK\$4,550.90 million as compared with approximately HK\$4,749.14 million as at 31 March 2021, out of which the increase of bank balances of general accounts and cash from approximately HK\$328.19 million as at 31 March 2021 to approximately HK\$1,226.57 million as at 31 March 2022 was offset by the decrease of accounts receivable from approximately HK\$3,655.08 million as at 31 March 2021 to approximately HK\$2,826.40 million as at 31 March 2022. According to the consolidated statement of cash flows of the Group in Annual Report 2022, the net cash generated from operating activities has increased from approximately HK\$205.34 million for FY2021 to approximately HK\$943.57 million for FY2022. The current liabilities of the Group decreased from approximately HK\$751.17 million as at 31 March 2021 to approximately HK\$531.73 million as at 31 March 2022. It is noted that the decrease was mainly due to (i) the decrease of accounts payable from approximately HK\$695.80 million as at 31 March 2021 to approximately HK\$517.12 million as at 31 March 2022; and (ii) the deposit received for disposal of subsidiaries decreased from HK\$37.0 million as at 31 March 2021 to nil as at 31 March 2022. Based on the above, the total equity increased from approximately HK\$4,021.05 million as at 31 March 2021 to approximately HK\$4,337.96 million as at 31 March 2022.

Based on the fact that (i) the entering of Financing Services Agreement is in the ordinary and usual course of business of the Group; (ii) the margin financing segment of the Group has been the major source of revenue for the Group in recent financial years; and (iii) the profitability of the margin financing segment of the Group has been essential for the profitability of the Group with relatively high profit margin in recent financial years, we are of the view and concur with the Management's view that enter into the Financial Services Agreement to maintain the revenue source of the Group is in the interests of the Group and Shareholders as a whole.

2. Reasons for entering into the Financing Services Agreement

As stated in the Board Letter, entering into the Financing Services Agreement can enhance the revenue of the Group. Furthermore, the terms of the Financing Services Agreement have been determined after arm's length negotiation between GNS and Mr. Hung pursuant to which (i) the Financing Services shall be provided on normal commercial terms; (ii) the interest rates to be charged and the other terms for the provision of the Financing Services by the Group to Mr. Hung and the Controlled Companies shall be no less favourable to the Group than those offered to other customers of the Group who are Independent Third Parties for comparable engagement, and in accordance with the relevant pricing policies of the Group which may be adjusted from time to time; and (iii) the provision of the Financing Services shall be subject to the terms and conditions of the standard client agreements of GNS from time to time.

As stated in the Board Letter, the historical margin loan interest income paid by Mr. Hung and the Controlled Companies to the Group amounted to approximately HK\$17.30 million for FY2021 and approximately HK\$13.05 million for FY2022 respectively, which represents approximately 5.64% and 4.55% of the revenue generated from securities margin financing business segment of the Group for FY2021 and FY2022 respectively. Based on the terms of the Financing Services Agreement as stated above that could safeguard the interests of the Group including but not limited to that the provision of the Financing Services by the Group to Mr. Hung and the Controlled Companies shall be no less favourable to the Group than those offered to other customers of the Group who are Independent Third Parties for comparable engagement, and in accordance with the relevant pricing policies of the Group which may be adjusted from time to time. We are of the view and concur with the view of the Management that entering into the Financing Services Agreement, which is in the ordinary and usual course of business of the Group as stated under the paragraph headed "1. Background information of the Group and Mr. Hung" above in this letter, would be able to maintain the revenue source for the securities margin financing segment of the Group on the basis that the terms of the Financing Services Agreement can safeguard the interests of the Group to adjust the engagement with Mr. Hung and Controlled Companies from time to time to in line with the Group's internal policies and standard client agreement.

3. Principal terms of the Financial Services Agreement

(a) *Principal terms of the Financial Services Agreement*

Set out below are the principal terms of the Financial Services Agreement:

Date: 3 October 2022

Parties: (i) GNS, as provider of the Financing Services; and
(ii) Mr. Hung, as the customer

Term: From 15 December 2022 to and including 14 December 2025

Services to be provided

Pursuant to the Financing Services Agreement, GNS may (but not obliged to), upon request from Mr. Hung and/or any Controlled Company, provide or procure any other company amongst the Group to provide the Financing Services to Mr. Hung and/or, as the case may be, the relevant Controlled Company from time to time during the Term, on a non-exclusive basis. The provision of the Financing Services shall also be on normal commercial terms, on terms no less favourable to the Group than those offered to other customers of the Group who are Independent Third Parties and subject to the terms and conditions of the standard client agreement of GNS from time to time.

Service fee and pricing standards

As stated in the Board Letter, the Service Fee for the Financing Services to be provided shall be at the rates no less favourable to the Group than the rates offered to other customers of the Group who are Independent Third Parties for comparable engagement, in accordance with the relevant pricing policy of the Group which may be adjusted from time to time, subject to the terms and conditions of the standard client agreement of GNS and, subject to the aforesaid, at the annual interest rate of 7.236%.

The interest rates of margin loans currently charged by GNS typically range from 7.236% p.a. to 9.252% p.a. with reference to the Hong Kong dollar prime rate as a base rate plus a markup. Apart from considering the costs of funding available to the Group, such interest rates are determined case-by-case based on the client's financial background, credit standing, and the quality of securities pledged and/or other collaterals given. In general, the margin financing interest rate applicable to the new clients would be set at the highest of the range of 9.252% but such interest rate may be adjusted upwards or downwards in accordance with the abovementioned criteria.

Under the Financing Services Agreement, the margin loan interest rate charged by GNS to Mr. Hung and the Controlled Companies is initially set at 7.236% per annum, taking into consideration of the Mr. Hung's financial background, diversified stock portfolio with low margin ratio and repayment history. In particular, Mr. Hung used to maintain his securities collaterals with market value over HK\$1 billion. The interest rate set for Mr. Hung is the same among the comparable clients. The interest rate of 7.236% per annum which is (i) comparable to rates offered by the Group to other customers who are Independent Third Parties of similar credit standing, trading record and/or quality of collaterals given; and (ii) subject to adjustment according to the pricing policy of GNS from time to time.

Margin financing ratio

As stated in the Board Letter, GNS determines the grant of margin loans to clients based on the following criteria: (i) investment experience of the client; (ii) investment objective of the client; (iii) financial background of the client; (iv) client's securities collateral maintained and (v) prevailing market conditions. The account executive would propose a margin loan limit for the client based on the above factors for the credit committee of GNS's approval. The credit committee will then determine the margin loan limit of the client. For granting of the margin loan limit, where the amount is HK\$500,000 or below, it has to be authorized by a credit committee member, where the amount exceeds HK\$500,000, it has to be authorized by two credit committee members, and where the amount is larger than HK\$5,000,000, it has to be authorized by two credit committee members (including the chief executive officer of the Group). After the credit committee approved the margin loan limit, Mr. Hung is able to utilise the margin financing to execute his investments plans within the margin loan limit.

The members of credit committee are senior management of GNS, including two responsible officers of GNS, the chief executive officer of the Group and head of risk management of GNS. The committee does not include independent non-executive Directors as they are independent from the Group's daily operation. According to the Management, Mr. Hung, as the non-executive Director, is not the member of credit committee of GNS and also has no management responsibility in the securities business thus he has no any influence to the credit committee.

According to the standard client agreement of GNS, all margin financing advanced to any client must be secured by pledge of listed equity securities acceptable to the Group. GNS advances margin financing to its clients which amounts up to 80% of the value of pledged blue-chip securities (securities of companies listed on the Stock Exchange which are constituents of the Hang Seng Index), and 10% to 80% of the value of other approved securities. The margin financing ratio of each approved stock varies depending on its quality, liquidity and market capitalisation. It is the Group's policy not to provide margin financing for securities listed on the GEM of the Stock Exchange, warrants and A-shares.

For detailed terms of the Financing Services Agreement, please refer to the paragraph headed "Principal terms of the Financing Services Agreement" in the Board Letter.

(b) Our view on principal terms of the Financing Services Agreement

As stated in the Board Letter, the interest rates of margin loans charged by GNS are determined case-by-case based on the client's financial background, credit standing, and the quality of securities pledged and/or other collaterals given. We have obtained the full margin loan clients list of GNS as at 31 August 2022 from the Management and found that over 90% of the margin loan clients would be charged by GNS of interest rates with a range between 7.236% p.a. to 9.252% p.a. ("**Interest Range**"). As discussed with the Management, there are approximately 7% of margin clients among all the margin loan clients of GNS who are charged with higher interest rate than the Interest Range. These clients generally obtained shorter term of margin loan or having invested in higher risk of investment products. The remaining margin clients, which represents approximately 3% margin accounts among the margin loan clients list of GNS, being charged with lower interest rates than the Interest Range are either dormant accounts or clients who GNS intended to provide competitive terms. As stated in the Board Letter, the terms of the Financing Services Agreement are subject to the terms and conditions of the standard client agreement of GNS that engaged with other Independent Third Parties from time to time.

In order to assess the securities pledged and the size of the investment portfolio of Mr Hung' securities account, we have obtained the monthly statements of Mr Hung and the Controlled Companies' securities accounts at GNS from April 2022 to September 2022. With reference to the monthly statement of Mr Hung and the Controlled Companies' securities accounts at GNS for August 2022, the total market value of Hong Kong listed securities maintained was approximately HK\$1,789 million, with corresponding margin value of approximately HK\$561 million. If excluded the market value of the Company and GN Holdings in Mr Hung and the Controlled Companies' securities accounts at GNS, which are not eligible for margin financing according to the Management, the total market value of Hong Kong listed securities maintained would be HK\$1,285 million with corresponding margin value of approximately HK\$561 million.

With reference to the monthly statement of Mr Hung and the Controlled Companies' securities accounts at GNS for September 2022, the total market value of Hong Kong listed securities maintained was approximately HK\$1,721 million with corresponding margin value of approximately HK\$533 million. If excluded the market value of the Company and GN Holdings in Mr Hung and the Controlled Companies' securities accounts at GNS, the market value of Hong Kong listed securities maintained in Mr. Hung's securities account was approximately HK\$1,218 million, with corresponding margin value of approximately HK\$533 million.

According to the Management, as at the Latest Practicable Date, there were no default history from Mr. Hung's securities account at GNS since the account has been opened. Based on the above, the Management confirmed that the credit standing and financial strength of Mr Hung are satisfactory to justify the interest rate of the Service Fee (i.e. 7.236%) and the interest rate of Service Fee under the Financing Services Agreement is no less favourable to the Group than the rates offered to other customers of the Group who are Independent Third Parties and with similar financial strength and credit standing of Mr. Hung.

With reference to the Board Letter, GNS advances margin financing to its clients which amounts up to 80% of the value of pledged blue-chip securities (securities of companies listed on the Stock Exchange which are constituents of the Hang Seng Index), and 10% to 80% of the value of other approved securities. The margin financing ratio of each approved stock varies depending on its quality, liquidity and market capitalisation. It is the Group's policy not to provide margin financing for securities listed on the GEM of the Stock Exchange, warrants and A-shares. The amount of margin loans to be granted to Mr. Hung and/or the relevant Controlled Companies will be determined based on the same policies. According to the credit manual of GNS provided by the Management, the margin loan ratio would be reviewed quarterly by the credit committee, which comprises four members including the chief executive officer of the Group, two responsible officers of GNS and the head of risk management of GNS, and determined with reference to the margin ratio provided by four commercial banks in Hong Kong. According to the Management, such credit committee does not include independent non-executive Directors as they are independent from the Group's daily operation. Mr. Hung, as the non-executive Director, is not the member of the credit committee of GNS and also has no management responsibility in the securities business thus he has no any influence to the credit committee. Based on the above and having considered the internal procedure measures adopted by the Group as stated under the paragraph headed "5. Internal control procedures in governing the Transactions" below in this letter, we are of the view and concur with the Management's view that GNS has implement sufficient policy for margin financing clients to safeguard the risk level of the Group and no preferential margin financing ratio would be provided to Mr. Hung as compared to other Independent Third Parties clients.

Having considered (i) the terms of the Financing Services Agreement are subject to the terms and conditions of the standard client agreement of GNS that engaged with other Independent Third Parties from time to time; (ii) the interest rate of Service Fee under the Financing Services Agreement is no less favourable to the Group than the rates offered to other customers of the Group who are Independent Third Parties and with similar financial strength and credit standing of Mr. Hung; (iii) the credit standing and financial strength of Mr Hung are satisfactory to justify the interest rate of the Service Fee; and (iv) GNS has implement sufficient policy to safeguard the risk level of the Group and no preferential margin financing ratio would be provided to Mr. Hung as compared to other Independent Third Parties clients, we are of the view and concur with the Management's view that the terms of the Financing Services Agreement is fair and reasonable.

4. The annual caps

The table below shows (i) the proposed Interest Caps; and (ii) the proposed Margin Caps:

Table 3: The proposed Interest Caps and the proposed Margin Caps

Period	Proposed Interest Caps HK\$'000	Proposed Margin Caps HK\$'000
From 15 December 2022 to and including 31 March 2023	7,500	330,000
From the year ending 31 March 2024	29,000	330,000
For the year ending 31 March 2025	29,000	330,000
From 1 April 2025 to and including 14 December 2025	22,000	330,000

Please refer to the paragraph headed “Proposed annual caps under the Financing Services Agreement” under the Board Letter for the details of bases in determined the Interest Caps and Margin Caps.

With reference to the Board Letter, set out below are (i) the historical annual caps and margin financing loan granted under the 2019 Financing Services Agreement; and (ii) historical annual caps and margin loan interest income paid by Mr. Hung and the Controlled Companies to the Group under the 2019 Financing Services Agreement:

Table 4: the historical figures under the 2019 Financing Services Agreement

Period	Historical annual caps for of the margin financing loan HK\$'000	Historical maximum outstanding amount of the margin financing granted HK\$'000	Historical margin loan interest under the 2019 Financing Services Agreement HK\$'000	Historical margin loan interest income paid by Mr. Hung and the Controlled Companies to the Group under the 2019 Financing Services Agreement HK\$'000
From 15 December 2019 to and including 31 March 2020	330,000	314,912	7,500	5,171
For the year ended 31 March 2021	330,000	320,196	25,000	17,304
For the year ended 31 March 2022	330,000	320,991	29,000	13,051
From 1 April 2022 to and including 14 December 2022	330,000	212,869 (Note)	22,000	5,791 (Note)

Note: The relevant figures represent the period from 1 April 2022 to 31 August 2022

Based on the table above, except the period for the five months ended 31 August 2022, the historical outstanding amount of margin financing loans under the 2019 Financing Services Agreement have been utilised over 95% for each of the period from 15 December 2019 to and including 31 March 2020, FY2021 and FY2022 during term of the 2019 Financing Services Agreement. According to the Management, only approximately 64.5% of the historical annual caps for the margin financing loan during the period for the five months ended 31 August 2022 have been utilised was mainly attributable to the market condition of Hong Kong stock market. According to the official website of Hang Seng Index (source: <https://www.hsi.com.hk/eng/indexes/all-indexes/hsi>), the Hang Seng Index has been decreasing from over 30,000 index points in February 2021 to below 20,000 index points in August 2022. With reference to the reports of Securities and Derivatives Markets Quarterly Report for first quarter 2022 and second quarter 2022 respectively issued by the Stock Exchange, the total turnover in value of Hong Kong stock market amounted to approximately HK\$8,929 billion in first quarter 2022, which represents a decrease of approximately 34.56% as compared to approximately HK\$13,644 billion in first quarter 2021. The total turnover in value amounted to approximately HK\$7,641 billion in second quarter 2022, which represents a decrease of approximately 14.42% as compared to that in first quarter 2022 (i.e. HK\$8,929 billion) and a decrease of approximately 15.65% as compared to that in second quarter of 2021 (i.e. HK\$9,059 billion).

Under the circumstances, we are of the view and concur with the Management's view that it is justifiable that the utilisation rate of the annual cap for the margin loan amount granted for the period from 1 April 2022 to and including 14 December 2022 under 2019 Financing Services Agreement as at 31 August 2022 is not as highly utilised as other periods. Based on Mr. Hung's investment plan, he intends to maintain the investment portfolio of him and the Controlled Companies with market value of over HK\$1,000 million. Accordingly, it is necessary to provide a buffer to allow higher flexibility for Mr. Hung and the Controlled Companies to conduct investment activities is needed when the market condition recovered in the coming years. Based on the above, we are of the view and concur with the Management's view that to maintain the Margin Caps same as the historical annual caps of margin financing loan under the 2019 Financing Services Agreement is fair and reasonable.

According to the monthly statements of Mr. Hung and the Controlled Companies' securities accounts at GNS from April 2022 to September 2022 provided by the Management, we noted that during this six-month period, if excluded the market value of the Company and GN Holdings, the average market value of listed securities maintained in Mr. Hung's securities account was approximately HK\$1,286 million with average margin value of approximately HK\$560 million. As at 30 September 2022, the market value of listed securities maintained in Mr. Hung's securities account was approximately HK\$1,218 million, with corresponding margin value of approximately HK\$533 million, which is higher than the proposed annual caps for the maximum outstanding amount of margin financing under the Financing Services Agreement (i.e. HK\$330 million). Furthermore, according to the Management, GNS has set maximum margin cap for each margin loan customer based on financial background, credit standing and the quality of securities pledged and/or other collaterals given. With reference to the Guidelines for Securities Margin Financing Activities issued by the Securities and Futures Commission (source: <https://www.sfc.hk/-/media/EN/assets/components/codes/files-current/web/guidelines/guidelines-for-securities-margin-financing-activities/guidelines-for-securities-margin-financing-activities.pdf>), GNS has adopted a benchmark of up to 40% of the shareholders' funds as the maximum margin loan to a single client or a group of related clients.

With reference to the Annual Report 2022, the net current assets of the Group amounted to approximately HK\$4.0 billion for FY2022. The Margin Caps of approximately HK\$330.0 million per year represents approximately 8.2% of the net current assets of the Group for FY2022. As the margin amount to be provided to Mr. Hung under the Financing Service Agreement would also taking into consideration of the market value of listed securities maintained in Mr Hung and the Controlled Companies' securities accounts, we are of the view and concur with Management's view that the possibility of cash flow risk causing by the Financing Services Agreement is low.

Having considered (i) the entering of Financing Services Agreement could maintain the revenue source of the Group as stated under the paragraph headed “1. Background information of the Group and Mr. Hung” above in this letter; (ii) the market value and margin value of listed securities maintained in Mr. Hung’s securities accounts at GNS is much higher than the Margin Caps; (iii) there were no default history of Mr. Hung and the Controlled Companies’ securities account at GNS as stated under the paragraph headed “3. Principal terms of the Financial Services Agreement” above in this letter; (iv) the possibility of cash flow risk causing by the Financing Services Agreement is low as stated above and (v) the internal policies as stated under the section headed “5. Internal control procedures in governing the Transactions” would safeguard the Group’s risk level as stated below in this letter, we are of the view and concur with the Management’s view that the proposed annual caps for the maximum outstanding amount of margin financing under the Financing Services Agreement are fair and reasonable.

With reference to the Board Letter, the Interest Caps have been determined taking into consideration, among others, the historical margin loan interest paid by Mr. Hung and the Controlled Companies to the Group under the 2019 Financing Services Agreement and the annual caps of margin financing loan to Mr. Hung and the Controlled Companies under the 2019 Financing Services Agreement being HK\$330,000,000, which is same as the Margin Caps. The Interest Caps for the year ending 31 March 2024 and 31 March 2025 respectively (i.e. HK\$29.0 million per year) represent approximately 10.1% of the total revenue generated from the securities margin financing segment of the Group for FY2022 (i.e. HK\$287.05 million) and 8.2% of the total revenue of the Group for FY2022 (i.e. HK\$354.83 million). According to the Management and with reference to the Board Letter, the percentage of amount of margin loan granted to Mr. Hung out of the total outstanding margin loan balance are less than 10% for each year as at 31 March 2020, 2021 and 2022, respectively. The percentage of amount of margin loan interest generated from Mr. Hung out of the total margin loan interests generated from all clients are less than 5% as at 31 March 2020, 2021 and 2022 respectively. The Margin Caps (i.e. HK\$330 million) represents approximately 6.8% only of the total assets of the Group for FY2022 (i.e. HK\$4.88 billion). Accordingly, we are of the view and concur with the Management’s view that the possibility of concentration risk to be caused by the Financial Service Agreement is low. Since (i) the revenue and profitability of the securities margin financing segment of the Group is essential to the Group as mention under the paragraph headed “1. Background information of the Group and Mr. Hung” above in this letter and the interest income from the Service Fee under the Financing Services Agreement can maintain the revenue sources of the Group; (ii) the concentration risk to be caused by the Financing Service Agreement is low as mentioned above; (iii) we are of the view an concur with the Management’s view that the Margin Caps are fair and reasonable as mentioned above and it is one of the bases in determined the Interest Caps; and (iv) the Interest Caps provide a buffer to allow any possible rise in margin loan interest rate as a result of the adjustment in the pricing policy of the Group applied to all clients from time to time, we are of the view and concur with the Management’s view that the Interest Caps are fair and reasonable.

5. Internal control procedures in governing the Transactions

According to the Management, the Group has established the following internal control procedures in order to ensure that the margin loan interest rate offered to Mr. Hung and the Controlled Companies are no less favourable to the Group than those rates offered to other customers who are Independent Third Parties:

1. Upon the opening of the margin account for Mr. Hung and each Controlled Company in GNS, the customer service officer had performed checking on whether the margin loan interest rate offered to Mr. Hung and/or, as the case may be, the relevant Controlled Company is comparable to the margin loan interest rates offered to all comparable clients of the Group who were Independent Third Parties, taking into consideration the credit standing of Mr. Hung and the relevant Controlled Company and the quality of the collaterals given as assessed by the credit committee. After checking by the customer service officer, the margin loan interest rate for Mr. Hung and/or, as the case may be, the relevant Controlled Company has to be reviewed and approved by an independent responsible officer and a credit committee member in order to ensure such rate are no less favourable to the Group than those rates offered to other customers of the Group who are Independent Third Parties.
2. Customer service officer will review with Mr. Hung about his customer profile annually and a responsible officer of GNS will monitor the market value and margin value of Mr. Hung's securities collateral to ensure the margin loan balances are within the margin value.
3. The independent non-executive Directors will perform an annual review pursuant to Rule 14A.55 of the Listing Rules on whether the Financing Services provided to Mr. Hung and the Controlled Companies are conducted (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better, or on terms no less favourable to the Group than those offered to the Independent Third Parties; and (iii) according to the Financing Services Agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of each of the Companies as a whole.
4. Pursuant to Rule 14A.56 of the Listing Rules, the Company's auditor will confirm, amongst others things, whether (i) the Financing Services provided to Mr. Hung and the Controlled Companies have been approved by the Board; (ii) the Financing Services provided to Mr. Hung and the Controlled Companies are in accordance with the pricing policies of the Group; (iii) the Financing Services provided to Mr. Hung and the Controlled Companies have been entered into in accordance with the Financing Services Agreement; and (iv) the Proposed Annual Caps have been exceeded.

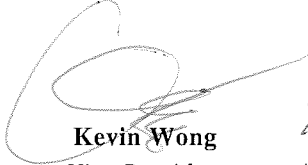
The Group will also monitor the maximum daily outstanding amount of margin financing advanced by the Group to Mr. Hung and the Controlled Companies, as well as the relevant margin loan interest income receivable by the Group to ensure that the Proposed Annual Caps would not be exceeded. As GNS will monitor Mr Hung and the Controlled Companies' securities accounts on daily basis with reference to above mentioned measures, we are of the view and concur with the Management view that there are adequate internal control measures to safeguard the interests of the Group.


Regarding items (3) and (4) above, we also reviewed the relevant statements and letters issued by the independent non-executive Directors and the auditors of the Company respectively for the previous continuing connected transactions of the Group under, among others, the 2019 Financing Services Agreement, and did not notice any anomaly. We also reviewed the internal credit manual of GNS and the internal control policy for continuing connected transactions of the Group provided by the Management and did not notice any anomaly. Based on the above, we consider that there are adequate and enforceable internal control measures in place regarding the Transactions.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that (i) the entering of Financing Services Agreement is in the ordinary and usual course of business of the Group; and (ii) the terms of Financing Services Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, and the Independent Board Committee to recommend the Independent Shareholders, and we also recommend the Independent Shareholders, to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the Transactions.

Yours faithfully,
For and on behalf of
Nuada Limited


Kevin Wong
Vice President


Herman Luk
Assistant Manager

Mr. Kevin Wong is a person licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and is a responsible officer of Nuada Limited who has over 14 years of experience in corporate finance industry.

Mr. Herman Luk is a person licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and is a responsible officer of Nuada Limited who has over 7 years of experience in corporate finance industry.