

Improvement of Thai farmers' livelihoods

Anticipated transaction impact

Improve livelihood of indigenous hilltribe communities in Thailand through an equitable supply chain

Impact score Pass (17/21)
Credit score Pass (19/21)

Loan Overview

Commitment limit	USD 275k
Tenor and structure	60-month term loan
Interest rate	8.2% in USD
Collateral	USD 375k carrying value of equipment (73% LTV)

Financial Overview

2020E Revenue	USD 3.46 M
2020 Maturing loans	USD 0.15 M
Net assets as of Dec 2019	USD 1.83 M

Company Information

Legal name	Chacha International Limited
Incorporation date	3 December 2014
Corporate address	Hong Kong
Nature of business	Sustainable food and agriculture
Website	www.perfectearthfoods.com

Shareholders and management

Name	Position	Share
Richard W. Blossom	Co-founder	27%
Marc Castagnet	Co-founder	27%
Arvind Narula	Co-founder	27%
Ed Rodden	Board Chairman	18%
Praveen Kumar	Interim CEO	

Recommendation

Approval of a USD 275,000 Chacha's impact rating and strong credit standing

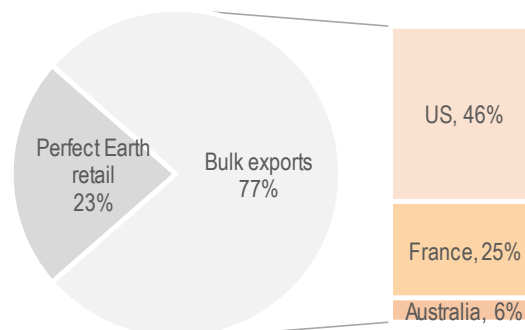


Chacha

Business Overview

Chacha is a profitable Thai-based producer of organic rice and chia-based pasta. It exports its pasta and other organic products, such as free-range eggs and superfoods, to over 10 countries; its biggest export market is the US. It also retails under its own Perfect Earth Foods brand.

Figure 1: Chacha 2020 Forecasted revenue – core business



Source: Chacha Demand forecast, Jan 2020

(See [Appendix 3: Sample Products of Chacha](#))

Chacha makes food products using rice, chia, and eggs sourced from marginalized hilltribe communities in the Northwest of Thailand, near the Burma border. Through its supply chain practices, it is able to restore community health as it provides stable incomes to families and staves off migration to cities out of economic necessity. Simultaneously, Chacha is able to restore planet health as it replaces conventional farming with organic practices.

In 2019, Chacha continued its positive trajectory with strong revenue growth of 26% and further diversification of its customer base. Most notably, the company was able to post its second year of profit. Chacha also began to expand its product line to include organic instant noodles which is the purpose of this loan. The first delivery for its instant noodle line is set for Q2 2020.

Business Impact

Chacha creates significant impact by transforming the lives of poor hilltribe communities in Thailand. Working within existing natural and social ecosystems, they aim to teach organic practices and grow the skills of the farmers they work with and their families. Chacha's goal is to at least double family income while respecting and preserving their unique way of life.





We assess Chacha's impact score to be 17 out of 21. (See [Appendix 1: Chacha Impact Assessment](#))

Impact background

Over 14 million Thais are engaged in rice farming. Not only is rice a major contributor to the Thai economy, it provides 30% of the nutrients consumed by Thais and accounts for 40% of the country's cultivated land. However, Thai smallholder rice farmers have historically struggled to make a living on their land. In the past decade, 13% of all Thais have moved to cities to seek a better livelihood, in many instances splitting up families and often "hollowing out" formerly vibrant and culturally-diverse village communities.

As part of a network of companies, Chacha remedies this and alleviates poverty in the region by providing farmers an opportunity to increase their crop yields and their income. Its products use rice supplied by Urmatt, Chacha's majority shareholder and the oldest organic contract farming company in Thailand. Urmatt's rice is sourced exclusively from farmers in Chiang Rai province, Thailand's northernmost province which borders Burma and Laos. Urmatt provides these organic farmers technical assistance that increases their crop yield and pays them a premium for their produce. On average, this results to a total increase in income of around 20% for these farmers.

Today, Chacha buys approximately 1,000 tons of rice from Urmatt or the equivalent of output from roughly 170 families. With the introduction of its instant noodle line, Chacha anticipates that its rice purchases will increase six-fold within three years. This would mean more land converted to organic agriculture and more income for families in the region.

Impact Delivery

- Technical assistance and partnership with rice farming communities to shift to organic practices

Urmatt buys, mills, and sells organic rice. It was the first Thai company to be certified organic by Ecocert (France). Unlike most rice companies, it is deeply involved in developing lasting relationships with its farmers which leads

to stable, elevated gate pricing (normally 15% higher than market price with a floor) for its rice and increased yields for its 2,000 farming families.

Urmatt maintains a staff of 24 field agronomists who assist with conversion to organic production, monitor production standards, and train farmers to maximize yields in a sustainable manner. With advanced soil testing, mapping and superior seeds and fertilizer, rice farmers can expect to produce 8 tons of long grain rice per year or 4.8 tons of jasmine rice from an average plot of four acres.

Farmers are guaranteed a minimum price and receive agricultural inputs on credit, repaid with rice paddy at harvest time. Urmatt is committed to the communities where it has worked for the past twenty years. It offers an emergency financial assistance fund, has planted over 20,000 trees in 2019 alone, and contributes to the maintenance and repairs of village infrastructure such as schools, temples and town halls.

- Technical assistance for higher value crops

Chacha has also introduced chia production to Thailand (which Chacha sells on its own and in pasta) and they currently contract with 50 families for this supply. They have recently added turmeric, moringa, ginger and garlic which will be used in pasta and in noodle seasonings. Each of these additional products provides more income in the region and further diversifies farmers' income streams.

- Environmental preservation

Chacha's brand name – Perfect Earth Foods – reflects its goal to not only do no harm environmental harm, but ultimately to restore the land through biodynamic practices which lead to increased soil health. To that end, the Company has begun a pilot project with Demeter, the biodynamic certification entity, and will convert one village to 100% biodynamic status. The rice crop from this village has already been pre-sold.

Additionally, the Company is embracing sustainable packaging and will introduce biodegradable instant noodle bowls made from rice husks and other agricultural waste.



Industry Overview

Organic Food Industry

Chacha operates within the global organic food industry, a fast-growing segment of the food industry. It is estimated to be valued at USD 142 B in 2020 and is expected to reach USD 342 B by 2026, growing at a CAGR of 13.1% during the period.¹ Demand is driven by increasing per capita income, growing awareness among consumers for health and food safety, increasing digital retail channels, and developing environmental consciousness.

Amy’s Kitchen, a major US manufacturer of organic and non-GMO convenience and frozen foods, is Chacha’s biggest customer contributing 42% of revenue in 2019. Amy’s Kitchen uses Chacha’s organic pasta for a number of its over 250 vegetarian and organic product offerings. Amy’s has been a customer since Chacha started and has consistently been increasing its orders each year. As a privately-held business we are unable to obtain firm figures, but Amy’s is estimated to have sales in excess of USD 500 M annually and is assumed to be profitable.

Instant Noodle Industry

Chacha seeks to expand beyond dry pasta and enter the instant noodle industry with an organic, air-dried, and gluten free offering, an innovation in a market that is not known for having many healthy options. The instant noodle industry was valued at USD 47 B in 2019, having witnessed considerable growth given the growing dual income workforce and increasing urbanization, factors contributing to the rising popularity of ready-to-eat food.²

Chacha’s instant noodle line seeks to capitalize on the growing demand for both organic products and instant food. It will be the only organic and air-fried option among current premium instant noodle offerings. Chacha’s management anticipates its product’s high differentiation and affordable price point to drive sales for its new line.

Figure 2: Australia Instant Noodle Market Positioning



Source: Chacha Rice Ramen Investor Presentation, Jan 2019

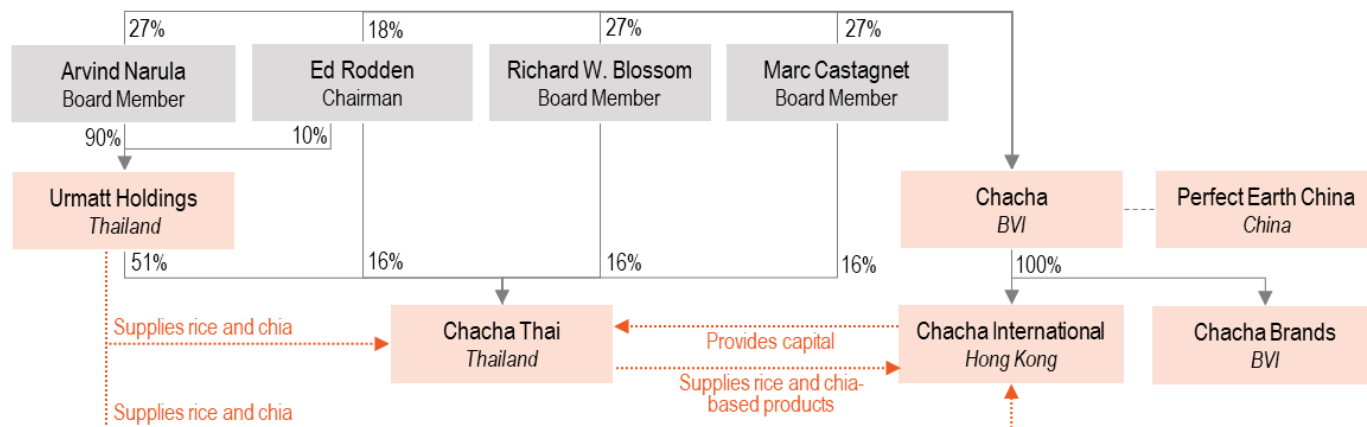
¹ Organic Food Market Dynamics, Forecast, Analysis and Supply Demand 2026, QY Research (March, 2020)

² Global Instant Noodles Market 2020 Industry Analysis, Wise Guy Reports (February, 2020)

Company Overview

Several entities operate under the Chacha Group. It operates and exports fully from Thailand, with international satellites established to allow for export to global markets.

Figure 3: Chacha entities and ownership structure



Source: Chacha management interview

Name	Domicile	Function	Client accounts	Notes
Primary entities				
Chacha Thai	Thailand	Manufacturer, retailer, exporter	Thailand	<ul style="list-style-type: none"> Ships rice and chia-based products globally Due to Thai corporate law, Chacha Thai is majority owned by Arvind Narula, a Thai national. However, voting rights are split evenly between Narula, Rodden, Blossom, and Castagnet
Chacha International	Hong Kong	Retailer	Global ex-Thailand	<ul style="list-style-type: none"> Books international client accounts Funnels shareholder capital to Chacha Thai through loans
Holding entities				
Chacha	BVI	International holding company	None	Ed Rodden has paid 67% of his USD 1.5 M committed investment. Upon full payment, his ownership will increase to 25%, giving him equal share with Narula, Blossom, and Castagnet
Chacha Brands	BVI	Holds Perfect Earth trademarks	None	
Related parties				
Urmatt	Thailand	Supplier, exporter	Thailand	Ships rice and chia globally
Perfect Earth China	China	Retailer	China	Currently 100% owned by Marc Castagnet's France Labels Ltd. Shares to be transferred to Chacha Ltd.

Management

Richard Blossom
Co-founder, Product Development
Board Committee Chair

Richard has had a long corporate career in the foods industry. He spent fifteen years as a Director and Chief Business Development Officer of Del Monte Foods in Asia. Before that, he spent 13 years at PepsiCo where he held the roles of President of PepsiCo Beverages Asia Pacific and President of PepsiCo Foods International. He is a member of YPO. Richard lives in San Francisco but spends about one quarter of his time in Thailand.

<p>Marc Castagnet <i>Co-founder, Finance, Audit and Legal Board Committee Chair</i></p>	<p>Marc is a senior advisor to ICD Business School in France. He is a current and former board member of social impact entities engaged in Education, Solar, Facility Management, and Incubation. Along with his wife, Marc owns Villa Tosca, a luxury short-term rental estate in Bordeaux.</p>
<p>Arvind Narula <i>Co-founder, Innovation and Sustainability Board Committee Chair</i></p>	<p>Arvind is a successful Thai businessman. He founded Urmatt in 1999 and built it to become Thailand’s largest producer of organic rice, selling over 10,000 metric tons of organic rice in 2019. He is the past chair of YPO SE Asia. He has also launched or consulted for social entrepreneurship projects aimed at poverty alleviation in Thailand, Myanmar, Argentina, Tanzania, India, Sierra Leone, Sweden and Singapore.</p>
<p>Ed Rodden <i>Chairman of the Board, Strategic Planning and Financing Board Committee Chair</i></p>	<p>Ed Rodden is the newest shareholder of Chacha. He was previously Senior Vice President of Retail Marketing at Charles Schwab & Co. After leaving Schwab Ed ran his own financial institution consulting practice. Former Head of Corporate Strategy, Head of Retail Marketing, and Head of the Affluent Client Business at Schwab</p>
<p>Praveen Kumar <i>Interim CEO</i></p>	<p>Current CFO of Urmatt and former Finance Executive of PepsiCo and Heinz India. Permanence of Praveen’s role as CEO will depend on 2020 performance. Owners of Chacha acknowledged his very strong performance as the company’s COO and CFO</p>
<p>Witoon Petking <i>Plant Manager</i></p>	<p>Former Operations Executive in Nissin Foods</p>

Supply chain

Chacha’s supply chain is simple and is heavily linked with Urmatt’s. Chacha places a monthly order for rice from Urmatt which then mills paddy and delivers the rice. Chacha grinds this into flour in their processing plant and processes it into organic pasta.

Other ingredients such as seasoning packets are procured with Urmatt's sourcing team. As an example, it has contracted an Indian supplier for both USDA-certified organic millet and for certain organic seasonings. This leveraged Arvind Narula, Richard Blossom, and Praveen Kumar’s long experience in working with Indian suppliers.

Its packaging is provided for by Thai suppliers.

The Chacha International Plant is located in Chiang Rai, Thailand. It holds major global ethical manufacturing certifications including USDA Organic and Kosher.

Figure 4: Chacha Chiang Rai existing production plant and global certifications



Source: Chacha Rice Ramen Investor Presentation, Jan 2019

Sales Strategy

- Chacha leverages the existing client network of Urmatt and other sister companies to acquire new customers. These clients typically have been working with Urmatt and have values that are greatly aligned to Chacha's.
- Chacha developed an international sales strategy as it expands into the instant noodle business. Sales groups have been formed to reach out to promising client accounts with focus in US, Europe, Singapore, Australia, and China. They have built a full-time local sales team in Thailand and onboarded one full-time local sales personnel each in China and Europe. Development of a sales staff in the US could be a possibility depending on a compelling cost-benefit analysis.
- Chacha's strategy of bringing innovative products into traditional markets have also made access to markets less difficult. At the moment, there are few organic instant noodles in the market, providing Chacha greater ease in entering markets that have strong consumer preference for health and environmentally-conscious products.

Financial Overview

Management has achieved profitability in its current business which leads us to believe they will be equally successful with this adjacent product. We have witnessed the company's budgeting process over several years and are impressed with their measured assumptions for growth. Furthermore, the owners exhibit a maturity that is often in short supply in the organic food space. The Company had originally intended to build a new factory to house a much larger instant noodle line. After acquiring land for the expansion, they decided to scale back their plans and operate within their existing facility. This prudent move gives us added confidence in Management. We assess Chacha's credit standing to be high with a score of 19 out of 21 (See [Appendix 2: Chacha Credit Assessment](#)) given our analysis of their consolidated financial standing:

- Strong management team has been able to establish a profitable business in its current product lines producing positive EBITDA of USD 384k in 2019. 2019 also saw strong revenue growth and improved gross profit and EBITDA margins.

Figure 5: Chacha Income Statement, 2017-2021E

in USD k	2017	2018	2019	2020E	2021E
Revenue – core business	1,350	1,754	2,203	2,442	2,839
Revenue – instant noodles				1,014	2,613
Total revenue				3,457	5,453
Cost of Sales	-1,047	-1,342	-1,373	-2,053	-2,978
Gross profit	303	411	830	1,403	2,475
Operating expenses	-354	-307	-445	-746	-1,049
EBITDA	-51	105	384	657	1,425
Financial performance metrics					
Annual revenue growth rate – core business	47%	30%	26%	11%	16%
Gross profit margin	22%	23%	38%	41%	45%
EBITDA margin	-4%	6%	17%	19%	26%

Source: Chacha Historical Financials; Chacha 2019 P&L; Chacha P&L Projections, Mar 2020

Figure 6: Chacha Top Customers, 2019-2020E

	Revenue in USD k		% of total	
	2019	2020E	2019	2020E
Amy's Kitchen	925	945	42%	39%
Top Organic	684	611	31%	25%

Source: Chacha 2019 P&L; Chacha Demand forecast, Jan 2020

We expect this growth trajectory to continue into 2020 with clients maintaining their strong demand for Chacha's products. Chacha's main customer, Amy's Kitchen, is on track to exceed its sales budget for the year.

- Chacha has a strong financial position with most of its capital being derived from paid-in-capital or loans from shareholders. The only debt is its USD 150,000 term loan from Highlands maturing in late 2020.

Figure 7: Chacha Balance Sheet, 2017-2019

in USD k	2017	2018	2019
Current assets	635	418	1,089
Non-current assets	565	556	1,063
Total assets	1,201	974	2,152
Total liabilities	536	369	318
Shareholders' capital	664	605	1,834
Total liabilities and shareholders' equity	1,201	974	2,152
Financial position metrics			
Debt Service Coverage Ratio (DSCR)	- 0.34x	0.70x	2.56x
Debt-to-Equity (D/E)	0.81x	0.61x	0.17x
Current Ratio	1.18x	1.13x	3.43x

Source: Chacha Historical Financials; Chacha 2019 BS

Risks

Commencement of operations of Chacha's instant noodle facility has been pushed back given the coronavirus pandemic. The recent lockdown in China, where its instant noodle production equipment was manufactured, has prevented installation engineers from traveling to Chiang Rai to commission the factory. Management anticipates its first delivery of instant noodles to be delayed by two months to Q2 2020 as a result.

No adverse effects on sales and ability to export for its core business has been noted.

Opportunities

Crises in Hong Kong and China have provided opportunity for the Chacha Group to grow its business. Recent trade friction has resulted in a 30% tariff on Chinese exports to the US of rice-based products and instant noodles. In addition, disruptions in China from the coronavirus pandemic have pushed food distributors to reduce or eliminate supply concentration from China. These factors have created an opportunity for Chacha to emerge as a new supplier and to deepen its penetration in the food distribution value chain. As an example, Lotus Foods, a California-based importer of organic rice, has been sourcing 100% of its instant rice noodles from a single factory in China. To reduce its reliance on a single supplier and to avoid export taxes, Lotus Foods is poised to sign a private label contract with Chacha.

Transaction Overview

Chacha is seeking a loan of USD 275,000 for its organic instant noodle business. The funds will be used to pay for equipment which has already been delivered to the factory. The instant noodle business is expected to generate full-year sales of USD 2.6 M in 2021.

Figure 8: Chacha instant noodle line capital requirement

in USD k	Funding source	Amount	Status of acquisition
Working capital	Retained earnings	250	
Raw land	Equity	400	Completed
Plant facility and equipment	Equity	600	Already delivered; full installation of the equipment is delayed due to the coronavirus pandemic (equipment and installation engineers are from China)
	Debt	275	
Total		1,525	

Source: Chacha management interview

Chacha has so far spent USD 1.25M on the project against a total capital requirement of USD 1.525 M. To bridge this capital gap, Beneficial Returns is proposing a USD 275,000 five-year term loan at 8.2% interest. (See [Appendix 4: Chacha Term Sheet](#))

This transaction legally covers two entities: Chacha International and Chacha Thai. Chacha will be borrowing through Chacha International, its Hong Kong entity, and will use its instant noodle equipment with book value of USD 375,000 owned by Chacha Thai as collateral. The loan to book value is 73%.

The loan will be documented by Mayer Brown (Hong Kong and Bangkok office) on a pro bono basis.

Personal Guarantees

The four shareholders of Chacha will all personally guaranty the loan on a pro-rata basis. Beneficial Returns has committed to seek repayment from the company and the liquidation of collateral before calling the personal guarantees.

Figure 9: Net Worth of Chacha Owners, Feb 2020

Name	Domicile	Ownership	in USD k				Net Worth
			Cash	Securities	Real estate	Debt	
Richard W. Blossom	US	27%	100	4,268	-	-38	4,330
Marc Castagnet	Hong Kong	27%	450	1,500	1,000	-200	2,750
Arvind Narula	Thailand	27%	20		1,000		1,020
Ed Rodden	US	18%	900		2,600	-1,300	2,300

Note: excludes all ownership in private companies and all fractional ownership in real estate

Source: Chacha owners

Previous Transactions

Beneficial Returns has a three-year history with Chacha. In 2017, we underwrote a USD 150,000 working capital loan to the company on behalf of Highlands Associates, an impact investment firm and Beneficial Returns investor. The Chacha loan has performed as agreed for Highlands. Before the end of its two-year term, the loan was extended by another year to expire in late 2020.

Ted, Beneficial Returns' Founder, also spent significant time getting to know the people behind Chacha and holds multiple connection points which further substantiates their integrity and business acumen:

- Ted was originally introduced to Richard Blossom in June 2016 because of Richard's work with Hilltribe Organics (HTO), a USD 1M social enterprise that is Thailand's largest producer of certified organic eggs. The hens are raised by hilltribe families in Chiang Rai province.
- In October 2016 Ted spent a full day with Arvind Narula at Urmatt in Chiang Rai. He toured the factory, met the local managers, and saw where some of the rice comes from. During that trip Ted also spent one day and one night with Sinchai Puangginanchai, the Urmatt Operations Manager. Together, they traveled to Waiwee, the Hilltribe village that produces all HTO eggs.
- In the past three and a half years Ted has hosted Marc Castagnet and Richard Blossom at his house. He's met with Ed Rodden once and seen Richard 20-30 times.
- Additionally, Ted has conducted a back-channel reference check with Ken and Caryl of Lotus Foods. Lotus Foods is an importer of organic rice and rice products and has been an RSF borrower for 8+ years and another Highlands Associates investment. They have purchased rice from Urmatt in the past and spoke very highly of Arvind and Richard.

Major risks and mitigating factors

Risk	Risk factor	Probability	Risk mitigating factor
Chacha unable to sustain its positive earnings trend	Loss of customers in Chacha’s existing product lines	Low	<ul style="list-style-type: none"> Chacha has developed strong client relationships with customers exhibiting sustainably growing demand for its products. During Chacha’s first year of operations, Amy’s Kitchen had a guaranteed minimum buy of USD 255 k; in 2019, sales to Amy’s exceeded USD 900 k Concentration risk to Amy’s Kitchen in its current product lines is anticipated to decrease with the intake of new customers and product line expansion. Attributable revenue from Amy’s is expected to decrease from 58% in 2017 to 39% in 2020.
	Failure to acquire new customers	Low	<ul style="list-style-type: none"> Chacha is pursuing an aggressive international sales strategy to identify and close contracts in its key export markets with local sales staff in some (<i>See <u>Sales Strategy</u></i>) Pioneering organic, gluten-free products within traditional food markets provides Chacha with very little competition and provides some ease in securing clients
	Chacha unable to capture customers in the instant noodle market	Moderate	<ul style="list-style-type: none"> Plans to pre-sell initial line capacity to a small group of existing customers who will commit to taking substantial volumes. The Chacha Group has successfully used this model entering a sales contract with Amy’s Kitchen for its pasta line, and with Simple Foods for Urmatt’s rice crackers. Lotus Foods is expected to be a private label customer for its instant noodle line. Although a contract has yet to be signed, it is highly likely a transaction will materialize given Lotus Foods’ strong relationship with Urmatt and high regard of Chacha’s owners. (<i>See <u>Previous Transactions</u></i>) Instant noodle offering is well-positioned to capitalize on market trends in the food industry with an increasing consumer base seeking healthy and sustainable products
Chacha unable to service client demand	Inability to procure sufficient raw materials	Low	<ul style="list-style-type: none"> Urmatt has significant capacity to service Chacha’s requirements. Its strategy is to shift from exporting low-margin bulk rice into value-added products such as pasta and noodles from Chacha and crackers and rice cakes from Urmatt. The higher-value products currently make up only about 5% of total Urmatt sales. There is significant land in Chiang Rai that is yet to be converted to organic farming which Urmatt can further utilize to expand production.

	Significant business disruptions from the coronavirus pandemic	Moderate	<ul style="list-style-type: none"> To avoid further delay in commissioning its instant noodle plant, Chacha has arranged for remote assistance from senior Chinese engineers to its local engineers. Furthermore, their equipment manufacturer has re-opened already and is applying for visas for the engineers to come to Thailand. Measures have been taken in Chacha’s production facility to protect against the spread of the virus amongst its employees Management reports no material effects to sales and logistics in its core business. Likewise, we anticipate demand for Chacha’s products to remain strong. Given their nature, Chacha’s products will likely experience no reduction or even an increase in demand for healthy and ready-to-eat food during the crisis. 																				
	Inability to efficiently operate an instant noodle business	Low	<ul style="list-style-type: none"> Chacha plans on onboarding a management team with experience in the instant noodle industry. So far, it has hired a Plant Manager who previously worked at Nissin Foods. Urmatt and Chacha’s management has significant experience in building successful businesses 																				
Chacha unable to meet its payment obligations to BR	Chacha unable to generate cash from its operations		<ul style="list-style-type: none"> Chacha’s cash conversion cycle is robust with stable days receivable and shortening of days inventory in recent years. It also seems to have flexibility on payment terms given that its largest supplier is its parent company. <table border="1"> <thead> <tr> <th></th> <th>2017</th> <th>2018</th> <th>2019</th> </tr> </thead> <tbody> <tr> <td>Days receivable</td> <td>29</td> <td>31</td> <td>29</td> </tr> <tr> <td>Days inventory</td> <td>101</td> <td>65</td> <td>49</td> </tr> <tr> <td>Days payable</td> <td>-95</td> <td>-81</td> <td>-39</td> </tr> <tr> <td>Cash conversion cycle</td> <td>35</td> <td>15</td> <td>38</td> </tr> </tbody> </table>		2017	2018	2019	Days receivable	29	31	29	Days inventory	101	65	49	Days payable	-95	-81	-39	Cash conversion cycle	35	15	38
		2017	2018	2019																			
Days receivable	29	31	29																				
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Days payable	-95	-81	-39																				
Cash conversion cycle	35	15	38																				
Chacha unable to generate sufficient cash given its significant working capital requirements	Low	<ul style="list-style-type: none"> Plans to work with either Chacha’s current Thai bank or to leverage Urmatt’s banking relationships to secure a USD 500,000 line of credit Current owners have the ability to infuse more capital into the business, if necessary (See <i>Personal Guarantees</i>) 																					

Conclusion

We recommend extending a loan of USD 275,000 to Chacha given its adequate impact score and strong credit score. We believe that the greatest risk to this transaction is Chacha’s inability to successfully enter the instant noodle market given that it has yet to secure a distribution contract with Lotus Foods. We believe this is sufficiently mitigated by the strong business acumen that the management of Chacha has so far exhibited in its current business lines. The transaction is also further supported by adequate quality of collateral and the significant room for leverage in the company’s financial position.

Appendix 1: Chacha Impact Assessment

Impact score: 16 out of 21

Prospective borrowers are rated with 1 point for Low, 2 points for Moderate and 3 points for High. Minimum score of 15 for approval.

	Low	Moderate	High	Score
1 SCALE Is the social enterprise addressing a major social or environmental problem and do they have the capacity to make a measurable, positive difference themselves or by influencing others?		✓		2
2 SYSTEMIC CHANGE Is the social enterprise focused on systemic change? In other words, would the impact continue even if the social enterprise went out of business?	✓			1
3 SUSTAINABILITY Does the social enterprise have a business model that is or has a strong likelihood of being sustainable? This may include a portion of philanthropic revenue provided that is sustainable.			✓	3
4 STAKEHOLDER ENGAGEMENT Does the social enterprise engage all stakeholders in their work? Is the social enterprise building local, human resources? Does it actively share its insights with others? Are indigenous communities involved?			✓	3
5 RIGOR How does the social enterprise measure its own impact and how well is it doing against these metrics?			✓	3
6 EFFICIENCY Are the social enterprise’s impact outcomes cost efficient vs. other interventions? If not, is it likely that they will become so as the social enterprise grows?		✓		2
7 INTENTION How committed to its social or environmental mission is the social enterprise?			✓	3
TOTAL				17

Appendix 2: Chacha Credit Assessment

Credit score: 18 out of 21

Prospective borrowers are rated with 1 point for Low, 2 points for Moderate and 3 points for High. Minimum score of 15 for approval.

	Low	Moderate	High	Score
1 BELIEF IN MANAGEMENT Does the social enterprise have a strong management team (extensive industry experience, strong leadership and entrepreneurial background)? Is the governance structure adequate?			✓	3
2 ACCOMMODATIVE BUSINESS ENVIRONMENT Is the social enterprise operating in an industry with low level of competition? Does the social enterprise provide products or services that have low threat of substitution?		✓		2
3 QUALITY OF FINANCIAL INFORMATION Can the financial information provided be depended on? Has its financial statements been audited?		✓		2
4 ABILITY TO BE PROFITABLE Does the social enterprise have a positive earnings trend? Are the earnings sustainable?			✓	3
5 STRENGTH OF FINANCIAL POSITION Does the social enterprise maintain adequate financial ratios (DSCR, Debt-to-equity, Current ratio) to support a debt obligation?			✓	3
6 ABILITY TO SERVICE DEBT Does the social enterprise have the ability to establish a strong cash position to meet its debt obligations on time?			✓	3
7 COLLATERAL OR GUARANTEES Is there collateral for the loan with an adequate loan-to-value amount? Is there a guarantor for the loan?			✓	3
TOTAL				19

Appendix 3: Sample Products of Chacha



Appendix 4: Chacha Term Sheet

**Term Sheet**

6 February 2020
Richard W. Blossom
Chacha International Limited
Kowloon, Hong Kong

Dear Richard,

We are pleased to share this term sheet with you.

The following summary of terms is provided for discussion purposes only and does not constitute a commitment to lend or an agreement to issue a commitment on these or any other terms or to arrange any financing and shall not create a binding or legally enforceable obligation on any Lender or any other party in any way. The terms contained herein are not all-inclusive. Additions and changes may be made, as the Lender and its respective counsel deem necessary, prudent or desirable. No agreement, oral or otherwise, that may be reached during negotiations shall be binding unless reduced to writing and signed by the Lenders and the Borrower.

Borrower:	Chacha International Limited (“Borrower”)
Lender:	Beneficial Returns LLC or its assigns (“Lender”)
Loan Amount and Type:	\$275,000 Equipment Term Loan
Purpose:	Financing to expand production capacity
Availability:	Loan will be available immediately upon satisfaction of all conditions precedent as outlined in this term sheet and the legal documents to be executed no later than 15 March, 2020. Full amount must be drawn in one loan.
Interest Rate:	8.2% per annum, fixed (7.6% if final payment is waived, See Impact Bonus)
Term:	60 months
Payment:	\$5,602.37 plus any applicable taxes, amortizing monthly payment


Impact Bonus:	Final monthly loan payment will be waived if Borrower exceeds TBD impact metric and all prior loan payments have been received on a timely basis.
Security:	<ol style="list-style-type: none">1. First security interest on equipment with purchase price of at least 1.5x the value of the loan2. Pro rata personal guarantees satisfactory to the Lender in form and substance. Guarantors shall include all operating owners with at least 20% ownership of Chacha International Limited. <u>Same guaranty form to be used as prior Highlands transaction.</u> <p>Lender shall pursue collections via security before pursuing collection via guarantees.</p>
Loan Fee:	1.0% of Loan Amount, a one-time flat fee, will be due and payable at closing
Deposit:	A 1.0% "Good Faith" deposit is required with this signed term sheet. At approval, the deposit will be applied to the Loan Fee. If the terms of this document are not met, the deposit will be returned in full.
Additional Costs:	Filing fees and other out-of-pocket expenses. Total amount TBD. Pro bono services in Hong Kong and Thailand to be provided by Mayer Brown.
Late Fees:	\$200 Late Fee charged on late payments not received within ten (10) days of applicable due date.
Default Rate:	In any Event of Default (See Events of Default), the outstanding balance will bear interest at 5.0% above the applicable Interest Rate until such time as the Default is cured. Default includes, but is not limited to, any failure to make a payment within ten (10) days of due date.
Prepayment:	The loan may be prepaid at any time. The payoff amount is calculated as the present value of the future stream of payments discounted at 5%. In the event that Lender does not consent to Borrower assuming additional debt, Borrower may prepay the loan in full without penalty.
Financial & Impact Reporting	<ol style="list-style-type: none">1. Quarterly Balance Sheet, P&L and Cash Flow Statement and any Social Audit completed during the quarter within 45 days of quarter-end.2. Hong Kong Inland Revenue Department Profits Tax Return due within thirty days of filing.3. Year-end Personal Financial Statements of Guarantors due annually on March 31 of the next calendar year.

- Covenants:** Usual and customary, and including but not limited to punctual payment, liens, maintenance of accounting records, and financial reporting.
- Financial Covenants:** None
- Events of Default:** Standard defaults, including but not limited to non-payment, breach of covenants, inaccurate or false representations and warranties, fraud, judgments against Borrower, insolvency, bankruptcy, change of control, cessation of business, transfer of property (including the Collateral), material adverse change in Borrower or collateral, defective collateralization, and defaults with respect to any other creditors and counterparties.
- Documentation:** Documentation to be executed in form and substance satisfactory to Lender which shall include, inter-alia, Loan Agreement, a Promissory Note, Pledge of Collateral and delivery of various documents reflecting Borrower's status and authority as shall be listed on a "closing documentation" list to be provided by Beneficial Returns
- Conditions Precedent to Funding:**
1. Review and approval of personal financial statements acceptable to Beneficial Returns
 2. No materially adverse change in Borrower
 3. Approval by Beneficial Returns Credit Committee
 4. Execution of loan documents acceptable to Beneficial Returns
- Approval:** **Terms and Conditions of this financing are subject to final approval by Beneficial Returns**
- Expiration:** This term sheet expires on 20 February, 2020 if not accepted before then

If the foregoing terms and conditions are acceptable to you, please indicate your acceptance by signing this letter where indicated and returning with the "Good Faith" Deposit.

ACCEPTED AND AGREED AS OF 18th Feb, 2020

Chacha International Limited

By: 
Name: Praveen Kumar.
Title: CEO.