

6 May 2024

*To: The independent board committee and the independent shareholders
of MicroPort Scientific Corporation*

Dear Sir/ Madam,

CONNECTED TRANSACTION

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 Convertible Facility Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate) (the “**Transactions**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the supplemental circular dated 6 May 2024 issued by the Company to the Shareholders (the “**Supplemental Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Supplemental Circular unless the context requires otherwise.

On 5 April 2024 (the “**Agreement Date**”), the Company entered into the Convertible Facility Agreement with, among others, the Original Lenders pursuant to which the Original Lenders agreed to make available to the Company a US Dollars convertible term loan facility in an aggregate principal amount of US\$150,000,000 at an interest rate of 5.75% per annum, with the Accordion Option to increase the Total Commitments by an aggregate principal amount of up to US\$50,000,000 (i.e., the Maximum Increased Total Commitments of US\$200,000,000 if the Accordion Option is exercised in full). Other than the Convertible Facility Agreement and Fee Letter, other documents included as the Finance Documents had not been executed as at the Latest Practicable Date.

With reference to the Board Letter, the Transactions constitute a connected transaction of the Company and are subject to reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Johnathan H. Chou, Dr. Guoen Liu and Mr. Chunyang Shao (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Transactions are on normal commercial terms and are fair and reasonable; (ii) whether the Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Transactions at the Annual General Meeting. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

We were not aware of (i) any relationships or interests between Gram Capital and the Company; or (ii) any services provided by Gram Capital to the Company, during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Supplemental Circular and the information and representations as provided to us by the Company. We have assumed that all information and representations that have been provided by the Company, for which it is solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Supplemental Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Supplemental Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/ or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Transactions. We consider that we have taken sufficient and necessary steps (including review of the Convertible Facility Agreement and Fee Letter, financial statements of the potential Guarantors and the US Propco, annual results announcement of the Company for the year ended 31 December 2023; analyses of relevant terms of Convertible Facility Agreement by comparing with relevant terms of CB Comparables (as defined below)) on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Supplemental Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Supplemental Circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Supplemental Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Supplemental Circular, the omission of which would make any statements therein or the Supplemental Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Supplemental Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Original Lenders, the Agent/Conversion Agent or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of entering into of the Convertible Facility Agreement. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/ or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Transactions, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Transactions

Information on the Group

With reference to the Board Letter, the Group is a leading medical device group focusing on innovating, manufacturing and marketing high-end medical devices globally in a broad range of business segments including cardiovascular, orthopedics, cardiac rhythm management, endovascular, neurovascular, heart valve, surgical robot and other businesses.

Financial performance

Set out below are the audited consolidated financial information of the Group for the two years ended 31 December 2023 as extracted from the Company's annual results announcement for the year ended 31 December 2023 (the "2023 Annual Results"):

	For the year ended 31 December 2023 US\$'000	For the year ended 31 December 2022 US\$'000	Change from 2022 to 2023 %
Revenue	950,725	840,831	13.07
– Cardiovascular devices business	147,236	134,130	9.77
– Orthopedics devices business	237,340	223,555	6.17
– Cardiac rhythm management business	207,016	204,239	1.36
– Endovascular and peripheral vascular devices business	167,983	133,179	26.13
– Neurovascular devices business	93,885	79,900	17.50
– Heart valve business	47,134	36,808	28.05
– Surgical robot business	11,015	3,092	256.24
– Surgical devices business	7,581	4,511	68.06
– Others	31,535	21,417	47.24
Loss for the year	(649,157)	(588,115)	10.38
Non-HKFRS adjusted net loss for the year	(434,553)	(502,478)	(13.52)

Note: The non-HKFRS adjusted net loss for the year was adjusted after taking into account share-based compensation expenses; gain on disposal of subsidiaries and equity-accounted investees; net realised and unrealised loss on financial instruments carried at FVPL; impairment losses of non-current asset; and interest expenses on preferred shares issued by subsidiaries. Please refer to sub-section headed "Non-HKFRS Measures" in the 2023 Annual Results for details.

HKFRS herein means Hong Kong Financial Reporting Standards

As depicted in the above table, the Group's revenue increased from approximately US\$841 million for the year ended 31 December 2022 ("FY2022") to approximately US\$951 million for the year ended 31 December 2023 ("FY2023"), representing an increase of approximately 13.07%. With reference to the 2023 Annual Results, such increase was attributable to:

- (i) market share of independent listed subsidiaries of the Group further increased and rapid growth in their sales were achieved, driven by the launch of new products and commercialization promotion. Among which, revenue from Shanghai MicroPort Endovascular MedTech (Group) Co., Ltd. (stock code: SH688016) which engaged in the endovascular and peripheral vascular devices business, grew by approximately 32% year-on-year; revenue from MicroPort NeuroTech Limited (stock code: 2172) which engaged in neurovascular devices business, grew by approximately 22% year-on-year; revenue from MicroPort CardioFlow Medtech Corporation (stock code: 2160) which engaged in the heart valve business grew by approximately 33% year-on-year; and Shanghai MicroPort MedBot (Group) Co., Ltd. (stock code: 2252) which engaged in the surgical robot business also achieved a year-on-year growth by approximately 258% (such revenue growth rates had excluded the foreign exchange impact and were the growth rate for revenue from external customers of the Group);
- (ii) other major businesses within the Group have further consolidated their competitive advantages and achieved a steady growth in revenue; and
- (iii) as commercialization continued to make progress, revenue from emerging businesses recorded an exponential growth.

Despite that the Group recorded loss of approximately US\$649 million for FY2023, representing an increase of approximately 10.38% as compared to that for FY2022, the Group recorded a decrease of approximately 13.52% in non-HKFRS adjusted net loss for FY2023 as compared to that for FY2022. The Group believed that the presentation of non-HKFRS measures when shown in conjunction with the corresponding HKFRS measures facilitates a comparison of its operating performance from period to period by eliminating potential impacts of items that the management does not consider to be indicative of its operating performance.

With reference to the 2023 Annual Results, the decrease in non-HKFRS adjusted net loss for FY2023 was mainly attributable to (i) the improvement in profitability resulting from the significant increase in revenue from the Group's major businesses; and (ii) the Group's proactive implementation of resource focus and cost control measures to continuously improve operational efficiency and profitability.

As at 31 December 2023, the Group's cash and cash equivalents and net assets were approximately US\$1,020 million (or approximately US\$280 million excluding those held by listed members (as subsidiaries) of the Company) and US\$1,403 million respectively.

Material uncertainty related to going concern

With reference to the 2023 Annual Results, given that (i) the Company had convertible bonds issued by the Company with principal amount of approximately US\$448 million which are due for redemption in June 2024 and short-term bank borrowings of approximately US\$295 million which are due for repayment in 2024; and (ii) the Group incurred a net loss of approximately US\$649 million and a net operating cash outflow of approximately US\$232 million for FY2023, the liquidity of the Group is primarily dependent on its ability to obtain external financing to meet the redemption requirement from the convertible bonds holders before June 2024 and its ability to renew or refinance existing banking facilities and to utilize its cash and cash equivalent available to the Group for repayment of its borrowings. These conditions indicate the existence of material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

In view of the above circumstances, the Group have been taking certain plans and measures to mitigate the liquidity pressures and to improve its financial position which include, but not limited to, the followings:

- (1) The Group has planned or implemented various strategies to improve the liquidity of the Group including to maintain more stringent cost control measure, substantially reduce the budget for research and development costs, defer the plan for discretionary capital expenditure, and plan to realise additional cash from disposal of certain assets or certain equity interests in subsidiaries/equity-accounted investees of the Group;
- (2) The Group are actively engaged in negotiation with a number of banks and certain potential investors to refinance the convertible bonds issued by the Company; and
- (3) The Group are in active discussions with banks for the renewal of existing bank borrowings and obtaining new banking facilities.

If the above plans and measures are successful, the Group will be able to generate sufficient financing and operating cash flows to meet its liquidity requirements for at least the next twelve months from 31 December 2023.

Information on the Original Lenders, the Agent and the Conversion Agent

Each of Original Lender A, Original Lender B and Original Lender C is a company incorporated under the laws of Singapore with limited liability. Each of them is solely managed and controlled by Hillhouse Investment Management, Ltd. (“**Hillhouse Investment**”). Founded in 2005, Hillhouse Investment is dedicated to investing in high-quality businesses for the long-term. With nearly two decades of experience, Hillhouse Investment collaborates with industry-defining enterprises, aiming to establish alignment with sustainable, forward-thinking companies across healthcare, business services, consumer, and industrial sectors. Hillhouse Investment is a diversified asset manager. The firm manages capital for global institutions, including non-profit foundations, endowments, and pensions. Each of Original Lender A, Original Lender B and Original Lender C is an associate of SPR-VI Holdings Limited (being a substantial shareholder of a non-wholly owned subsidiary of the Company) and thus a connected person of the Company.

Jumbo Glorious is principally engaged in investment holding. As at the Latest Practicable Date, Jumbo Glorious was wholly-owned by an associate of Dr. Zhaohua Chang who is the Chairman, executive Director and Chief Executive Officer of the Company. Jumbo Glorious is an associate of Dr. Zhaohua Chang and thus a connected person of the Company.

The Agent and the Conversion Agent are principally engaged in the provision of trust, agency and escrow services in the Asia-Pacific market. To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, as at the Latest Practicable Date, the Agent and the Conversion Agent and their ultimate beneficial owners are third parties independent of the Company and its connected persons.

As confirmed by the Directors, as at the Latest Practicable Date, none of the Original Lenders are bondholders of 2026 Convertible Bonds and 2028 Convertible Bonds.

Reasons for and benefits of the Transactions and use of proceeds

As at the Latest Practicable Date, the Group had three convertible bonds in issue, comprising (i) convertible bonds with principal amount of US\$90 million issued by MicroPort Cardiac Rhythm Management Limited (the “**CRM Convertible Bonds**”) to several external investors; (ii) convertible bonds with principal amount of US\$700 million issued by the Company (i.e. the 2026 Convertible Bonds and approximately US\$448 million remained outstanding as at the Latest Practicable Date); and (iii) the convertible bonds with principal amount of US\$220 million issued by the Company (i.e. the 2028 Convertible Bonds). Both of the 2026 Convertible Bonds and 2028 Convertible Bonds were listed on the Hong Kong Stock Exchange.

Pursuant to the terms of the 2026 Convertible Bonds, on 11 June 2024 (the “Put Option Date”), the holder of each 2026 Convertible Bonds will have the right, at such holder’s option, to require the Company to redeem all or some only of the 2026 Convertible Bonds of such holder on the Put Option Date at early redemption amount. To exercise such right, the holder of the relevant 2026 Convertible Bonds must complete, sign and deliver to paying agent a duly completed and signed notice of redemption together with the certificate evidencing the 2026 Convertible Bonds to be redeemed not earlier than 60 days and not later than 30 days prior to the Put Option Date. Given that (i) the 2026 Convertible Bonds are interest-free and unsecured; and (ii) the closing prices of the Shares ranged from HK\$5.41 per Share to HK\$20.55 per Share for the last 52 weeks whereas the conversion price of the 2026 Convertible Bonds is HK\$92.8163 per Share, we concur with the Directors that (i) the aforesaid put option rights of the 2026 Convertible Bonds will more likely than not be exercised by holders of the 2026 Convertible Bonds upon the Put Option Date; and (ii) the conversion rights of the 2026 Convertible Bonds will highly unlikely to be exercised by holders of the 2026 Convertible Bonds.

As mentioned in the sub-section headed “Financial performance” above, the Group’s cash and cash equivalents was approximately US\$280 million excluding those held by listed members (as subsidiaries) of the Company as at 31 December 2023. However, with reference to the 2023 Annual Results, the Company had convertible bonds issued by the Company with principal amount of approximately US\$448 million which are due for redemption in June 2024 (not to mention that there were approximately US\$295 million short-term bank borrowings of the Company which are due for repayment in 2024).

As mentioned in the sub-section headed “Material uncertainty related to going concern” above, those conditions as mentioned thereof indicate the existence of material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern. One of the Company’s plans and measures being taken to mitigate the liquidity pressures and to improve financial position of the Group is that the Group is actively engaged in negotiation with a number of banks and certain potential investors to refinance the convertible bonds issued by the Company.

We understood that the Company intended to use the net proceeds of the Convertible Loan to repay all outstanding amounts under the 2026 Convertible Bonds, pay all fees, costs and expenses under or in connection with the Finance Documents, and (if any proceeds of the Convertible Facility are available after payment of the above) fund the general corporate purposes of the Group.

Based on the above, we are of the view that the issue of the Convertible Loan could serve the purpose for the repayment of partial outstanding amounts of the 2026 Convertible Bonds and is in line with the Company’s plan/measure to mitigate the liquidity pressures of the Group.

Financing alternatives

We understood from the Directors that the Company considered the feasibility of other fund raising alternatives to the Convertible Facility, including other means of debt financing (such as borrowings from banks or financial institutions) and equity financing (such as rights issue or open offer to existing Shareholders, subscription or placing of new Shares).

In respect of debt financing, the Company has also been actively engaged in negotiations with several financial institutions. As advised by the Directors, as at the Latest Practicable Date, the Company is expected to obtain more than US\$300 million credit support provided by banks for the repayment of all outstanding amount of the 2026 Convertible Bonds.

In respect of other equity financing:

- Both rights issue and open offer would involve lengthy preparation and issue of a relatively more detailed prospectus, therefore a relatively longer timeframe to complete.
- Subscription and placing of new Shares would result in immediate dilution of the existing Shareholders.
- Based on the Directors' understanding, it would be difficult for the Company to conduct equity fund raising exercise with terms favorable to the Company under current market conditions. Based on the preliminary discussion between the Company and a financial institution after considering, among other things, the financial performance and conditions of the Company, a substantial discount on the placing/subscription price may be necessary to increase the attractiveness for investors to participate in the equity fund raising exercise.
- Based on our independent research on placing transactions, rights issue and open offer conducted by other listed companies in Hong Kong indicated that placing of new shares, open offer and rights issue are often conducted at discount to recent closing price or average closing price of shares.

Furthermore, we noted from the Company's announcements dated 6 December 2023 and 19 December 2023 that, the Company had conducted and completed the issuance of the 2028 Convertible Bonds with the net proceeds of approximately US\$216.6 million, most of which were intended to be applied for refinancing the Group's medium and long term offshore debts (with reference to the 2023 Annual Results, US\$214.83 million were utilized for the repayment of partial 2026 Convertible Bonds).

Based on the above, we are of the view that the Convertible Facility is an appropriate financing means currently available to the Company.

Having considered that (i) the Convertible Facility is an appropriate financing means currently available to the Company; and (ii) the issue of the Convertible Loan could serve the purpose for the repayment of partial outstanding amounts of the 2026 Convertible Bonds and is in line with the Company's plan/measure to mitigate the liquidity pressures of the Group, we are of the view that although the Transactions are not conducted in the ordinary and usual course of business of the Group, the Transactions are in the interest of the Company and the Shareholders as a whole.

2. Principal terms of the Transactions

Set out below are the principal terms of the Transactions, details of which are set out under the section headed "2. PROPOSED CONVERTIBLE LOAN INVOLVING THE ISSUE OF CONVERSION SHARES UNDER SPECIFIC MANDATE" of the Board Letter:

Date

5 April 2024

Parties

- (i) the Company, as borrower
- (ii) the Original Lenders, as lenders
- (iii) the Agent, as agent of the Finance Parties (other than itself), and
- (iv) the Conversion Agent, as conversion agent

Certain members of the management of the Company (including director(s) of subsidiaries of the Company and thus a connected person(s) of the Company) may also directly or indirectly participate as one of the Lenders and assume commitments under the Convertible Facility Agreement in an aggregate amount of up to US\$5 million.

The identities of the Lenders under the Convertible Facility Agreement may change from time to time due to syndication, assignment or other transfer of rights and interest relating to the Convertible Facility in accordance with the provisions of the Convertible Facility Agreement.

Total commitment

US\$150,000,000, subject to any increase pursuant to the Accordion Option.

Accordion Option

Original Lender A may, at any time after the first Utilisation Date but on or prior to the Accordion Increase Arrangement Deadline, arrange for the Total Commitments to be increased by an aggregate amount of up to US\$50,000,000 in accordance with, and subject to the terms of, the Convertible Facility Agreement.

Conversion Price

The Conversion Price is initially HK\$7.46 per Share, representing:

- (i) a premium of approximately 26.44% over the closing price of HK\$5.90 per Share as quoted on the Hong Kong Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 10.19% over the closing price of HK\$6.77 per Share as quoted on the Hong Kong Stock Exchange on 5 April 2024 (being the date of the Convertible Facility Agreement) (the “**LTD Premium**”);
- (iii) a premium of approximately 18.53% over the average closing price of HK\$6.294 per Share as quoted on the Hong Kong Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day (the “**5 Days Premium**”); and
- (iv) a premium of approximately 14.89% over the average closing price of HK\$6.493 per Share as quoted on the Hong Kong Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day (the “**10 Days Premium**”).

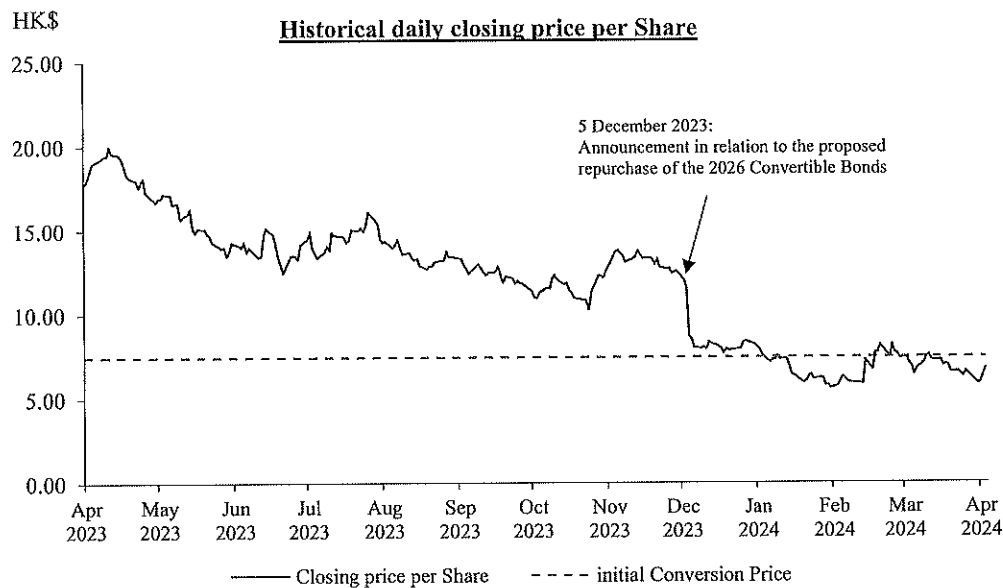
With reference to the Board Letter, the initial Conversion Price of HK\$7.46 per Share was determined with reference to the prevailing market price of the Shares and the terms and conditions of the Convertible Facility Agreement and was negotiated on an arm’s length basis between the Company and the Lenders. The Directors consider that the Conversion Price is fair and reasonable based on the current market conditions and in the interests of the Company and the Shareholders as a whole.

Analysis on the initial Conversion Price

In order to assess the fairness and reasonableness of the initial Conversion Price, we performed the following analyses.

Historical price performance of the Shares

We reviewed the daily closing price of the Shares as quoted on the Hong Kong Stock Exchange from 1 April 2023 up to and including the Agreement Date (the “**Review Period**”), being a period of approximately one year prior to the Agreement Date. The comparison of daily closing prices of the Shares and the Conversion Price is illustrated as follows:



Source: the Hong Kong Stock Exchange's website

At the beginning of 2023, the closing price of Shares continuously moved in an increasing trend and reached its peak in the recent two years of HK\$27.45 per Share on 16 January 2023. Afterwards, the closing price of Shares moved in a decreasing trend until 3 April 2023 (HK\$17.78 per Share). The movement of Share prices experienced a short-term recovery to 13 April 2023 (HK\$20.00 per Share) and turn to a decreasing trend thereafter until end of October 2023. Thereafter, the closing prices of Shares rebounded and fluctuated between HK\$11.50 per Share to HK\$13.80 per Share up until 5 December 2023 (HK\$11.56 per Share). However, the closing prices of Shares dropped sharply on 6 December 2023 (a discount of approximately 25% as compared to closing price on 5 December 2023) after the publication of the Company announcement dated 5 December 2023 in relation to its intention on the repurchase of the 2026 Convertible Bonds in whole. The closing prices of Shares fluctuated in the level of HK\$6.00 per Share to HK\$8.00 per Share for most of the trading days during the period from 7 December 2023 to the Agreement Date.

During the Review Period, the highest and lowest closing prices of the Shares as quoted on the Hong Kong Stock Exchange were HK\$20.00 per Share recorded on 13 April 2023 and HK\$5.60 per Share recorded on 2 February 2024. The initial Conversion Price of HK\$7.46 per Share is within the aforesaid closing prices range during the Review Period.

Although the initial Conversion Price is close to the low-end of the range of closing prices of Shares during the Review Period, it is worth to mention that (i) the closing prices of the Shares followed a general decreasing trend during the Review Period; (ii) the initial Conversion Price is above the closing prices of the Shares for most of the trading days during the period from 7 December 2023 to the Agreement Date following the sharp decrease in closing price of Shares on 6 December 2023 (i.e. a discount of approximately 25% to the closing prices of the Shares recorded in the previous trading day).

Comparison with other CB Comparables

As part of our analysis, we also identified transactions in relation to the placing/subscription of convertible bonds/notes (excluding A shares convertible bonds/notes) as first announced by companies listed on the main board of the Hong Kong Stock Exchange that (i) were for cash consideration or set-off of debt (excluding consideration issue); and (ii) were not lapsed or terminated as at the Agreement Date, during the Review Period, being a period of approximately one year prior to and including the Agreement Date (the “CB Comparable(s)”). We consider a one-year research period would allow sufficient, fair and representative comparable cases to be identified to demonstrate market practice prior to the Agreement Date. To the best of our knowledge and as far as we are aware of, we found 34 transactions which met the said criteria and the list of CB Comparables is exhaustive. Shareholders should note that the businesses, operations and prospects of the Company are not the same as the CB Comparables.

Company name (stock code)	Date of announcement	Principal amount	Maturity (Year(s))	Interest rate per annum (%)	Premium/(discount) of the conversion price over/average closing price per share for the five consecutive days prior to and including the date of agreement in relation to the convertible bonds/notes (%)	Premium/(discount) of the conversion price over/average closing price per share for the five consecutive days prior to and including the date of agreement in relation to the convertible bonds/notes (%)	Premium/(discount) of the conversion price over/average closing price per share for the 10 consecutive days prior to and including the date of agreement in relation to the convertible bonds/notes (%)	Yield to maturity (%) (Note 1)	Transaction fees
China Zenith Chemical Group Limited (362)	3 April 2023	HK\$44.1 million	2.00	3.00	(10.26)	(8.54)	(7.61)	3.00	1% of the principal amount
Ta Yang Group Holdings Limited (1991)	3 April 2023 and 4 April 2023	HK\$40 million	3.00	10.00	Nil	3.24	6.94	10.00	Nil
Global Sweeteners Holdings Limited (3889)	6 April 2023	RMB 120 million	3.00	5.00	16.28	17.92	20.19	5.00	Nil
Hua Yu International Holdings Limited (989)	28 April 2023	HK\$150 million	3.00	6.00	Nil	0.23	0.23	6.00	2% of the principal amount
Quali-Smart Holdings Limited (1348)	8 May 2023	HK\$9 million	3.00	6.00	Nil	9.76	10.05	6.00	Nil
LYGEM (China) Real Estate Investment Company Limited (95)	11 May 2023	US\$20 million	2.00	6.00	21.21	21.51	20.26	6.00	2% per annum on the principal amount
USPACE Technology Group Ltd (1725), formerly known as Hong Kong Aerospace Technology Group Limited	12 May 2023 and 31 August 2023	HK\$700 million	1.00	0.50	(8.91) (Note 2)	3.08 (Note 2)	9.06 (Note 2)	0.51	Nil
China Anchu Energy Storage Group Limited (2399)	22 May 2023	HK\$26.2 million	2.00	8.00	26.92	27.41	27.17	8.00	Nil
Hybrid Kinetic Group Limited (1188)	29 May 2023	HK\$100 million	2.00	5.00	244.83 (Note 3)	233.33 (Note 3)	243.64 (Note 3)	5.00	Nil
China Asia Valley Group Limited (63)	6 June 2023	HK\$333.4 million	5.00	3.60	(33.33)	(31.41)	(29.33)	3.60	Nil
Unity Group Holdings International Limited (1539)	9 June 2023	US\$15 million	2.00	8.00	(19.51)	(18.32)	(16.03)	8.00	Nil
Viva Biotech Holdings (1873)	11 June 2023	HK\$470 million	0.40	2.00	5.26	14.03	22.62	13.52	Nil
Dingyi Group Investment Limited (606)	23 June 2023	HK\$980 million	3.00	5.50	440.54 (Note 3)	454.02 (Note 3)	446.45 (Note 3)	5.50	Nil
Luye Pharma Group Inc. (2186)	28 June 2023	US\$180 million	5.00	6.25	26.10	27.42	31.86	6.25	Unspecified
Ta Yang Group Holdings Limited (1991)	3 July 2023	HK\$40 million	3.00	10.00	2.80	0.78	1.86	10.00	Nil
iDreanSky Technology Holdings Limited (1119)	11 July 2023	HK\$386 million	5.00	5.00	7.69	2.25	3.20	5.00	Unspecified
Renaissance Asia Silk Road Group Limited (274)	18 July 2023	HK\$3 million	3.00	2.50	1.10	3.54	8.01	2.50	Nil

Company name (stock code)	Date of announcement	Principal amount	Maturity (Year(s))	Interest rate per annum (%)	Premium/(discount) of the conversion price over/average closing price per share for the five consecutive days prior to and including the date of agreement in relation to the convertible bonds/notes (%)	Premium/(discount) of the conversion price over/average closing price per share for the 18 consecutive days prior to and including the date of agreement in relation to the convertible bonds/notes (%)	Premium/(discount) of the conversion price over/average closing price per share for the 18 consecutive days prior to and including the date of agreement in relation to the convertible bonds/notes (%)	Yield to maturity (%) (Note 1)	Transaction fees
Carrianna Group Holdings Company Limited (126)	25 July 2023	HK\$75.4 million	1.00	6.00	51.90	52.67	55.04	6.00	Nil
CCT Fortis Holdings Limited (138)	28 July 2023	HK\$57.9 million	1.00	4.50	Nil	3.76	3.65	4.50	2% of the principal amount
Television Broadcasts Limited (511)	16 August 2023	HK\$156 million	5.00	3.50	6.71	3.73	(1.96)	3.50	Nil
Mobile Internet (China) Holdings Limited (1439)	25 August 2023	HK\$496.3 million	2.00	2.00	(56.33)	(67.11)	(68.35)	2.00	Nil
Kiu Hong International Holdings Limited (381)	29 August 2023	HK\$45 million	5.00	4.00	32.74	32.98	32.74	4.00	0.5% of the principal amount
New Sparkle Roll International Group Limited (970)	19 September 2023	HK\$64.5 million	3.00	Nil	5.56	0.85	1.39	Nil	1.5% of the principal amount
China Kingstone Mining Holdings Limited (1380)	22 September 2023	HK\$200 million	3.00	2.00	(44.24)	(43.56)	(40.65)	6.51	5.5% of the principal amount
Ceconomy Entertainment International Holdings Limited (959)	16 October 2023	HK\$32 million	3.00	Nil	13.27	10.73	4.75	Nil	Nil
Global New Material International Holdings Limited (6616)	5 November 2023	US\$50 million	2.00	9.00	99.48	100.32	103.05	9.00	Nil
National United Resources Holdings Limited (254)	16 November 2023	HK\$80.5 million	2.00	6.00	33.72	27.21	29.36	6.00	Nil
The Company	6 December 2023	US\$220 million	5.00	5.75	10.54	4.57	1.73	5.75	Nil
Wisdom Wealth Resources Investment Holding Group Limited (7)	23 January 2024	HK\$39 million	1.00	5.88	117.39	69.49	58.48	5.88	Nil
Changyou Alliance Group Limited (1039)	26 January 2024	HK\$126 million	3.00	8.00	342.11	306.19	273.00	8.00	3.5% per annum of the principal amount
Value Convergence Holdings Limited (821)	22 February 2024	HK\$84 million	3.00	Nil	1.69	2.39	1.35	Nil	3% of the principal amount
Grand Field Group Holdings Limited (115)	6 March 2024	HK\$101.9 million (Note 5)	3.00	6.00	5.69	3.34	5.95	6.00	Nil

Company name (stock code)	Date of announcement	Principal amount	Maturity (Year(s))	Interest rate per annum (%)	Premium/(discount) of the conversion price over/ to average closing price per share for the five consecutive days prior to and including the date of agreement in relation to the convertible bonds/ notes (%)	Premium/(discount) of the conversion price over/ to average closing price per share for the 10 consecutive days prior to and including the date of agreement in relation to the convertible bonds/ notes (%)	Premium/(discount) of the conversion price over/ to average closing price per share for the 10 consecutive days prior to and including the date of agreement in relation to the convertible bonds/ notes (%)	Yield to maturity (%) (Note 1)	Transaction fees
Huayi Tencent Entertainment Company Limited (419)	7 March 2024	HK\$120 million	2.00	10.00	0.40	0.20	(0.20)	10.00	Nil
Sino Oil and Gas Holdings Limited (702)	13 March 2024	HK\$1,323.4 million	7.00	8.00	(18.03)	(15.25)	(16.32)	12.00 (Note 6)	Nil
		Maximum (excluding outliers, if any):	7.00	10.00	117.39	100.32	103.05	13.52	
		Minimum (excluding outliers, if any):	0.40	Nil	(58.33)	(67.11)	(68.35)	Nil	
		Average (excluding outliers, if any):	2.89	5.09	9.48	8.56	8.98	5.68	
		Median:	3.00	5.63	5.62	3.75	6.44	5.94	
Convertible Facility		US\$150 million to US\$200 million (Subject to the Accrual Option)	5.00	5.75	10.19	18.53	14.89	11.46	2% of Total Commitment

Source: the Hong Kong Stock Exchange's website

Notes:

1. The yield to maturity (YTM) was calculated by $(C + (FV - PV) \div n) \div ((FV + PV) \div 2)$.

Where:

C = Annual coupon payment

FV = Face value of the convertible bonds/notes

PV = Present value of the convertible bonds/notes

n = number of compounding period

2. The conversion price of such CB Comparable shall be 95% of the volume weighted average price as traded on the Hong Kong Stock Exchange on the trading day immediately preceding the relevant conversion date. For illustrative purpose only, the conversion price adopted for the calculation of the premium/(discount) of such CB Comparable represents 95% of the volume weighted average price of shares of the subject company as traded on the Hong Kong Stock Exchange immediately preceding the date of the relevant subscription agreement in relation to the issuance of convertible notes.
3. The premium as represented by the conversion price of the relevant CB Comparables were exceptionally high and were considered as outliers.
4. The conversion price of such CB Comparable shall be 90% of the average closing price on any three consecutive business days as selected by the relevant noteholder during the 45 business days immediately preceding the relevant conversion date on which the shares of the subject company were traded on the Hong Kong Stock Exchange. For illustrative purpose only, the conversion price adopted for the calculation of the premium/(discount) of such CB Comparable represents 90% of the lowest average of the closing prices of three consecutive business days during the 45 business days on which the shares of the subject company were traded on the Hong Kong Stock Exchange immediately preceding the date of the relevant subscription agreement in relation to the issuance of convertible notes.
5. Based on the maximum principal amount to be subscribed by the subscriber of the relevant CB Comparable.
6. The subject company shall redeem all of the convertible bonds on the maturity date at such amount that would make up an aggregate internal return rate of 12% per annum on the convertible bonds.

According to the above table, the conversion price of the CB Comparables:

- ranged from a discount of approximately 58.33% to a premium of approximately 117.39%, with average of 9.48% premium and median of 5.62% premium over/to the respective closing price of the shares on the date of agreement in relation to the respective of convertible bonds/notes (excluding outliers as the case may be);
- ranged from a discount of approximately 67.11% to a premium of approximately 100.32%, with average of 8.36% premium and median of 3.75% premium over/to the respective average closing price of the shares for the last five consecutive days prior to and including the date of agreement in relation to the respective of convertible bonds/notes (excluding outliers as the case may be); and
- ranged from a discount of approximately 68.35% to a premium of approximately 103.05%, with average of 8.98% premium and median of 6.44% premium over/to the respective average closing price of the shares for the last 10 consecutive days prior and including the date of agreement in relation to the respective of convertible bonds/notes (excluding outliers as the case may be).

Despite the wide range of premium/discount (after excluding outliers) observed above, the LTD Premium, 5 Day Premium and 10 Day Premium falls within the above respective ranges and are above the average and median of the respective ranges (in particular, the median of the respective ranges of the CB Comparables will provide a more meaningful results as median is often used where there are extremities in a set of data which skewed the average).

Having also considered that (i) the initial Conversion Price is within the range of the lowest and highest closing prices of Shares during the Review Period; and (ii) the LTD Premium, 5 Days Premium and 10 Days Premium are above the average and median of respective ranges of the CB Comparable (excluding outliers as the case may be), we consider the initial Conversion Price is fair and reasonable.

Adjustment upon corporate actions and Change of Control

Pursuant to the Convertible Facility, the initial Conversion Price is subject to adjustments for, amongst others, consolidation, subdivision or reclassification of Shares, capitalisation of profits or reserves, distributions, rights issues of Shares or options over Shares at less than the then current market price, rights issues of other securities, issues of Shares or other options over Shares at less than the then current market price, issues of securities or other options over securities at less than the then current market price, modification of rights of conversion at less than the then current market price and other offers to Shareholders as set forth in the Convertible Facility Agreement.

If a Change of Control shall have occurred, the Company shall give notice of that fact to the Lenders (the “**Change of Control Notice**”) within 7 days after it becomes aware of such Change of Control. Following the giving of a Change of Control Notice, upon any exercise of conversion rights such that the relevant conversion date falls within the period of 30 days following the later of (1) the relevant Change of Control and (2) the date on which the Change of Control Notice is given to the Lenders, the Conversion Price shall be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} / (1 + (\text{CP} \times (\text{c}/\text{t}))), \text{ where:}$$

NCP = the Conversion Price after such adjustment;

OCP = the Conversion Price in effect on the relevant Conversion Date;

CP (or Conversion Premium) = 25% expressed as a fraction;

c = the number of days from and including the date the Change of Control occurs to but excluding the Final Repayment Date; and

t = the number of days from and including the first Utilisation Date to but excluding the Final Repayment Date.

We noted the followings:

- the 2026 Convertible Bonds and 2028 Convertible Bonds (the holders of which are independent third parties to the Company), listed on the Hong Kong Stock Exchange, contained adjustment upon Change of Control mechanism.

The formulae for the adjustments of the 2026 Convertible Bonds and 2028 Convertible Bonds are the same as the formula above with Conversion Premium of 30% and 32.5% respectively;

- there were similar conversion price adjustment arrangements upon Change of Control scenario under the convertible bonds (a) issued by Luye Pharma Group Inc. (stock code: 2186) (the holders of which would be no less than six independent professional investors), which were listed on the Hong Kong Stock Exchange; and (b) issued by iDreamSky Technology Holdings Limited (stock code: 1119) (the holders of which would be no less than six independent individual, corporate and/or institutional investors), which were listed on the Official List of Singapore Exchange Securities Trading Limited. The formulae for the adjustments are the same as the formula above with Conversion Premium parameters of 26.1% and 17.5% respectively;

Given that there were similar conversion price adjustment arrangements under the above convertible bonds upon Change of Control, we are of the view that the mechanism on adjustment upon Change of Control is fair and reasonable.

Interest

The outstanding principal of each Convertible Loan will bear interest at a rate of 5.75% per annum. Interest period of a Convertible Loan shall be a period of six months in each case beginning on the Utilisation Date or (if a Convertible Loan has already been made) on the last day of the preceding interest period of such Convertible Loan. An interest period shall not extend beyond the Final Repayment Date. Accrued interest on each Loan shall be paid on the last day of each interest period or on the date falling five Business Days after the conversion date in respect of accrued interest on any Loan Participation in respect of which conversion rights have been exercised in accordance with the Convertible Facility Agreement.

As presented in the table above, the interest rate of the CB Comparables ranged from nil to 10% per annum, with an average of 5.09% and a median of 5.63%. The interest rate of the Convertible Loan falls within the aforesaid range and close to the median.

In addition, the interest rate of Convertible Loan is the same as the interest rate of the 2028 Convertible Bonds (being the latest convertible bonds issued by the Company prior to the Agreement Date).

Based on the above, we consider the interest rate to be justifiable.

Final Repayment Date

The Final Repayment Date is the date falling 60 months from the first Utilisation Date.

As presented in the table above, the term of the CB Comparables ranged from 0.4 year to 7 years. The Final Repayment Date, being the date falling 60 months from the first Utilisation Date, falls within the range of term of the CB Comparables. Furthermore, the term of the Convertible Loan is the same as the 2026 Convertible Bonds and the 2028 Convertible Bonds.

Repayment

Subject to the terms of the Convertible Facility Agreement, the Company shall repay each Convertible Loan in full on the Final Repayment Date, together with all interest, any Redemption Premium Amount and any accrued but unpaid amounts payable to the Lenders under the Finance Documents.

Pursuant to the Convertible Facility Agreement, in the case of repayment on the Final Repayment Date, 40 per cent. flat on that Lender's participation in that Convertible Loan being repaid (the "**HTM Redemption Amount**").

We noted that there were a few CB Comparables incorporated premium redemption mechanism in the terms of the relevant convertible bonds. To assess the fairness and reasonableness of the premium redemption mechanism as mentioned above, we analysed the yield to maturity ("**YTM**") of the Convertible Loan, which represented the total return expected on a bond if the bond is held until maturity; or the cost to the Company for the issuance of the Convertible Loan in other words.

According to the list of CB Comparable above, the YTM of the CB Comparables ranged from nil to 13.52%, with an average of 5.68% and a median of 5.94%. The YTM of the Convertible Loan of 11.46% falls within range of YTM of the CB Comparables.

Although the YTM of the Convertible Loan is close to the high-end of the YTM of the CB Comparables, having considered (i) the Group's current financial performance and situation; and (ii) the YTM of the Convertible Loan falls within the range of YTM of the CB Comparables, we are of the view that the HTM Redemption Amount to be justifiable in current situation.

Prepayment

Without prejudice to certain clauses in the Convertible Facility Agreement, the Company shall prepay the relevant Lender's participation in certain situations, details of which are set out under the clause of the Convertible Facility headed "Prepayment" in the Board Letter.

The Company shall not repay or prepay all or any part of the Convertible Loans or cancel all or any part of the commitment except at the times and in the manner expressly provided for in the Convertible Facility Agreement or the other mandatory prepayment provisions in the Security Trust Deed.

Without prejudice to certain clauses in the Convertible Facility Agreement, the Company may, if any sum payable to any Lender by the Company is required to be increased in accordance with the tax gross-up provisions in the Convertible Facility Agreement, or any Lenders claims indemnification from the Company in accordance with the tax indemnity or increased costs provisions in the Convertible Facility Agreement, whilst the circumstance giving rise to the requirement for such increase or indemnification continues, give the Agent written notice of cancellation of the commitment of that Lender and its intention to procure the prepayment of that Lender's Loan Participations or give the Agent notice of its intention to replace that Lender in accordance with the Convertible Facility Agreement.

Pursuant to the Convertible Facility Agreement, (i) in the case of repayment or prepayment as a result of an Illegality Event, a Relevant Event, a Lender Prepayment Event, a Performance Breach^(Note), the receipt of cash proceeds in connection with any Relevant Disposal, other mandatory prepayment provisions in the Security Trust Deed or an event of default under the Convertible Facility Agreement, 30 per cent. flat on that Lender's participation in that Convertible Loan being repaid or prepaid; and (ii) in the case of prepayment as a result of a Borrower Prepayment Event, 40 per cent. flat on that Lender's participation in that Convertible Loan being repaid or prepaid (the "Prepayment Redemption Amount").

We noted from the CB Comparables that if the convertible bonds/notes of the CB Comparables are allowed to be early redeemed in a certain circumstances, their early redemption amount will be no less than redemption amount at maturity date.

Given that (i) the Prepayment Redemption Amount is no more than the HTM Redemption Amount (which is justifiable as analysed above); and (ii) the Group's current financial performance and situation, we are of the view that the HTM Redemption Amount to be justifiable in current situation.

Conversion

Subject to the terms of the Convertible Facility Agreement, each Lender has the right to convert all or any portion of its Loan Participation into Conversion Shares at the Conversion Price (initially being HK\$7.46 per Share, subject to adjustments as set out in the Convertible Facility Agreement) at any time on or after the relevant Utilisation Date up to (i) the close of business (being 3:00 p.m.) in Hong Kong on the tenth HK Business Day prior to the Final Repayment Date (both days inclusive) (but, subject only to the proviso below, in no event thereafter); (ii) (in respect of that Lender's conversion right) if the Company exercises its right of prepayment and cancellation in relation to that Lender to prepay any of that Lender's Loan Participation before the Final Repayment Date, then up to the close of business (being 3:00 p.m.) in Hong Kong on a date no later than 15 HK Business Days (both days inclusive) prior to the date fixed for prepayment thereof or (iii) (in respect of that Lender's conversion right) if notice requiring prepayment has been given by the Agent (for and on behalf of a Lender) in respect of that Lender's Loan Participation (or part thereof) in accordance with, and subject to the terms of, the Convertible Facility Agreement, then up to the close of business (being 3:00 p.m.) in Hong Kong on a date prior to the giving of such notice, provided that if (A) the Company defaults in making payment in full

Note: in respect of the Company, any of the following (determined in accordance with the Convertible Facility Agreement):(i) a net loss of the Group for the full year ending 31 December 2024 exceeding US\$275,000,000; (ii) a net loss of the Group for the half year ending 30 June 2025 exceeding US\$110,000,000; (iii) a net loss of the Group for the full year ending 31 December 2025 exceeding US\$55,000,000;(iv) a net profit of the Group for the half year ending 30 June 2026 being less than US\$45,000,000; or (v) a net profit of the Group for the full year ending 31 December 2026 being less than US\$90,000,000.

in respect of any Loan Participation of a Lender on the date fixed for payment or prepayment thereof in accordance with the terms of the Convertible Facility Agreement or (B) any Loan Participation of a Lender has become due and payable prior to the Final Repayment Date by reason of the occurrence of any of events of default under the Convertible Facility Agreement, that Lender may continue to exercise its right to convert all or any Loan Participation (or part thereof) up to and including the close of business (being 3:00 p.m.) in Hong Kong on the date upon which the full amount of the moneys payable in respect of that Loan Participation has been duly received by the Agent and notice of such receipt has been duly given to the Lenders.

The number of Conversion Shares issuable upon conversion of any Loan Participation (or part thereof) shall be determined by dividing the principal amount of such part of that Loan Participation to be converted (translated into Hong Kong Dollars at the Fixed Exchange Rate of HK\$7.8285 = U.S.\$1.00) by the Conversion Price in effect on the relevant conversion date and if such number is not a whole number, it shall be rounded down to the nearest whole number of Conversion Shares.

Based on the number of issued Shares as at the Latest Practicable Date and:

- assuming that (i) there is no change in the issued share capital of the Company prior to the conversion of Convertible Loan; and (ii) the Convertible Loan in an aggregate principal amount equal to the Initial Total Commitments are converted into Shares at the initial Conversion Price of HK\$7.46 per Share, a total of 157,409,517 Shares shall be issued, representing 7.90% of the enlarged share capital of the Company.
- assuming that (i) there is no change in the issued share capital of the Company prior to the conversion of Convertible Loan; and (ii) the Convertible Loan in an aggregate principal amount equal to the Maximum Increased Total Commitments are converted into Shares at the initial Conversion Price of HK\$7.46 per Share, a total of 209,879,356 Shares shall be issued, representing 10.27% of the enlarged share capital of the Company.

Guarantee and security

Each of the Guarantors and the US Propco will grant guarantee in connection with the Convertible Facility Agreement.

As advised by the Directors, the Convertible Loans will be secured by (i) assignment by way of security of certain intercompany loan(s) by the Company; (ii) security over a property held by the US Propco (the “**Pledged Property**”); and (iii) share mortgage in respect of all issued shares of each Guarantor by the Company (the “**Share Mortgage**”, together with the Pledged Property, the “**Security**”).

Upon our request:

- we obtained the financial statement of holding company of the Pledged Property for the year ended 31 December 2023.;

In addition, the Directors advised us the identities of the potential Guarantors and provided us the financial statements of each potential Guarantor for the year ended 31 December 2023.

Based on the abovementioned financial statements and value of potential Guarantors' long-term investee companies, the value of the Security was approximately US\$627.9 million in aggregate (the "Security Coverage"). The Security Coverage represented approximately 314% over the Maximum Increased Total Commitments (the "Security Coverage Ratio"); and

- the Directors provided us a list of the Group's existing secured debts with details on the principal amount and the value of the collateral. From the aforesaid list, we noted the collateral coverage of the Group's existing secured debts ranged from approximately 13% to 242% in terms of value of collateral over the principal amounts of the relevant secured debts (the "Existing Collateral Coverage Range").

Although the Security Coverage Ratio is above the Existing Collateral Coverage Range, having considered the followings:

- almost all the existing secured debt were withdrawn before the publication of the Group's financial information for FY2022, where no "material uncertainty on going concern" was expressed by the Company's auditors; and
- as confirmed by the Directors, the Lenders will only be entitled to recover an amount up to the aggregate outstanding amount due under the Finance Documents from the proceeds of the Security upon realisation,

we are of the view that the Security arrangement is justifiable.

Conditions Precedent

Subject to the instructions of the Majority Lenders, the Company may not deliver a Utilisation Request unless the Agent has received certain documents/evidences, details of which are set out in the section headed "Conditions Precedent" of the Board Letter.

As of the Latest Practicable Date, no conditions have been fulfilled or waived under the Convertible Facility Agreement.

The Lenders will only be obliged to make their respective participations in each Convertible Loan available if:

- (i) on the date of the Utilisation Request and on the proposed Utilisation Date:
 - a. no default is continuing or would result from the proposed Convertible Loan and no Relevant Event has occurred; and
 - b. certain representations and warranties made by each Obligor under the Convertible Facility Agreement remain true in all material respects; and
- (ii) the Agent has received:
 - a. on or prior to the date falling two Business Days before the proposed Utilisation Date, a copy of the listing approval from the Hong Kong Stock Exchange for the Conversion Shares issuable upon a conversion pursuant to the terms of the Convertible Facility Agreement; and
 - b. on or prior to the date falling three Business Days before the proposed Utilisation Date, evidence that the approval of the independent shareholders of the Company has been obtained at a general meeting of the Company by way of a poll for the entering into of the Convertible Facility Agreement and the transactions contemplated thereunder in accordance with the Listing Rules.

Fees

Pursuant to the Convertible Facility Agreement, the Borrower shall pay to each Finance Party (for its own account) fees in the amount and at the times agreed in a Fee Letter. According to the Fee Letter, the fees referred to in the Facility Agreement includes, inter alia, a fee in the amount of US\$3,000,000. The Fees represented 2% of Total Commitment.

We noticed from the CB Comparable that the placing agents/subscribers of certain CB Comparable are entitled to a one-off fee ranged from 0.5% to 5.5% of their respective principal amounts of the CB Comparable.

As the ratio of fees to Total Commitments falls within the abovementioned fee range, we are of the view that the fee is justifiable.

Our conclusion on terms of the Transactions

Taking into account the principal terms of the Transactions as highlighted above, that no abnormal terms were observed, and the Group's current financial performance and conditions, we are of the view that the terms of the Transactions are on normal commercial terms and are fair and reasonable.


3. Possible dilution effect on the shareholding interests of the public Shareholders

Based on the information as disclosed in the Board Letter, the shareholding interests of the other shareholders of the Company (i.e. shareholders other than those who are substantial shareholders or being interested in the transactions contemplated under the Convertible Facility Agreement) would be diluted by approximately 4.34 percentage points (assuming the Convertible Loans in an aggregate principal amount equal to the Initial Total Commitments are converted in full at the initial Conversion Price of HK\$7.46 per Share) or approximately 5.64 percentage points (assuming the Convertible Loans in an aggregate principal amount equal to the Maximum Increased Total Commitments are converted in full at the initial Conversion Price of HK\$7.46 per Share) immediately after all allotment and issuance of the Conversion Shares in full upon exercise of the conversion rights under the Convertible Loan. In this regard, taking into account (i) the reasons for entering into the Convertible Facility Agreement; (ii) the terms of the Convertible Facility being fair and reasonable; and (iii) the Group's current financial performance and situation, we are of the view that the said level of dilution to the shareholding interests of the public Shareholders as a result of the entering into of the Convertible Facility Agreement is justifiable.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Transactions are on normal commercial terms and are fair and reasonable; and (ii) although of the Transactions are not conducted in the ordinary and usual course of business of the Group, the Transactions are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the Annual General Meeting to approve the Transactions and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited


Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.