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## **Hong Kong Aerospace Technology Group Limited**

**香港航天科技集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1725)**

### **SUPPLEMENTAL ANNOUNCEMENT**

#### **SUPPLEMENTAL AGREEMENT IN RELATION TO SUBSCRIPTION OF CONVERTIBLE NOTES UNDER SPECIFIC MANDATE**

**AND**

#### **EXTENSION OF LONG STOP DATE**

**Financial Adviser to the Company**



**INCU Corporate Finance Limited**

On 12 May 2023, the Company and the Subscriber entered into the Subscription Agreement in relation to the Subscription of the Convertible Notes. On the same date, the Company and the Subscriber entered into the Credit Support Agreement, pursuant to which the initial proceeds of HK\$686 million from issue of the Convertible Notes will be utilised as collateral to secure the Company's redemption obligation under the Convertible Notes. Pursuant to the Credit Support Agreement, the Company will not receive the proceeds from the Convertible Notes immediately upon Completion. As a result of this credit support arrangement, the Stock Exchange took the view that the issue of the Convertible Notes and the collateral arrangement shall constitute the issue of an option on the part of the Company and the Company shall comply with the requirement under Chapter 15 of the Listing Rules.

## THE SUPPLEMENTAL AGREEMENT

For the purpose of due compliance of the requirements under Chapter 15 of the Listing Rules, on 31 August 2023 (after the trading hours), the Company and the Subscriber entered into the Supplemental Agreement in relation to the alteration, amendments, modification and variation of certain terms of the Subscription Agreement, including (i) the long stop date for the fulfilment or waiver of the conditions precedent be extended from 31 August 2023 to 31 December 2023; (ii) the principal amount of the Convertible Notes being reduced from HK\$800,000,000 to HK\$700,000,000; (iii) the Maximum Number of Shares being lowered from 120,000,000 Conversion Shares to 61,750,000 Conversion Shares; (iv) the Maximum Number of Shares being fixed and not subject to adjustment; and (v) the Maturity Date being fixed to be on the first anniversary of the Closing Date. In the premises, the Convertible Notes will be able to comply with Rule 15.02 of the Listing Rules.

Pursuant to the Supplemental Agreement, the Company and the Subscriber further agreed that (a) the Subscriber shall not transfer any Convertible Notes to any third party unless such third party agrees in writing to be bound by the 19% Shareholding Limit upon the transfer of the relevant Convertible Notes as well as to limit further transfer of the Convertible Notes to transferees who agree to the same condition; (b) the Subscriber will no longer be entitled to the Right of First Refusal; and (c) the Company undertook and agreed not to carry out the corporate actions other than certain events specified in the Terms and Conditions of the Convertible Notes. Certain figures relating to the Convertible Notes are amended in order to tie with the amendment and alteration of the terms of the Subscription Agreement and Terms and Conditions of the Convertible Notes as more particularly set out below in this supplemental announcement.

**Shareholders and potential investors should note that the Convertible Notes are collateralised. All the initial proceeds of HK\$686 million from issue of the Convertible Notes will be used as collateral to secure the Company's redemption obligation under the Convertible Notes. Upon Completion, the Company will not benefit from the proceeds immediately. The collateral for securing the corresponding portion of the Convertible Notes will be released to the Company upon conversion. Shareholders and potential investors are advised to exercise caution when dealings in the Shares.**

Reference is made to the announcement of Hong Kong Aerospace Technology Group Limited (the “**Company**”) dated 12 May 2023 (the “**Announcement**”) in relation to the Subscription of the Convertible Notes under the specific mandate. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Announcement.

On 12 May 2023, the Company and the Subscriber entered into the Subscription Agreement in relation to the Subscription of the Convertible Notes. On the same date, the Company and the Subscriber entered into the Credit Support Agreement, whereby the initial proceeds of HK\$686 million from issue of the Convertible Notes will be utilised as collateral to secure the Company’s redemption obligation under the Convertible Notes. Pursuant to the Credit Support Agreement, the Company will not receive the proceeds from the Convertible Notes immediately upon Completion. As a result of this credit support arrangement, the Stock Exchange took the view that the issue of the Convertible Notes and the collateral arrangement shall constitute the issue of an option on the part of the Company and the Company shall comply with the requirement under Chapter 15 of the Listing Rules.

#### **THE SUPPLEMENTAL AGREEMENT**

On 31 August 2023 (after the trading hours), the Company and the Subscriber entered into the supplemental agreement (the “**Supplemental Agreement**”) in relation to the alteration, amendments, modification and variation of certain terms of the Subscription Agreement, including (i) the long stop date for the fulfilment or waiver of the conditions precedent be extended from 31 August 2023 to 31 December 2023; (ii) the principal amount of the Convertible Notes being reduced from HK\$800,000,000 to HK\$700,000,000; (iii) the Maximum Number of Shares being lowered from 120,000,000 Conversion Shares to 61,750,000 Conversion Shares; (iv) the Maximum Number of Shares being fixed and not subject to adjustment; and (v) the Maturity Date being fixed to be on the first anniversary of the Closing Date. Pursuant to the Supplemental Agreement, the “Convertible Notes” shall refer to the collateralised convertible notes in the principal amount of HK\$700,000,000 with 0.5% coupon and due 2024.

**Further, principal amended terms of the Convertible Notes under the Subscription Agreement as amended by the Supplemental Agreement and the Terms and Conditions with the amendments being underlined are set out as follows:**

Issuer	:	The Company.
Principal amount	:	<u>HK\$700,000,000.</u>
Subscription Price	:	98% of the principal amount of the Convertible Notes which is <u>HK\$686</u> million.

- Interest : 0.5% per annum payable quarterly in arrears on 31 March, 30 June, 30 September and 31 December in each year based on the outstanding principal amount of the Convertible Notes.
- Maturity date : The first anniversary of the Closing Date.
- Conversion Price : In respect of a Conversion Date, the price at which Shares will be issued upon exercise of a Conversion Right, being 95% of the Volume Weighted Average Price of the Shares as traded on the Stock Exchange on the Trading Day immediately preceding the Conversion Date, provided that the Company shall be entitled to reject the exercise of the Conversion Right at a Conversion Price which is lower than the Conversion Rejection Price (initially being HK\$6.50 per Share but subject to adjustment pursuant to the Adjustment Provisions).

When the Conversion Price as above calculation is lower than the Conversion Rejection Price, the Company will take into account the factors such as the liquidity of the Shares, the funding needs of the Group, the dilution effect as a result of the issue of the Conversion Shares to the existing Shareholders, the market sentiment and the availability of other alternative fund raising opportunities in determining whether to reject the exercise of Conversion Rights, the extent of difference between the Conversion Price and the Conversion Rejection Price. If the Conversion Price is approaching the par value of HK\$0.01 or less than the par value, it will fall into an extreme scenario that the Company will consider to reject the exercise of Conversion Rights. For the avoidance of doubt, the Company will still have the discretion after the Conversion Rejection Price has been adjusted under the adjustment provisions.

Notwithstanding the Company's rejection of the conversion when the Conversion Price is below the Conversion Rejection Price, the Subscriber can still exercise the Conversion Rights attached to the Convertible Notes at the Conversion Rejection Price before the Maturity Date if there are any outstanding Convertible Notes. The Company is obliged to redeem each of the outstanding Convertible Notes at the Maturity Date, subject to early redemption prior to the Maturity Date pursuant to the Terms and Conditions.

Conversion Shares : For illustration only:

- (a) assuming that the Conversion Date is the date of this supplemental announcement, the Conversion Price, being 95% of the Volume Weighted Average Price of the Shares as traded on the Stock Exchange on the Trading Day immediately preceding the Conversion Date, is approximately HK\$7.39309 per Share, which entitles the Noteholder to subscribe for approximately 61,750,000 Conversion Shares upon exercise in full of the Conversion Rights attached to the Convertible Notes based on (i) the principal amount of the Convertible Notes of HK\$700 million divided by the Conversion Price; or (ii) the Maximum Number of Shares (whichever is lower), representing:
- (1) approximately 19.98% of the existing issued share capital of the Company; and
  - (2) approximately 16.66% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares upon full conversion of the Convertible Notes at the initial Conversion Price;

(b) assuming that there will be no change in the issued share capital of the Company before the exercise of the Conversion Rights and the Conversion Price calculated as above is equal to the Conversion Rejection Price, the Conversion Shares will still be subject to a maximum limit of 61,750,000 Conversion Shares, which represents:

- (1) approximately 19.98% of the existing issued share capital of the Company; and
- (2) approximately 16.66% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares upon full conversion of the Maximum Number of Shares.

Shareholding Limit : Notwithstanding any other provision of the Subscription Agreement, the Subscriber shall not (i) exercise any Conversion Rights, nor (ii) otherwise acquire any Shares, to the extent that such exercise or acquisition would cause the Subscriber at any time to be entitled to voting rights in excess of 19% of the total outstanding Shares at such time.

The Subscriber shall not transfer any Convertible Notes to any third party unless such third party agrees in writing to be bound by the 19% Shareholding Limit upon the transfer of the relevant Notes as well as to limit further transfer of the Convertible Notes to transferees who agree to the same condition.

Maximum Number of Shares : The maximum total number of Conversion Shares to be issued pursuant to the exercise of Conversion Rights by the Noteholders shall be 61,750,000 Conversion Shares. The Maximum Number of Shares will be fixed and not subject to adjustment.

Conversion Rejection Price (which replaces the original term of “Floor Price”) : HK\$6.50 per Share, but subject to adjustment in the Adjustment Circumstances.

The Conversion Rejection Price is the price at which the Company has the discretion to reject conversions, i.e. if the calculated Conversion Price is lower than the Conversion Rejection Price, the Company may choose to reject conversions from the Subscriber. Currently, the Company has no intention to allow conversions when the Conversion Price is below the Conversion Rejection Price, unless under any unforeseeable circumstances, where market conditions change materially including if the share price remains below the Conversion Rejection Price for a period of time.

Adjustment provisions for the Conversion Rejection Price : The Conversion Rejection Price shall from time to time be subject to adjustment upon occurrence of certain events:

(i) *Consolidation, subdivision or reclassification of the Shares:* If and whenever there shall be a consolidation, subdivision or reclassification of the Shares, the Conversion Rejection Price shall be adjusted by multiplying the Conversion Rejection Price in force immediately before such alteration by the following fraction:

$$\frac{A}{B}$$

where:

A is the number of Shares in issue immediately before such alteration; and

B is the number of Shares in issue immediately after such alteration.

Such adjustment shall become effective on the date the alteration takes effect.

(ii) *Capitalisation of profits or reserves;*

1. If and whenever the Company shall issue any Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves including, Shares paid up out of distributable profits or reserves and/or share premium account (except any scrip dividend) and which would not have constituted a distribution, the Conversion Rejection Price shall be adjusted by multiplying the Conversion Rejection Price in force immediately before such issue by the following fraction:

$$\frac{A}{B}$$

where:

- A is the aggregate nominal amount of the issued Shares immediately before such issue; and
- B is the aggregate nominal amount of the issued Shares immediately after such issue. Such adjustment shall become effective on the day on which the Shares are traded ex-entitlement on the Relevant Stock Exchange.

2. In the case of an issue of Shares by way of a scrip dividend where the Current Market Price on the date of announcement of the terms of such issue of Shares multiplied by the number of Shares issued exceeds the amount of the relevant cash dividend or the relevant part thereof, the Conversion Rejection Price shall be adjusted by multiplying the Conversion Rejection Price in force immediately before the issue of such Shares by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Shares in issue immediately before such issue;

B is the number of Shares which the relevant cash dividend would purchase at such Current Market Price; and

C is the number of Shares to be issued pursuant to such scrip dividend;

or by making such other adjustment as the Calculation Agent shall certify to the Noteholders is fair and reasonable. Such adjustment shall become effective on the day on which the Shares are traded ex-entitlement on the Relevant Stock Exchange.

(iii) *Capital distribution:* If and whenever the Company shall pay or make any distribution to the Shareholders (except to the extent that the Conversion Rejection Price falls to be adjusted as described in (ii) above), the Conversion Rejection Price shall be adjusted by multiplying the Conversion Rejection Price in force immediately before such distribution by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Share on the Trading Day immediately prior to the first Trading Day on which such Share is traded ex-dividend or ex-distribution; and

B is the fair market value on such Trading Day of the portion of the distribution attributable to one Share.

Such adjustment shall become effective on the day on which the Shares are traded ex-entitlement on the Relevant Stock Exchange or if later, the first date upon which the fair market value of the distribution is capable of being determined.

In making any calculation pursuant to this (iii), such adjustments (if any) shall be made as the Calculation Agent may consider appropriate to reflect (a) any consolidation or subdivision of the Shares, (b) issues of Shares by way of capitalisation of profits or reserves, or any like or similar event, (c) the modification of any rights to dividends of Shares or (d) any change in the fiscal year of the Company;

(iv) *Rights Issues of Shares or Options over Shares*: issue of Shares to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares, in each case at less than 95% of the Current Market Price per Share on the date of the announcement of the terms of the issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Shares in issue immediately before such announcement;

B is the number of Shares which the aggregate amount (if any) payable for the Shares issued by way of rights or for the options or warrants or other rights issued or granted by way of rights and for the total number of Shares comprised therein would subscribe for, purchase or otherwise acquire at such Current Market Price per Share; and

C is the aggregate number of Shares issued or, as the case may be, comprised in the issue or grant.

Such adjustment shall become effective on the date of issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants, as the case may be.

(v) *Rights Issues of Other Securities*: issue of any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares) to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for, purchase or otherwise acquire any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares), the Conversion Rejection Price shall be adjusted by multiplying the Conversion Rejection Price in force immediately before such issue or grant by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Share on the date on which such issue or grant is publicly announced; and

B is the fair market value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities or the issue or grant of such rights, options or warrants (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants, as the case may be.

(vi) *Issues at less than Current Market Price*: issue (other than *Rights Issues of Shares or Options over Shares* as described in (iv) above) of any Shares (other than Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares) or issue or grant (otherwise *Rights Issues of Shares or Options over Shares* as described in (iv) above) options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares in each case at a price per Share which is less than 95% of the Current Market Price on the date of the announcement of the terms of such issue, the Conversion Rejection Price shall be adjusted by multiplying the Conversion Rejection Price in force immediately before such issue by the following fraction:

$$\frac{A + B}{C}$$

where:

- A is the number of Shares in issue immediately before the issue of such additional Shares or the grant of such options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares;
- B is the number of Shares which the aggregate consideration (if any) receivable for the issue of such additional Shares would purchase at such Current Market Price per Share; and
- C is the number of Shares in issue immediately after the issue of such additional Shares.

References to additional Shares in the above formula shall, in the case of an issue by the Company of options, warrants or other rights to subscribe or purchase Shares, mean such Shares to be issued assuming that such options, warrants or other rights are exercised in full at the initial exercise price on the date of issue or grant of such options, warrants or other rights.

Such adjustment shall become effective on the date of issue of such additional Shares or, as the case may be, the issue or grant of such options, warrants or other rights or if a record date is set, the day on which the Shares are traded ex-entitlement on the Relevant Stock Exchange.

(vii) *Other Issues at less than Current Market Price:* the Company or any of its subsidiaries (other than that provided in (iv), (v) and (vi) above), or (at the direction or request of or pursuant to any arrangements with the Company or any of its subsidiaries) any other company, person or entity shall issue any securities (other than the Convertible Notes) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares to be issued by the Company upon conversion, exchange or subscription at a consideration per Share which is less than 95% of the Current Market Price on the date of the announcement of the terms of issue of such securities, the Conversion Rejection Price shall be adjusted by multiplying the Conversion Rejection Price in force immediately before such issue by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Shares in issue immediately before such issue;

- B is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to such securities would purchase at such Current Market Price per Share; and
- C is the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate.

Such adjustment shall become effective on the date of issue of such securities or if a record date is set, the day on which the Shares are traded ex-entitlement on the Relevant Stock Exchange.

(viii) *Modification of Rights of Conversion etc.:* any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in (vii) above so that the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) has been reduced and is less than 95% of the Current Market Price on the date of the announcement of the proposals for such modification, the Conversion Rejection Price shall be adjusted by multiplying the Conversion Rejection Price in force immediately before such modification by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Shares in issue immediately before such modification;

- B is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to the securities so modified would purchase at such Current Market Price per Share or, if lower, the existing conversion, exchange or subscription price of such securities; and
- C is the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate but giving credit in such manner as the Calculation Agent consider appropriate (if at all) for any previous adjustment under this (viii) or the above (vii).

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such securities or if a record date is set, the day on which the Shares are traded entitlement on the Relevant Stock Exchange.

(ix) *Other Offers to Shareholders:* the Company or any of its subsidiaries or (at the direction or request of or pursuant to any arrangements with the Company or any of its subsidiaries) any other company, person or entity issues, sells or distributes any securities in connection with an offer pursuant to which the Shareholders generally are entitled to participate in arrangements whereby such securities may be acquired by them (except where the Conversion Rejection Price falls to be adjusted under (ii), (iii), (iv), (v), (vi) and (vii) above) or, where applicable, would fall to be so adjusted if the relevant issue or grant was at less than 95% of the Current Market Price per Share on the relevant Trading Day, the Conversion Rejection Price shall be adjusted by multiplying the Conversion Rejection Price in force immediately before such issue by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Share on the date on which such issue is publicly announced; and

B is the fair market value on the date of such announcement (less any consideration payable for the same by the Shareholders) of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue, sale or delivery of the securities or if a record date is set, the day on which the Shares are traded ex-entitlement on the Relevant Stock Exchange.

In the case of any corporate actions other than those listed in (i) to (ix) above, the Company shall make such adjustments as determined appropriate by the Calculation Agent to reflect any diluting or concentrative effect on the theoretical value of the Shares with a view to maintaining the economics of the Convertible Notes.

- (i) If, between the date of the Subscription Agreement and the Closing Date (both dates inclusive), the Company or any person acting on its behalf, takes any action (directly or indirectly) designed to, which constitutes or which might reasonably be expected to cause or result in an adjustment under the Adjustment Provisions, the Conversion Rejection Price shall be adjusted using the same formulae and methods as set out in the Adjustment Provisions above;
- (ii) The Company undertakes not to take any action that would reduce the Conversion Rejection Price of the Convertible Notes below a level that may be prescribed by applicable laws and regulations from time to time (if any).

For the clarification sake, the above Adjustment Provisions only apply to the Conversion Rejection Price but do not apply to the Conversion Price, i.e. no adjustment will be made to the Conversion Price which at all times represents and equals to 95% of the Volume Weighted Average Price of the Shares as traded on the Stock Exchange on the Trading Day immediately preceding the Conversion Date, provided that if a Conversion Date falls on the date on which an adjustment becomes effective, but the relevant adjustment has not been reflected in the then current Volume Weighted Average Price, the Conversion Price in respect of the Conversion Date shall be adjusted by using the same formulae and methods as set out above.

The Company undertakes and agrees not to do any corporate actions other than those events (i) to (ix) listed above.

- Right Participate in distributions and/or offers of further securities : The Convertible Notes do not grant the Noteholders any right to participate in any distributions and/or offers of further securities made by the issuer.
- Conversion Rights : The Conversion Rights in respect of a Convertible Note may be exercised, at the option of the holder thereof, at any time other than any Non-Conversion Period, provided that the Subscriber shall not be entitled to exercise any Conversion Rights if the Shares held by the public, after the Conversion Shares are issued, will be less than 25%.
- Conversion Period : From the Issue Date up to the close of business on the date falling one day prior to the Maturity Date (both days inclusive) or, if such Convertible Note shall have been called for redemption by the Company before the Maturity Date, then up to and including the close of business on the date no later than three (3) Business Days prior to the date fixed for redemption.
- Non-Conversion Period : The Company may designate a period during which the Subscriber shall not exercise any Conversion Rights (the “**Non-Conversion Period**”) by delivering written notice to the Subscriber no later than ten (10) Trading Days prior to the start of such Non-Conversion Period. The Company may designate no more than two (2) Non-Conversion Periods, and there must be at least ten (10) Trading Days between each Non-Conversion Period. Each Non-Conversion Period shall not be longer than ten (10) consecutive Trading Days. The Company may shorten a Non-Conversion Period by giving a separate written notice to the Subscriber. A Non-Conversion Period cannot be designated after a notice of redemption has been delivered by the Company or by the Noteholder or the Noteholder has served a notice of an event of default to the Company. If a Non-Conversion Period has already been so designated prior to the delivery of such notice, the Non-Conversion Period shall be terminated immediately upon delivery of such notice.

- Redemption
- :
- (a) The Company will redeem each of the Convertible Notes at 98% of its principal amount at the Maturity Date. The Company may not redeem the Convertible Notes at its option prior to the Maturity Date except provided in (b) below.
  - (b) Redemption at the option of the Company. On giving not less than 20 Business Days' irrevocable notice (the "**Optional Redemption Notice**") to the Noteholder, the Convertible Notes may be redeemed by the Company in whole, but not in part, on the date (the "**Optional Redemption Date**") specified in the Optional Redemption Notice at 98% of their principal amount together with unpaid interest accrued to such date.
  - (c) Redemption at the option of the Noteholder. On a Noteholder giving not less than 10 Business Days' irrevocable notice (the "**Noteholder Redemption Notice**") to the Company, the Convertible Notes in whole or in part held by such Noteholder shall be redeemed by the Company, on the date specified in the Noteholder Redemption Notice at 98% of their principal amount together with unpaid interest accrued to such date.

If:

- (i) the Company redeems the Convertible Notes pursuant to paragraph (b) above before the Subscriber has converted the Convertible Notes in the aggregate principal amount of HK\$210,000,000;
- (ii) the remaining principal amount of the Convertible Notes (which, for the avoidance of doubt, consists of the aggregate principal amount of any issued and outstanding Convertible Notes) as of the date falling one calendar month before the Maturity Date exceeds HK\$490,000,000; or

(iii) the Subscription Agreement is terminated for any reason other than due to the conditions precedent not being fulfilled,

the Company shall, on the Optional Redemption Date or within 15 Business Days upon request by the Subscriber (as the case may be), pay to the Subscriber a cancellation fee equal to 1.0% of the remaining principal amount of the Convertible Notes as at the Optional Redemption Date or the termination date of the Subscription Agreement, or if no Convertible Notes have been issued on the termination date of Subscription Agreement, HK\$7,000,000 (as the case may be).

Given that the Company will only issue the Maximum Number of Shares pursuant to the Terms and Conditions, in any event, the Company will not issue more than 61,750,000 Conversion Shares. Upon the issue of Conversion Shares reaching the Maximum Number of Shares, the Convertible Notes will be early terminated and any Convertible Notes (or portion of Convertible Notes) then outstanding shall be redeemed by the Company.

Transferability : Subject to the Shareholding Limit, the Convertible Notes and the Conversion Shares are freely transferable at any time after issue, save and except that if the Subscriber has determined to transfer in aggregate a number of Shares (whether Conversion Shares or existing Shares) equivalent to or greater than 1% of the total outstanding Shares (as of the relevant time) to a single third-party purchaser through one or more block trades in which the Subscriber is able to identify the purchaser, the Subscriber shall give prior notice to inform the Company of the identity of the prospective purchaser. The Company shall have the right to reject to such transfer (the “**Block Trades Rejection Right**”).

The Company will not have information about the identity of the purchaser of the Conversion Shares if the Subscriber sells the Conversion Shares of less than 1% of the total outstanding Shares in aggregate to any single party through block trades. It is noted that such restriction also does not apply to on-market trades where the Subscriber is unable to identify the purchaser. Noting that in daily trading of the Shares on the open market of the Stock Exchange, an investor who acquires Shares less than 5% of the total shareholdings in the Company is not required to disclose his/her/its identity. The Company has difficulty to identify of the shareholder who holds less than 5% shareholding.

The Company considers that the Block Trades Rejection Right is in the interest of the Company as it provides the Company with visibility, transparency and control on the sale/transfer of over 1% of outstanding shares by the Subscriber through block trades. The Company will reject the transfer by the Subscriber if the block purchaser of the Conversion Shares is a connected person of the Company or such transfer will result in a change in control of the Company.

No Convertible Notes shall be transferred to a connected person (as defined under Listing Rules) of the Company or an associate (as defined under the Listing Rules) of any connected person of the Company. As the register of the Convertible Notes is kept by the Company, the Company will be able to ascertain the identity of the transferee of the Convertible Notes.

Under the terms of the Subscription Agreement (as supplemented by the Supplemental Agreement), the Subscriber shall not transfer the Convertible Notes to a third party unless the third party agrees to be bound by the 19% Shareholding Limit as well as to limit further transfer of the Convertible Notes to transferees who agree to the same condition. Hence no third-party transferee of the Convertible Notes may hold more than 19% of the total outstanding shares at any time.

- Voting rights : The Noteholder(s) shall not be entitled to attend or vote at any meetings of the Company by reason only of it being the holder(s) of the Convertible Notes.
- Right on liquidation : Save for the collaterals provided by the Company under the Credit Support Agreement, the Convertible Notes are unsecured and the Noteholder will have same rights as unsecured creditors if the Company goes into liquidation.
- Listing : No application will be made by the Company for the listing of the Convertible Notes on the Stock Exchange or any other stock exchange; and
- Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.
- Ranking of the Convertible Notes and the Conversion Shares : (i) The payment obligations of the Company under the Convertible Notes shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.
- (ii) The Conversion Shares shall rank pari passu with the Shares in issue on the date of such allotment and issue, including the rights to all dividends or other distributions declared, paid or made or to be declared, paid or made for which the record date falls on or after the date of such allotment and issue.

Events of Default : The Terms and Conditions contains customary events of default provisions, including but not limited to, the non-payment of the principal of or any premium or interest on the Convertible Notes, the failure of the Company to deliver Conversion Shares upon conversion of the Convertible Notes, the Company's breach of obligations under the Convertible Notes, the Company being in default of other loans and financial indebtedness in excess of HK\$25,000,000 or its equivalent, there existing any enforcement of proceedings, enforcement of security or winding up order against the Company, the Company being insolvent, it becoming unlawful for the Company to perform or comply with any one or more of its obligations under any of the Convertible Notes, failure of the Group to comply with relevant anti- money laundering laws, the Group having made any unlawful payment in violation of the relevant international laws or the Group or its personnel is subject to any sanctions administered or enforced by the United States Government or any other jurisdictions.

If any of the above events occurs and is continuing, the Noteholders at their discretion may give notice to the Company that the Convertible Notes are, and they shall immediately become due and repayable at their principal amount together with unpaid interest accrued to the date of payment.

Right of First Refusal : The Right of First Refusal clause is removed. Accordingly, the Subscriber will not be entitled to such right.

## **CREDIT SUPPORT ARRANGEMENT**

Pursuant to the Credit Support Agreement dated 12 May 2023, the Company agrees that on the Closing Date, it has an obligation to transfer cash collateral to the Subscriber in an amount equal to the aggregate Subscription Price of the Convertible Notes to be issued on the Closing Date, as credit support provided by the Company to secure the Company's obligations under the Convertible Notes. The Company and the Subscriber agree to set off in full the Company's obligation to transfer such cash amount to the Subscriber on the Closing Date against the Subscriber's obligation to pay the Subscription Price for the Convertible Notes to the Company on the Closing Date.

## **Accounting Treatment of the Convertible Notes**

Upon issue of the Convertible Notes, the Company will recognise an increase in financial liability at fair value on the balance sheet and a fair value loss in the profit and loss. During the term of the Convertible Notes, any change in the fair value of the financial liability will impact the profit and loss of the Company. The conversion of the Convertible Notes results in the issue of Conversion Shares and part of the cash collateral of the same amount being released to the Company and the Company will recognise an increase in share capital, share premium, cash and cash equivalents and a reduction in the financial liability on the balance sheet and, if any, the change in fair value of the financial liability in the profit and loss upon the conversion of the Convertible Notes.

Hence, Shareholders and investors shall note that on the Closing Date, the Company will not have legal title to the Subscription Price of the Convertible Notes. Due to contractual set-off arrangement under the Credit Support Agreement, there is no net exchange of cash between the Subscriber and the Company on the Closing Date. The collateral held by the Subscriber will not bear any interest. The Company will subsequently receive, and obtain legal title to such cash transferred by the Subscriber as Return Amount (as defined below) following each exercise by the Subscriber of the Conversion Rights attached to the Convertible Notes and delivery of the relevant Conversion Shares to the Subscriber pursuant to the Credit Support Agreement. The Company will also obtain legal title to the cash collateral returned by the Subscriber upon termination of the Credit Support Agreement as stated below.

The Credit Support Agreement is a bilateral arrangement between the Subscriber and the Company and will not apply to a third-party Noteholder merely because such third party has acquired Convertible Notes from the Subscriber. In the event that the Convertible Notes are transferred to any Independent Third Party(ies), the relevant cash collateral held by the Subscriber under the Credit Support Agreement (which would be equal to the subscription price of the Convertible Notes being transferred) will be released to the Company.

### **Return of cash collateral**

If the Subscriber is satisfied that all amounts which are payable or become payable by the Company under or in connection with each of the Note Documents have been irrevocably paid in full, the Subscriber shall, at the request of the Company, transfer the cash collateral to the account of the Company. If the Credit Support Agreement is terminated for any reason, upon such termination of the Subscriber will pay to the Company a cash amount equal to (A) the Outstanding Credit Support (as defined below) as of the termination date; less (B) any amounts due from the Company to the Subscriber under the Convertible Notes and/or the Note Documents.

In the event that the Subscriber has exercised the Conversion Rights attached to any Convertible Notes in accordance with the Terms and Conditions, the Subscriber shall, within two (2) Business Days after the date that the Subscriber collects the Conversion Shares, transfer the cash from the Outstanding Credit Support in an amount equal to the Subscription Price of the Convertible Notes so converted (after deducting any cost and expenses which may be deducted by the Subscriber under the Note Document) (the “**Return Amount**”) to the account of the Company as set out in the Credit Support Agreement, and the Outstanding Credit Support shall, upon such transfer, be reduced accordingly.

As used herein, “**Outstanding Credit Support**” shall mean, on any day, an amount equal to the sum of cash in Hong Kong dollars held by the Subscriber on that day as collateral pursuant to the Credit Support Agreement.

### **Risk relating to the issue of the Convertible Notes**

The Company notes that pursuant to the Credit Support Agreement, the Proceeds from the issue of the Convertible Notes will be kept as collateral with the Subscriber for securing the repayment of the Convertible Notes and the Company will receive those Proceeds upon conversion of the Convertible Notes. The arrangement under the Credit Support Agreement is to secure that the Company has sufficient fund to repay any outstanding Convertible Notes as at the Maturity Date. **There is a risk that the Company may not be able to utilise the Proceeds in the event that the Noteholder(s) does not exercise the Conversion Rights.**

Pursuant to the Subscription Agreement, the Company shall reimburse the Subscriber for its legal expenses (capped at HK\$600,000) incurred in connection with the negotiation and execution of the Note Documents and the delivery of relevant documents under the Subscription Agreement. In addition, the Convertible Notes bear the interest rate of 0.5% per annum of the outstanding principal amount of the Convertible Notes, and for illustration purpose, the total amounts payable or may become payable by the Company under or in connection with the Convertible Notes under the Note Documents will be approximately HK\$4,100,000 if the Company is to redeem the Convertible Notes on the Maturity Date, being first anniversary of the Closing Date, assuming that none of the Convertible Notes are being converted into Conversion Shares. **In the event that the Noteholder(s) does not exercise the Conversion Rights, the Company is still contractually bound to pay the interest and reimburse the Subscriber for certain relevant expenses agreed under the Subscription Agreement. Furthermore, in the event that the Conversion Shares are allotted and issued under the Convertible Notes, there will be dilution to the**

**shareholding of the existing Shareholders as a whole. Shareholders are advised to read the section headed “EFFECTS OF THE FULL CONVERSION OF THE CONVERTIBLE NOTES” below.**

**Company’s payment obligation for early redemption**

If (i) the Company at its option early redeems the Convertible Notes before the Subscriber has converted the Convertible Notes in the aggregate principal amount of HK\$210,000,000; (ii) the remaining principal amount of the Convertible Notes (which, for the avoidance of doubt, consists of the aggregate principal amount of any issued and outstanding Convertible Notes) as of the date falling one calendar month before the Maturity Date (for the avoidance of doubt, after applicable extension) exceeds HK\$490,000,000; or (iii) the Subscription Agreement is terminated for any reason other than due to the conditions precedent not being fulfilled, the Company shall, on the Optional Redemption Date or within 15 Business Days upon request by the Subscriber (as the case may be), pay to the Subscriber a cancellation fee equal to 1.0% of the remaining principal amount of the Convertible Notes as at the Optional Redemption Date or the termination date of the Subscription Agreement, or if no Convertible Notes have been issued on the termination date of Subscription Agreement, HK\$7,000,000 (as the case may be).

**The Company considers the credit support arrangement is fair and reasonable**

The Aerospace Business of the Group is a capital intensive industry, and the Group has low level of cash and cash equivalents as shown in the interim results announcement of the Company for the six months ended 30 June 2023. Since the subscription of new Shares in November 2021, the Company has been exploring other fund raising opportunities. The Company had entered into some preliminary negotiations for various equity or debt fund raising and also placing of shares or bonds, however, none of them materialised.

The Company approached more than six investment and commercial banks before the Company became acquainted with the Subscriber but the Company could not reach an agreement with any of such banks due to the financial position of the Group or lack of provision of assets pledging by the Group to secure the bank borrowings. Hence, the Company could only rely on the loans provided by Directors/Shareholders to finance its operation and business development. The Directors believe that such arrangement, in the long run, is not healthy and will also hinder the business development of the Group.

It is considered that the relatively large size of the Subscription will replenish the funding needs of the Group and provide sufficient fund for the operation of the Aerospace Business. The Conversion Price represents a 5% discount to the Volume Weighted Average Price of the Shares as traded on the Stock Exchange on the Trading Day immediately preceding the Conversion Date, and the interest rate of the Convertible Notes is materially lower than the

bank borrowings of the Group, which the weighted average interest rate per annum was 4.12% as at 30 June 2023 according to the interim results announcement of the Company for the six months ended 30 June 2023. Therefore, the Company considered that the Group will benefit from the Subscription in terms of enhancing (i) the visibility of the Company to institutional investors even though the Group has been lossmaking in recent years and the auditors of the Company has raised going concern issues in the annual report of the Company for the year ended 31 December 2022; and (ii) if the Convertible Notes are converted, the financial position of the Group.

Though under the credit support arrangement, the Company will only receive the subscription money after the conversion of the Convertible Notes. The Subscriber has agreed to use commercially reasonable endeavours to convert the Convertible Notes prior to the Maturity Date, subject to Terms and Conditions and taking into consideration various factors such as market and economic conditions. The Company expects that there is a chance that the Company will receive the proceeds in a short period of time.

The Subscriber has indicated its intention not to become a long term shareholder or a substantial shareholder of the Company. Given the Shareholding Limit, it is unlikely that the issue of the Convertible Notes will have material impact on the control of the Company.

The Company truly believes that such vast amount of funding is crucial for the Group's operation and business development. Given the Company encountered difficulties in raising fund and the Company has desperate need to finance its operation and business development, on 11 July 2023, Aspace Satellite Technology Limited (“**Aspace**”), an indirect wholly-owned subsidiary of the Company, has entered into a conditional subscription agreement with a subsidiary of Utmost International Isle of Man Limited, pursuant to which Aspace conditionally agreed to issue and the subscriber conditionally agreed to subscribe for 9,800 new shares of Aspace, representing 49% of the issued share capital of Aspace as enlarged by the 9,800 new shares of Aspace. The net proceeds from the said subscription was approximately HK\$237.4 million, which was not sufficient to cover the funding needs of Group, which will be further discussed below in the paragraph headed “REASONS FOR AND BENEFITS OF THE SUBSCRIPTION AND USE OF PROCEEDS” in this supplemental announcement. In addition, selling assets to fund its operation in the long run is not sustainable.

The Credit Support Agreement was negotiated as part of the terms of the Subscription to allow the Company to get better term for the Convertible Notes, such as the Conversion Price being at a relatively low discount to the prevailing market value and the Convertible Notes bearing a low interest rate of 0.5% per annum compared to the prevailing bank prime lending rates in Hong Kong which are now above 5%. The interest rate of the convertible bonds issued by other companies listed on Stock Exchange issued for cash to Independent

Third Parties with the announcement date from 1 January 2023 to the date of the Subscription Agreement is ranged from 2.0% to 10.0%, with the average being 5.7%. Therefore, the Directors consider that Credit Support Agreement is in the interest of the Company and its Shareholder as a whole.

The Company is well aware that under the credit support arrangement, the Company may face risk that when the market condition is not favourable, the Subscriber elects not to convert the Convertible Notes and no actual proceeds will be received by the Company. Nonetheless, given the lack of other collateral the Company can provide, the subscription money is the only meaningful collateral that the Company can use in return for a reasonable opportunity to raise capital upon conversion. Having deliberated the current capital market conditions and the Company's difficulty in raising funds, the Company has considered that the Subscription is in the interest of the Company and its Shareholders as a whole because the Subscription provides a potential upside for the Company to receive up to approximately HK\$684.2 million in a few months' time after the Closing Date. The Company will be in a much better position compared to its previous state when it only relied on the loans provided by Directors/Shareholders and was not able to obtain any fund for its operations, hindering its business development or jeopardizing the prospects of its business development. The Company believes that only when the Company can develop its business, the Company is able to generate benefits to its Shareholders.

**Shareholders and potential investors should note that the Convertible Notes are collateralised. All the initial proceeds of HK\$686 million from issue of the Convertible Notes will be used as collateral to secure the Company's redemption obligation under the Convertible Notes. Upon Completion, the Company will not benefit from the proceeds immediately. The collateral for securing the corresponding portion of the Convertible Notes will be released to the Company upon conversion. Shareholders and potential investors are advised to exercise caution when dealings in the Shares.**

## **REASONS FOR AND BENEFITS OF THE SUBSCRIPTION AND USE OF PROCEEDS**

The Company is an investment holding company. As at the date of this supplemental announcement, the Group is principally engaged in (1) electronics manufacturing services business; and (2) Aerospace Business which includes (a) satellite manufacturing; (b) satellite communication; (c) satellite measurement and controlling; and (d) satellite launching.

The Subscriber is a subsidiary of Macquarie Group Limited ("MGL"). Based on the annual report of MGL for the year ended 31 March 2023, MGL has total assets of approximately Australian dollar 387.9 billion and total equity of approximately Australian dollar 34.1 billion as at 31 March 2023. MGL works with government, institutional, corporate and

retail clients and counterparties around the world, providing a diversified range of products and services to a wide range of sectors, including renewables, infrastructure, resources, commodities and energy. Based on the information provided by the Subscriber MGL employed over 20,500 globally in 34 markets and currently has Australian dollar 870.8 billion in assets under management. The Directors consider that the Subscription will introduce a reputable institutional investor to the Company.

As mentioned above, a cash amount equal to the initial proceeds of HK\$686 million from the issue of the Convertible Notes will be kept as collateral with the Subscriber for securing the repayment of the Convertible Notes and the Company will receive those proceeds upon conversion of the Convertible Notes. There is a risk that the Company may not be able to utilise the proceeds in the event that the Noteholder(s) does not exercise the Conversion Rights. The Directors having deliberated the pros and cons of the credit support arrangement, detailed disclosure of which are set out in the section headed “Credit Support Arrangement” above, still consider the Subscription is a better fund raising means for the Company in light of the difficulties faced by the Group.

Assuming all the Convertible Notes has been converted into the Conversion Shares, the aggregate gross proceeds from the Subscription are expected to be approximately HK\$686 million and the aggregate net proceeds from the Subscription, after the deduction of the professional and other related expenses, which are estimated to be approximately HK\$1.80 million, will be up to HK\$684.2 million. For illustration purpose only, assuming that the Conversion Date is the date of this supplemental announcement, based on the Conversion Price of HK\$7.39309 per Share, being 95% of the Volume Weighted Average Price of the Shares as traded on the Stock Exchange on the Trading Day immediately preceding the date of this supplemental announcement, the net proceeds would be approximately HK\$454.7 million, which represents a net issue price of approximately HK\$7.36394 per Conversion Share issued under the Subscription.

Though due to the arrangement under the Credit Support Agreement the Company will not be able to immediately receive cash from the Subscriber’s Subscription of the Convertible Notes until the Convertible Notes are converted by the Subscriber or the Credit Support Agreement is otherwise terminated, the Directors consider that the Subscription will provide a chance for the Group to have the potential proceeds of up to HK\$684.2 million. Such amount of proceeds is relatively large to the Company and is the largest fund raising exercises conducted by the Company since the Company was listed on the Stock Exchange. Notwithstanding the Subscription may not immediately resolve the funding needs for future capital requirement and operation of the Group as there is no definite timeline for the Subscriber’s exercise (if any) of the Conversion Rights attached to the Convertible Notes and resulting return of the cash collateral under the Credit Support Agreement. The Company plans to seek bridging loans from the Shareholders and/or the Directors or will

explore some equity fund raising activity if there is a favourable market condition. However, at the current time there is no assurance that the Company will conduct any fund raising activity(ies) in near future.

Having considered the terms of the Convertible Notes and taking into account the discount of the Subscription Price to the principal amount of the Convertible Notes and the interest rate of the Convertible Notes of 0.50% per annum (meaning an effective annualised interest rate of approximately 0.51% per annum which is still below the prevailing prime lending rate of the licensed banks in Hong Kong), the Directors take the view that despite the fact that the Company cannot predict with certainty the actual funds raised under the Subscription when compared with other more common forms of debt financing or placing/ rights issue/open offer, the Directors are of the view that the Subscription (including the arrangement under the Credit Support Agreement) will be in the interest of the Company and its Shareholders and align with the Company's fund raising purposes.

Assuming the Convertible Notes are fully converted, the Company plans to utilise the proceeds of approximately HK\$342.1 million for working capital of the operation of its Hong Kong satellite manufacturing centre and Hong Kong satellite operation control and application centre located at the AMC and the remaining Proceeds of approximately HK\$342.1 million for the general working capital of the Group. The Hong Kong satellite manufacturing centre and Hong Kong satellite operation control and application centre located at the AMC are expected to be fully operated in July 2023. The working capital for the operation of Hong Kong satellite manufacturing centre for the coming one year is estimated to be approximately HK\$219.1 million, which includes the purchase of raw materials, direct labour costs, purchase of plant and equipment, rental expenses and repayment of construction work. The working capital for the operation of Hong Kong satellite operation control and application centre for the coming one year is estimated to be approximately HK\$178.8 million, which includes purchase of plant and equipment, rental expenses and repayment of construction work. Other than the working capital for the operation of the satellite centres, the usage of general working capital of the Group includes (i) salaries expenses, which is estimated to be HK\$153.7 million per year; (ii) rental expense and management fee, which is estimated to be HK\$13.9 million per year; and (iii) settlement of the loan from two substantial Shareholders which are controlled corporations of Mr. Sun Fengquan, which is amounted to approximately HK\$288.7 million as at 30 June 2023.

Other than for normal operation and ordinary course of business of Group, such as acquisition of machinery for the satellite centres, the proceeds will not be allocated for any merger or acquisition of assets or businesses, including transactions involving acquisition of new business in other sectors.

In the event that the proceeds received from the conversion of the Convertible Notes is less than the maximum amount of HK\$684.2 million, the Company will allocate the proceeds on a basis of 50% of the proceeds received towards the Group's working capital of the operation of its Hong Kong satellite manufacturing centre and Hong Kong satellite operation control and application centre and the remaining 50% of the proceeds received towards the general working capital of the Group. Before receiving the proceeds, the working capital for the operation of the Group will still depend on bridging loans from the Shareholders and/or the Directors and the Company will continue to seek for other fund raising sources subject to market condition.

Having considered (i) the benefits of introducing a reputable institutional investor; (ii) the financial position of the Group as at 30 June 2023 and the Conversion Price as at the date of this supplemental announcement represents a premium over the unaudited net assets per Share at approximately RMB0.52 (equivalent to approximately HK\$0.59) as at 30 June 2023; (iii) the funding needs for future capital requirement and operation of the Group; and (iv) the relatively low interest rate of the Convertible Notes as compared with the bank borrowings of the Group, the Directors considered that the terms and conditions of Subscription Agreement and the Credit Support Agreement are fair and reasonable and are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Furthermore, the Board has considered the following fund raising alternatives before entering into the Subscription Agreement, which the Company is of the view that the Subscription is in the best interest of the Company and the Shareholders as a whole:

*(i) Debt Financing*

As mentioned above, the working capital for the operation of the Group has been supported by bridging loans from the Shareholders and/or the Directors. The Company has been actively seeking for other third party financing sources. On 11 August 2022, the Company has entered into a placing agreement with the placing agent in relation to the placing of the bonds issued by the Company up to HK\$300 million on a best effort basis. Upon the completion of the placing, the Company only received approximately HK\$20 million from the issue of the bonds. Given that the recent debt fund raising is not quite successful to the Company, although the Company will not be able to use the proceeds until the conversion (which is to be determined by the Noteholder) under the Credit Support Agreement and there is no definite timeline within maximum of one year for the release (if any) of the money under the Credit Support Agreement which depends on when the Subscriber will exercise the Conversion Rights attached to the Convertible Notes, the Directors consider that the Subscription still provide a chance

for the Group to obtain the potential proceeds of HK\$684.2 million, which is one of the largest fund raising exercises conducted by the Company since the Company was listed on the Stock Exchange.

The Board considered that the ability of the Group to obtain pure debt financing or bank borrowings from commercial banks would usually depend on the Group's profitability and financial position as well as the prevailing market condition and may be subject to lengthy due diligence exercises, the respective banks' internal risk assessments and negotiations with commercial banks that usually require a pledge of assets by the borrower. As at 30 June 2023, the Group's gearing ratio, which was calculated by total borrowings divided by total equity, was approximately 142.1% which increased by more than 40% as compared with the gearing ratio of approximately 101.5% as at 31 December 2022. The Group has recorded net loss of approximately RMB87.29 million and RMB154.29 million for the six months ended 30 June 2023 and for the year ended 31 December 2022 respectively. The Company has approached more than six investment and commercial banks before the Company became acquainted with the Subscriber but the Company could not reach an agreement with any of such banks due to the financial position of the Group or lack of provision of assets pledging by the Group to secure the bank borrowings. Given the continuous loss-making position and high debt level of the Group, the Board anticipated that other investment and commercial banks would generally require higher interest rates for any possible debt financing instruments as compared to that of the Convertible Notes. As such, the Board is of the view that obtaining further debt financing from commercial banks would not be easily accessible and would bring about undesirable effects to the financial position of the Group.

*(ii) Equity Financing*

The Board also considered raising funds through equity financing by way of placing of new Shares, rights issue or offer. However, the Subscription Price would have to be set at a deep discount to the prevailing market price of the Shares so as to attract potential investors and/or existing Shareholders as compared with the terms of the Convertible Notes, which the Conversion Price is 95% of the Volume Weighted Average Price of the Shares as traded on the Stock Exchange on the Trading Day immediately preceding the Conversion Date. In addition, rights issue or open offer of new Shares is subject to underwriting uncertainty and market risks whilst any arm's length underwriting arrangement is normally subject to standard force majeure clauses in favour of the underwriter and may generally incur higher transaction costs (i.e. underwriting and other related fees).

Having considered other debt financing and equity financing alternatives as set out above, and the benefits to the Subscription, the Directors consider that the terms and conditions of the Subscription Agreement and the Convertible Notes are fair and reasonable based on the current market conditions and are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

## EFFECTS OF THE FULL CONVERSION OF THE CONVERTIBLE NOTES

The shareholdings in the Company (i) as at the date of this supplemental announcement; (ii) immediately after conversion in full of the Convertible Notes at the illustrative Conversion Price of HK\$7.39309 per Share, assuming that the Conversion Date is the date of this supplemental announcement; and (iii) immediately upon conversion of the Convertible Notes up to the Maximum Number of Shares, are summarised as follows (assuming there is no other change in the issued share capital of the Company) assuming that there is no other Noteholder apart from the Subscriber (noting that the Subscriber has indicated that it does not have any specific intention to transfer the Convertible Notes to a third party):

	(i) As at the date of this supplemental announcement		(ii) Immediately upon full conversion of the Convertible Notes at the illustrative Conversion Price of HK\$7.39309 per Share (for illustration purpose only)		(iii) Immediately upon conversion of the Convertible Notes up to of 61,750,000 Shares (for illustration purpose only)	
	Number of Shares	Approximately %	Number of Shares	Approximately %	Number of Shares	Approximately %
Hong Kong Aerospace Technology Holdings Limited (“HKATH (BVI)”) <sup>(note 1)</sup>	78,343,553	25.35	78,343,553	21.13	78,343,553	21.13
Vision International Group Limited (“Vision”) <sup>(note 1)</sup>	19,826,000	6.42	19,826,000	5.35	19,826,000	5.35
Ms. Chung Yuen Yee <sup>(note 2)</sup>	4,257,002	1.38	4,257,002	1.15	4,257,002	1.15
Sure Wealth Investment Limited <sup>(note 3)</sup>	2,277,496	0.74	2,277,496	0.61	2,277,496	0.61
The Subscriber <sup>(note 4)</sup>	—	—	61,750,000 <sup>(note 5)</sup>	16.66 <sup>(note 5)</sup>	61,750,000	16.66
Other public shareholder	204,295,949	66.11	204,295,949	55.10	204,295,949	55.10
Total:	<u>309,000,000</u>	<u>100.00</u>	<u>370,750,000</u>	<u>100.00</u>	<u>370,750,000</u>	<u>100.00</u>

*Notes*

- (1) HKATH (BVI) is wholly-owned by Vision and Vision is wholly-owned by Mr. Sun Fengquan (“**Mr. Sun**”), an executive Director. Therefore, Mr. Sun is deemed or taken to be interested in the 78,343,553 Shares held by HKATH (BVI) and 19,826,000 Shares held by Vision under the SFO.
- (2) Ms. Chung Yuen Yee, Kathy, spouse of Dr. Lam Lee G. (“**Dr. Lam**”), an executive Director is interested in 4,257,002 Shares, representing 1.38% of the total number of the issued Shares and hence Dr. Lam is deemed or taken to be interested in the Shares under the SFO.
- (3) Dr. Yip Chung Yin (“**Dr. Yip**”), a non-executive Director, and his family members, through their investment vehicles, are interested in 2,277,496 Shares, representing 0.74% of the total number of issued Shares. Dr. Yip holds one third of the investment vehicles and hence is deemed or taken to be interested in the Shares under the SFO.
- (4) The Subscriber does not intend to become a long term shareholder or a substantial shareholder (as defined in the Listing Rules) of the Company, and may sell the Conversion Shares from time to time during and after the Conversion Period. In addition, under the terms of the Subscription Agreement the Subscriber shall not exercise any Conversion Rights, nor otherwise acquire any Shares, to the extent that it would cause the Subscriber at any time to be entitled to voting rights in excess of 19% of the total outstanding Shares at such time.
- (5) Pursuant to the Supplemental Agreement, the maximum total number of Conversion Shares to be issued pursuant to the exercise of Conversion Rights by the Noteholders shall be 61,750,000 Conversion Shares.

**Shareholders and potential investors should note that the issue of the Convertible Notes is subject to the fulfilment of the conditions precedent therein, which may or may not proceed. Shareholders and potential investors are therefore reminded to exercise caution when dealing in the Shares or other securities of the Company.**

By order of the Board  
**Hong Kong Aerospace Technology Group Limited**  
**Sun Fengquan**  
*Co-Chairman and Chief Executive Officer*

Hong Kong, 31 August 2023

*As at the date of this announcement, the Board comprises Mr. Sun Fengquan (Co-Chairman and Chief Executive Officer), Dr. Lam Lee G. (Co-Chairman), Mr. Lam Kin Fung Jeffrey, Ms. Ku Ka Lee Clarie (Vice Chairman) and Mr. Ma Fujun as executive Directors; Dr. Mazlan Binti Othman, Mr. Niu Aimin and Dr. Yip Chung Yin as non-executive Directors; and Mr. Brooke Charles Nicholas, Professor Chan Ka Keung, Ceajer, Mr. Hung Ka Hai Clement, Dr. Yuen Kwok Keung and Mr. Juan de Dalmau-Mommertz as independent non-executive Directors.*