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EQUITIESFIRST™ Progressive Capital

5 ESSENTIAL QUESTIONS ABOUT TITLE TRANSFERS

The EquitiesFirst financing model requires temporary title transfer of shares during the term of the loan transaction. In this piece we have addressed many of the frequently asked questions:

BACKDROP

Shareholder concerns regarding title transfer while securing loan facilities include:

- Other lenders in the market assert they do not require title transfer
- Perceived negative impact on share price
- Perceived increase in short interest after title transfer
- Cost of capital comparison with margin lending
- What are the other benefits under this lending model?

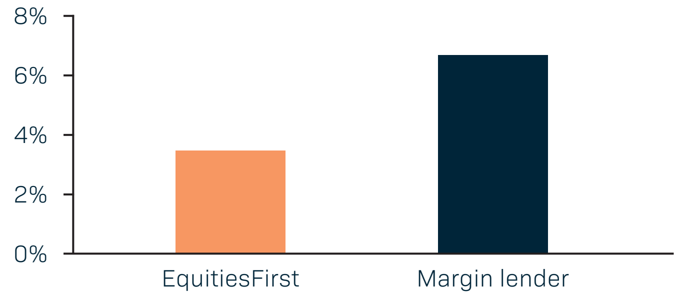
KEY TAKEAWAYS

- Loan facilities which do not require title transfer may have much lower LTV ratios, higher interest rates and more stringent margin call clauses. Lenders also have right to force sell the collateral unilaterally
- Proprietary data demonstrating no share price impact after title transferred
- Unlike traditional banks, EquitiesFirst is under contract to not lend shares to third parties to short
- EquitiesFirst has in-house capital and charges 3-5% interest per annum (fixed); while other lenders borrow to lend and charge a spread on top of interbank lending rates (floating)
- Non-recourse, non-purpose and no personal guarantees are required

1. How to compare with lenders in the market which do not require title transfer?

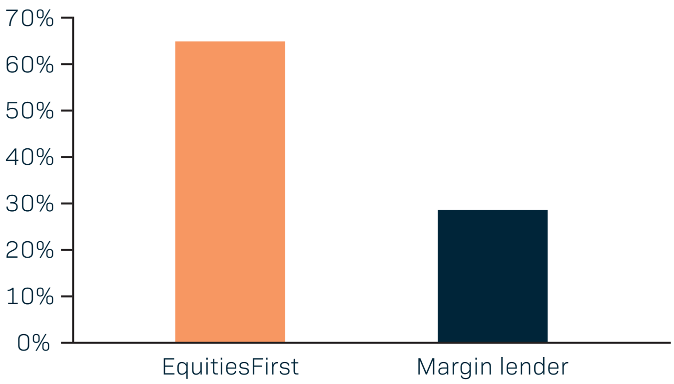
Margin lending with no title transfer is another product with much lower LTV, higher interest rate and more stringent margin call mechanisms. Also, many small-to-mid cap companies may not even qualify for margin lending. We compared EquitiesFirst commercial terms with one margin lender via a sampling of >400 Hong Kong listed companies and ADRs:

INTEREST RATE COMPARISON



EquitiesFirst charges 3-5% interest, the margin lender charges 6.8% per annum.

LTV (%) COMPARISON



EquitiesFirst offers 60-70% LTV, which is more than 2x higher than the margin lender.

Source: Bloomberg (June 2021)

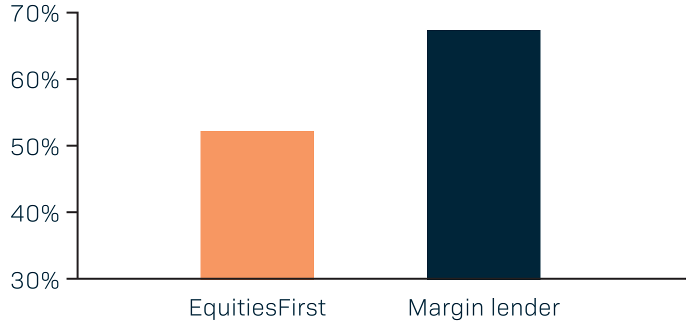
1. There are other lenders in the market which do not require title transfer (Cont.)

Margin lenders have more stringent margin call mechanisms. On average, a share price drops of around 30%, would trigger a margin call. In contrast, the share price needs to be halved before a margin call for EquitiesFirst.

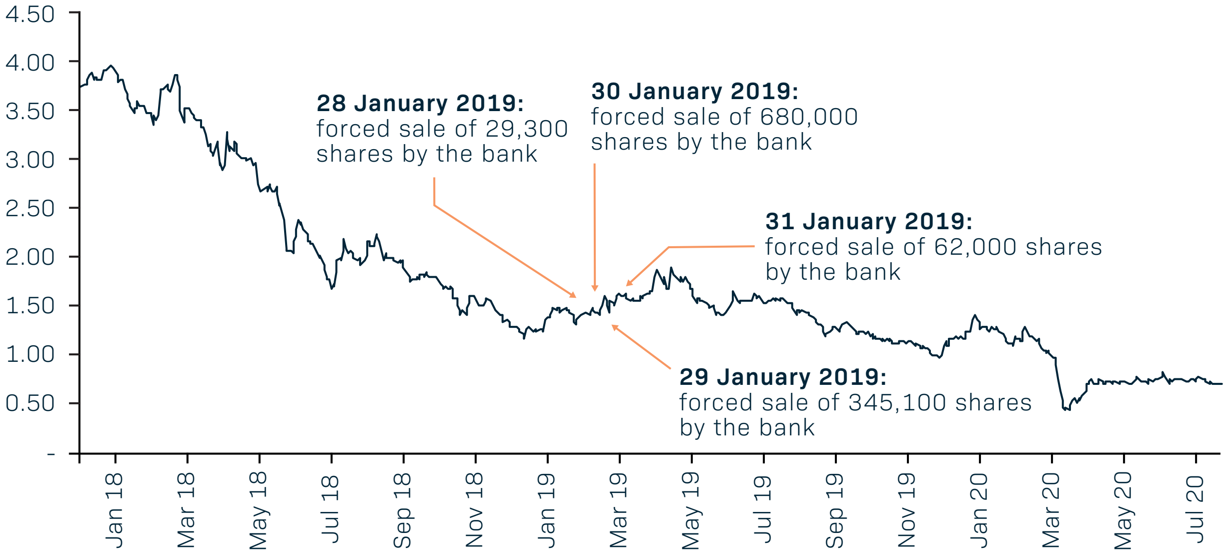
Many brokerage firms and banks have the right to sell their securities at a margin call without notice. If this occurs, the shareholder loses the chance to recoup losses if the market bounces back and may even suffer additional losses if the proceeds from the liquidation are not enough to cover the loss.

The case study below highlights an instance (publicly disclosed) wherein the forced sale of a company's shares by a bank took place:

MARGIN CALL THRESHOLD COMPARSION



CASE STUDY: FORCED SALE OF A COMPANY'S SHARES BY THE BANK (NOT THE INTENTION OF THE SHAREHOLDER):



2. Will there be any negative impact to share price after share transfer?

We conducted an analysis of all the transactions completed by EquitiesFirst in Asia over the course of 2020 and through to 1 April 2021. On the basis of that analysis, we derived the following performance data:

PERFORMANCE METRICS

+35.0% **Price performance to date**

Share price has increased by 35.0% on average from the date EquitiesFirst received the shares to 1 April 2021

+29.1% **Outperformance to indices**

The share price of the transactions outperformed their respective comparable indices by 29.1% on average from the date EquitiesFirst received the shares to 1 April 2021

+0.2% **Price change during pricing period**

On average, the share price during the 3-day pricing period was up 0.2% compared to the price when EquitiesFirst first received the shares

Source: Bloomberg (June 2021)

3. Will short interest in the shares increase after the transfer of title?

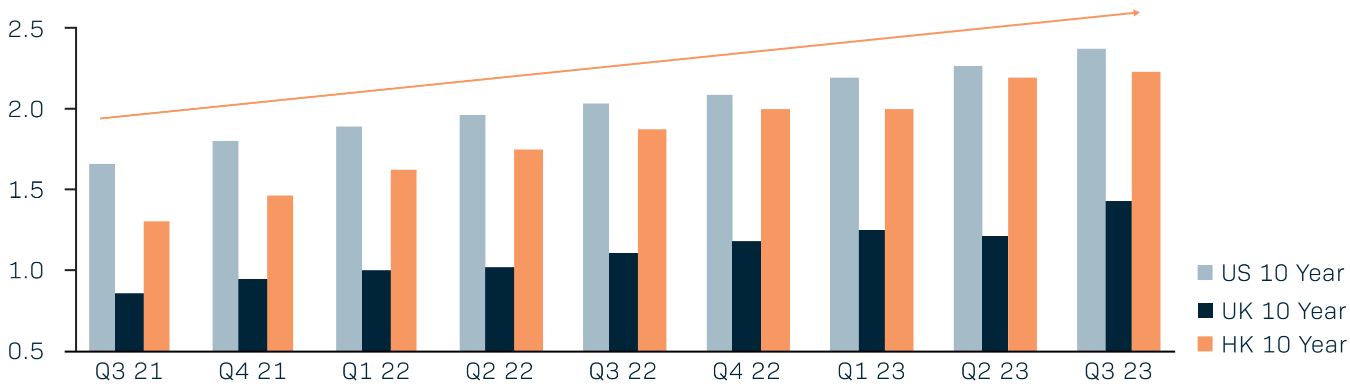
Shareholders are concerned an increase in short interest would create bearish sentiment in the company and impact its share price performance and volatility. There has also been a perception that a share pledging transaction in general could increase the short interest in the company.

- However, EquitiesFirst is contractually obligated not to lend shares to third parties or otherwise make them available for shorting.
- This implies shares pledged to EquitiesFirst would, in fact, result in fewer shares available in the market for short selling.
- In contrast, when the shares are pledged to the traditional banks, they frequently profit by lending shares to third parties for shorting purposes. There have also been cases in which the shares have been lent to hedge funds to create structured products, which may magnify the impact of short selling.

4. How does cost of capital compare with margin lending?

Traditional lenders borrow to lend, and they typically charge a spread on top of benchmark rates. As the global economy recovers from COVID, some central banks have already raised inflation expectation and brought forward the time frame for rate hikes. As the benchmark rates (e.g. LIBOR, HIBOR) increase, the interest rate charged by the traditional lenders will also increase. On the other hand, EquitiesFirst lends with only its proprietary capital and charges a fixed interest rate; usually from 3% to 5% per annum

INTEREST RATE EXPECTATIONS



5. What are the other benefits under this lending model?

Other benefits under EquitiesFirst's lending model include:

- **Non-recourse:** The borrower's liability is limited to the shares used for the transaction. EquitiesFirst forgoes the right to pursue repayment if the borrower chooses to default on the loan obligation. The borrower has the right to default at any time without further repercussions.
- **No personal guarantee is required**
- **Non-Purpose:** The loan capital can be used for any purpose by the borrower and is not subject to restrictions. There is no obligation to keep the capital in an in-house account or purchase specific products. The borrower is not prevented from using the capital for refinancing, securities investment, purchasing real estate or M&A.

Source: Bloomberg (June 2021)
Note: the interest rate estimates are based on Bloomberg News monthly survey for bond yields, as well as current market research and economists' forecasts.

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