

DR.PENG HOLDING HONGKONG LIMITED

鵬博士投資控股香港有限公司

(incorporated in Hong Kong with limited liability)

DR.PENG HOLDING HONGKONG LIMITED (THE “ISSUER”) – US\$500,000,000 5.05% GUARANTEED SENIOR NOTES DUE 2020 UNCONDITIONALLY AND IRREVOCABLY GUARANTEED BY DR.PENG TELECOM&MEDIA GROUP CO., LTD. (THE “GUARANTOR”, TOGETHER WITH THE ISSUER, THE “COMPANIES”) (ISIN: XS161101192282544157; COMMON CODE: 16110119228254415) (THE “NOTES”)

This announcement does not constitute an offer to sell or the solicitation of an offer to buy any securities in the United States or any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No securities may be offered or sold in the United States absent registration or an applicable exemption from registration requirements. No public offer of securities is to be made by the Companies in the United States.

HONG KONG, 27 April 2020 – Dr.Peng Holding Hongkong Limited (Dr.Peng Holding HongKong Limited) refers to its prior announcement dated 21 April 2020 and further announces as follows. Unless otherwise defined in this announcement, capitalised terms used in this announcement have the same meaning as given to them in the Trust Deed in respect of the Notes (the “**Trust Deed**”).

As at the date of this announcement the aggregate principal amount outstanding under the Notes is US\$422,350,000 (the “**Effective Date Principal Amount**”). The Notes are due to mature on 1 June 2020. The Companies have given careful consideration to their limited liquidity and available sources of financing to meet their upcoming payment obligations (including those under the Notes on its maturity), particularly in light of the challenging operating environment, compounded by the COVID-19 pandemic and unexpected delays to the completion of certain key projects and asset disposal plans of the Companies and their subsidiaries (the “**Group**”). In order to address the near term liquidity issues, the Companies expect to conduct a consent solicitation as soon as practicable for the Noteholders to consider and, if thought fit, approve one or more resolutions for the purposes of modifying certain terms and conditions of the Notes (the “**Conditions**”).

The Companies, together with their financial advisor Alvarez & Marsal Asia Limited and legal counsel Latham & Watkins LLP, have been in discussion with a number of beneficial holders of the Notes (“**Noteholders**”) in relation to various proposed amendments to the Conditions. The Companies believe that the indicative amendments to the Trust Deed (including the Conditions) outlined in Section 2 below (or amendments substantially similar to those outlined in that Section) (the “**Proposed Amendments**”) are the best terms that Companies could realistically offer in the current circumstances and the successful implementation of the Proposed Amendments would be in the interests of the Noteholders and other relevant stakeholders.

Please note that the Proposed Amendments remain subject to refinement and modifications by the Companies at their sole discretion; and the final proposed amendments to the Trust Deed that will be put to Noteholders for voting at the Meeting (defined below) may differ from those outlined in this announcement.

1. SITUATION OVERVIEW OF THE GROUP

a) Company Overview

Established in 1985, the Group is a leading internet service provider in the PRC, offering specialized internet support services to communities and corporate users. The Group believes that it is the fourth largest internet access provider in the PRC (after China Mobile, China Telecom and China Unicom).

Currently, the Group's main business comprises the following three segments:

- **Internet access service.** The Group provides internet access services, including (primarily) residential internet access services and customized access services for companies and governmental entities in the PRC.
- **Internet value-added service.** The Group also engages in internet value-added service business, consisting of internet content service business, internet data centers, cloud computing business and communication service business. These are fully integrated with the Group's internet access service business.
- **Pacific Light Cable Network ("PLCN").** PLCN is a submarine cable system jointly built by the Group's offshore subsidiary - Pacific Light Data Communication Co Ltd ("PLDC"), Google and Facebook. Once completed, it will be the first direct submarine cable connectivity between Hong Kong and Los Angeles, US, with total designed capacity of 144Tbs.

b) Recent Developments

- **Increased competition faced by internet access service business.** Since 2017, the telecommunications operators in China have resorted to a fierce price competition in order to capture market share. As a result, the Group has lost a large number of broadband users and was forced to reduce its prices, which further squeezed its profit margin. Collections from broadband customers are further impacted by the COVID-19 pandemic due to lockdowns in certain cities in the PRC.
- **Unexpected delay of the PLCN project.** The PLCN project was originally scheduled to commence operation in 2019. Once commenced, it will provide the Group with a stable cash flow to service its offshore debts. However, the construction was delayed by various unforeseen factors, including unexpected typhoons during the construction period and the presence of fish aggregating devices around the cable areas. The situation became more intractable due to COVID-19 and the construction schedule has been further delayed. The Group is actively engaging in discussions with potential buyers, including international telecommunication operators, internet service providers and other investors,

with a view to eventually monetizing the submarine cable assets and repaying the Group's offshore indebtedness.

- **Significant upcoming debt maturities and limited immediate financing options.** In addition to the Notes which are maturing on 1 June 2020, the Group also faces imminent maturity in respect of approximately RMB20 billion of puttable onshore bonds. Financial institutions have therefore become conservative when it comes to offering sustainable credit facilities to the Group. To service its onshore and offshore debts, the Group have considered several alternatives to raise capital, including through share offering, private debt issuance and potential asset disposals. For example, on 11 March 2020, the Guarantor announced on the Shanghai Stock Exchange that it proposes to make a non-public offering of up to 429,718,100 new shares to Shenzhen Xinpengyun Technology and other investors (the “**Proposed NPS Offering**”). However, the timing and exact terms of these efforts remain uncertain.

2. OUTLINE OF PROPOSED AMENDMENTS

a) Principles of the Proposed Amendments

The Proposed Amendments are based on three key principles: (1) no haircut to the principal debt claim in respect of the Notes, and redemption of the outstanding principal in full over time; (2) maximum upfront payments and additional protection (including credit enhancement) for Noteholders, to the extent practicable in view of the operational and developmental cash needs required for the Companies to continue their business, maximize the value of their assets and to subsequently monetize those assets; and (3) simplicity of transaction to enable short timetable for implementation, which is necessary to avoid further deterioration of the Companies' liquidity position and, in turn, the prospect of a full redemption of the Notes in due course.

b) Proposed Key Terms

i) *Extension of Maturity Date*

It is proposed that the “Maturity Date” of the Notes (as defined in Condition 5 (*Redemption and purchase*))) be amended and extended from 1 June 2020 to 1 December 2021.

The Companies are committed to paying the entirety of the outstanding principal amount on the Notes at the end of the extended time period. The proposed extension of 18 months is based on a realistic evaluation by the Companies of the time required to: complete the construction of the PLCN; secure all requisite approvals for commencing operation of the PLCN; and effect a potential sale of (or a refinancing of the Notes supported by) the fully operational cable asset, which will yield the necessary funds for repaying the Notes in full.

ii) *Effective Date Redemption*

It is proposed that Condition 5 (*Redemption and purchase*) be supplemented to provide for a mandatory redemption on or about 1 June 2020 (the “**Effective Date**”), by which the Issuer will redeem the Notes in the principal amount equal to 12% of the Effective

Date Principal Amount (that is, US\$50,682,000), at a redemption price equal to 100% of the principal amount of those Notes, plus accrued and unpaid interest up to the Effective Date, which redemption price will be payable in cash (the “**Effective Date Redemption**”).

In light of the liquidity issues facing the Companies, the Effective Date Redemption represents a genuine effort by the Companies to pay Noteholders upfront to the best of the Companies’ ability and utilising all of their cash resources available for the redemption of the Notes.

iii) October Mandatory Redemption

It is proposed that Condition 5 (*Redemption and purchase*) be further amended and supplemented to provide a second mandatory redemption by 1 October 2020, that is, within 4 months of the Effective Date (the “**October Mandatory Redemption**”). Pursuant to the October Mandatory Redemption, the Issuer will redeem the Notes in the principal amount of US\$63,352,500 (that is, 15% of the Effective Date Principal Amount), at a redemption price equal to 100% of the principal amount of those Notes, plus accrued and unpaid interest up to such redemption date, which redemption price will be payable in cash. The Companies anticipate that the funds required to make the October Mandatory Redemption will be generated from the monetization of certain underlying investments made by a Cayman incorporated limited partnership (“**Limited Partnership**”), of which the Issuer is the sole limited partner.

iv) Additional Security

In order to secure the Issuer’s payment obligations in respect of the October Mandatory Redemption, the Issuer will, for the benefit of the Noteholders and subject to certain conditions precedent and approvals, grant the following security interests in favour of a third party security trustee, who will hold the security on trust for the Noteholders:

- a first ranking security over the Issuer’s interests (as the sole limited partner) in the Limited Partnership; and
- a first ranking security over a bank account opened in the name of the Issuer and situated in Hong Kong, into which the Issuer expects to receive the proceeds of realisation of the underlying investments mentioned above,

(together, the “**Additional Security**”).

v) Mandatory Redemption for NPS Offering/Asset Sales

In addition to the Proposed NPS Offering, in order to raise new funding in the short to medium term, the Group may also pursue and engage in sale or disposal of assets, other than the PLCN and cable-related assets.

It is proposed that a further mandatory redemption event be added such that, if the Proposed NPS Offering and/or one or more asset sales (which aggregate “Net Cash Proceeds” (defined below) exceed US\$105 million) were to complete after the Amendment Effective Date, and subject to any applicable foreign exchange rules and regulations, the Issuer will, within 120 days following receipt of the offering/sale

proceeds, redeem the Notes in the principal amount equal to 20% of the Net Cash Proceeds, at a redemption price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest up to such redemption date; *provided that* the total redemption payment will be capped at US\$63,352,500 (that is, 15% of the Effective Date Principal Amount) (the “**Redemption for NPS Offering/Asset Sale**”).

“**Net Cash Proceeds**” in relation to the Proposed NPS Offering and or an asset sale, means the cash proceeds received by the Group for the relevant transaction: (A) net of all brokerage commissions and other fees and expenses reasonably incurred and provisions for all taxes arising as a result of the transaction; and (B) in the case of an asset sale, after deductions for cash settlement of all indebtedness or any other obligation outstanding at the time of such sale that is either secured by a security interest in the property sold or required to be paid as a result of the sale.

vi) *Interest*

The Companies propose to amend the rate of interest of the Notes such that, on and from the Effective Date, interest will be increased to 7.55% per annum from 5.05% per annum.

vii) *Negative pledges*

It is proposed that the covenants be amended such that the Issuer and its subsidiaries will not permitted to incur new financial indebtedness or grant any new security, subject to limited exceptions, including:

- indebtedness (including re-financing) to the extent necessary for the development, construction, operation and maintenance of the PLCN or other cable-related projects, *provided that* it is incurred in the ordinary course of business;
- indebtedness to the extent necessary to enable repayment of the Notes; and/or
- other financial indebtedness (including re-financing) up to US\$150,000,000, which excludes the Issuer’s indebtedness under the Notes, but includes the indebtedness in relation to the guaranteed and secured notes due on or about 21 November 2020 (extendable) in the aggregate principal amount of up to US\$150,000,000, issued by PLDC (the “**Private Secured Notes**”),

and permission for any security the granting of which is necessary to refinance the Private Secured Notes and/or to enable repayment of the Notes.

viii) *Permissions for cable-asset disposals (subject to restrictions on use of sale proceeds)*

It is further proposed that the covenants regarding asset sales be amended to expressly permit the sale or disposal of PLCN-related assets, subject to requirements that the cash proceeds of such asset sales or disposals be applied to redeem the Notes outstanding at the time, after appropriate deductions, including (for example) brokerage commissions, fees, expenses, taxes, senior indebtedness secured by the sold assets (including the Private Secured Notes) and provisions against any liabilities associated with the asset sale.

c) Consent Fee

If, before the specified deadline, a Noteholder validly instructs the Registrar that the votes attributable to the Notes it holds are to be cast at the Meeting (defined below) in favour of the extraordinary resolution(s) approving the proposed amendments to the Trust Deed (as ultimately notified by the Issuer to Noteholders in a notice of Meeting) (the “**Extraordinary Resolution**”); that Noteholder will receive a Consent Fee on the Effective Date, in the event that the Extraordinary Resolution is passed.

The Consent Fee payable to each such Noteholder will be equal to 1% of the outstanding principal amount of the Notes in respect of which it has submitted a valid consent instruction to the Registrar.

3. PROCEDURES AND TIMING FOR IMPLEMENTATION

Many of the Proposed Amendments are in respect of “Reserved Matters” (as defined in the Trust Deed). Amendments in respect of Reserved Matters can be effected if the Extraordinary Resolution is passed by a majority of not less than 66% of the votes cast at a meeting of “Noteholders” (as defined in the Trust Deed) that is convened and held in accordance with Schedule 4 (*Provisions for Meetings of Noteholders*) to the Trust Deed (the “**Meeting**”).

The quorum required at the Meeting is two or more persons holding or representing not less than 66% in principal amount of the Notes for the time being outstanding. At any adjourned Meeting, the quorum required shall be two or more persons holding or representing not less than 33% in principal amount of the Notes for the time being outstanding.

The Extraordinary Resolution (if passed) will be binding upon all Noteholders, whether or not present at the Meeting, and each of the Noteholders will be bound to give effect to it accordingly. The Issuer, the Guarantor and the Trustee will also execute an Amended and Restated Trust Deed to document the proposed amendments (as approved by the Meeting), as well as other instruments (including, for example, security documents in respect of the Additional Security) to give effect to the amendments.

The Issuer’s current intention is for the Meeting to be convened in early May 2020 and held in late May 2020. If the Extraordinary Resolution is passed in late May, the Amended and Restated Trust Deed will likely take effect on or before 1 June 2020.

4. BENEFITS OF THE PROPOSED AMENDMENTS

The Companies believe that the restructuring of the notes (through the Proposed Amendments) represents the best available proposal for them and for the Noteholders. This is because:-

- (i) **Balance between flexibility and meeting present liabilities:** Given the liquidity situation and competitive environment facing the Companies, the proposal described above will alleviate immediate liquidity pressures whilst providing the Group with the flexibility it requires to navigate through the current situation and allow it to focus on achieving its business plan, maximizing the value of its assets and thereafter realising the improved asset

value. The Companies will then be better placed to meet their future obligations, including their liabilities under the Notes.

- (ii) **Short-term redemptions and additional protection/credit support for Noteholders:** Noteholders will receive not insubstantial payments in the form of three separate mandatory redemptions and payment of a Consent Fee upfront. Noteholders will also receive additional protection and credit support, through the Additional Security and the tightening of certain restrictive covenants.
- (iii) **Best alternative and improved fund raising capability:** After a review of the available strategic alternatives, management of the Companies believe that the proposal described above represents the best outcome for all their creditors (including the Noteholders), particularly given that it is not feasible to raise new capital between now and the Effective Date. Management also believes that the successful amendments of the Notes will bring in more financing options going forward, and will in turn place the Companies in a better position to service the future redemption of the Notes. Management would like to stress that it is firmly committed to repaying the Companies' obligations under the Notes over time in full and avoiding any write-off of principal, and the Companies will be better placed to do so if given time to execute their business plan.

5. CAUTION

The information contained in this announcement is based solely on a preliminary assessment by the management of the Companies with reference to the information currently available to them, which has not been audited by the Companies' auditors. The actual results of the Group for the year ended 31 December 2019 may be different from what is disclosed in this announcement. Shareholders, holders of other securities of the Issuer or the Guarantor and potential investors in the securities of the Companies are advised to read the annual results announcement of the Group for the year ended 31 December 2019 as and when they are published.

BY ORDER OF THE BOARD

DR.PENG HOLDING HONGKONG LIMITED

Sun Lisi

Company Director

27 April 2020