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LION ROCK GROUP LIMITED

獅子山集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 1127)

**DISCLOSEABLE TRANSACTION
SUBSCRIPTION OF LOAN NOTE**

SUBSCRIPTION OF LOAN NOTE

The Board is pleased to announce that as part of the agreement between Quarto and its bankers for refinancing of its existing banking facilities, (i) the Subscriber issued the Subscription Letter on 16 February 2021 pursuant to which the Subscriber has agreed to subscribe for the Loan Note with a principal amount of US\$10 million (equivalent to approximately HK\$77.5 million) which carries an interest rate of 4% per annum; and (ii) the Subscriber entered into the Subordination Deed on 16 February 2021 in connection with the Subscription and the 2018 Loan Note. The subscription monies for the Loan Note shall be utilised by Quarto for part repayment of its existing bank loan. Subject to satisfaction of usual conditions precedent, it is anticipated that the Refinancing and the issue of the Loan Note will complete on or before 19 February 2021.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios (as defined under the Listing Rules) in respect of the Subscription exceed 5% but below 25%, the Subscription constitutes a discloseable transaction of the Company and is therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

THE LOAN NOTE

The Board is pleased to announce that as part of the agreement for refinancing of the existing banking facilities of Quarto which was signed by Quarto and its bankers on 16 February 2021, the Subscriber issued the Subscription Letter on 16 February 2021 pursuant to which the Subscriber has agreed to subscribe for the Loan Note with a principal amount of US\$10 million (equivalent to approximately HK\$77.5 million). The consideration payable in respect of the Subscription is equivalent to the face value of the Loan Note and the Group will finance the Subscription with its internal resources. Subject to satisfaction of usual conditions precedent, it is anticipated that the Refinancing and the issue of the Loan Note will complete on or before 19 February 2021.

The principal terms of the Loan Note are summarised as follows:

- Issuer: Quarto, an associate company of the Company
- Principal amount: US\$10 million (equivalent to approximately HK\$77.5 million)
- Interest: Fixed rate of 4% per annum on the principal amount of the Loan Note. Quarto shall pay accrued interest on the Loan Note in arrears annually
- Repayment Date the earlier of:
- (a) the date upon which any event of default under the terms of the Loan Note has occurred which include, among others, any event of default under the Facilities Agreement or a Trigger Event;
 - (b) 31 August 2024;
 - (c) the date upon which the Secured Liabilities have been unconditionally and irrevocably discharged and paid in full (as determined by the agent under the Facilities Agreement) and the finance parties under the Facilities Agreement are under no obligation to provide financial accommodation to any of the Obligors under any of the Finance Documents; or
 - (d) the date upon which a change of control of Quarto has occurred.
- Repayment: The Loan Note shall be repaid by Quarto in full at par together with outstanding accrued interest on the Repayment Date.

Ranking:	The Loan Note ranks: <ul style="list-style-type: none"> (a) <i>pari passu</i> equally and rateably without discrimination or preference among themselves; (b) as subordinate in right of payment to the Secured Liabilities pursuant to the terms of the Subordination Deed; and (c) as unsecured obligations of Quarto.
Transferability:	The Loan Note is transferable in amounts and multiples of US\$1.
Dividends:	Until the Loan Note and any interest accrued thereon have been repaid, Quarto may not declare nor pay any dividends.
Use of subscription moneys:	The subscription monies for the Loan Note will be utilised by Quarto for part repayment of its existing bank loan.

The instrument which constituted the Loan Note is subject to the terms of the Subordination Deed, details of which are set out below.

2018 LOAN NOTES

On 31 October 2018, the Subscriber subscribed the 2018 Loan Note with a principal amount of US\$7 million (equivalent to approximately HK\$54.3 million) and entered into the 2018 Subordination Deed pursuant to which it has agreed that all liabilities owed by Quarto to the Subscriber under or in connection with the 2018 Loan Note are subordinate in right of payment to Quarto's existing bank loan. The 2018 Loan Note carries fixed interest rate of 3.5% per annum. Quarto shall pay the principal amount of US\$7 million plus accrued interest on or before 31 August 2020. On 16 January 2020, the Subscriber entered into a deed of loan note amendment and deed of amendment of consent to extend the repayment date of the 2018 Loan Note and the expiry date of the 2018 Subordination Deed to 31 July 2021. Details of the terms of the 2018 Loan Note and 2018 Subordination Deed are set out in the Company's announcements dated 1 November 2018 and 16 January 2020.

THE SUBORDINATION DEED

On 16 February 2021, the Subscriber entered into the Subordination Deed pursuant to which it has agreed (1) to further extend the repayment date of the 2018 Loan Note to 31 August 2024; and (2) that all liabilities owed by Quarto to the Subscriber under or in connection with the Loan Note and 2018 Loan Note are subordinate in right of payment to the Senior Debt.

Unless permitted under the Subordination Deed, payment of any amount of the Loan Note and 2018 Loan Note is conditional upon the Senior Debt Discharge Date having occurred.

During the Subordination Period, the Subscriber may not (i) accelerate or enforce or exercise any remedy for the recovery of the liabilities owed by Quarto to the Subscriber under the Loan Note; (ii) take any steps to wind up or make arrangement with the other creditors of Quarto; or (iii) bring or support any legal proceedings against Quarto or its subsidiaries (any of (i), (ii) or (iii), the “**Enforcement Action**”). However, the Subscriber may take any Enforcement Action if (i) the Subscriber notifies the security agent under the Facilities Agreement that a Trigger Event has occurred and is continuing; (ii) a standstill period of at least 120 days has passed during which the Subscriber has discussed in good faith with the banks on the proposed Enforcement Action; (iii) the Trigger Event is continuing at the end of the standstill period; and (iv) no secured party has, before the end of the standstill period, taken any Enforcement Action in relation to their rights under the Finance Documents.

Apart from the Subscriber, on 16 February 2021, Mr. Lau who currently holds fixed rate 3.5% loan notes issued by Quarto in 2018 in the principal amount of US\$4.5 million (approximately HK\$34.9 million) and US\$1.5 million (approximately HK\$11.6 million) under substantially the same terms as the Loan Note, agrees to extend the repayment date of the loan notes to 31 August 2024 (the “**Other Loan Notes**”). The Other Loan Notes are/will be also subject to the same subordination terms of the Subordination Deed.

INFORMATION OF THE GROUP

The Group is principally engaged in the provision of printing services to international book publishers, trade, professional and educational publishing conglomerates and print media companies.

As at the date of this announcement, the Subscriber holds 14,944,826 Quarto Shares, representing approximately 36.67% of the issued share capital of Quarto. Mr. Lau holds 1,679,743 Quarto Shares, representing approximately 4.11% of the issued share capital of Quarto. Both Mr. Lau and Ms. Lam are directors of Quarto and the investment of the Company in Quarto is classified as an “interests in associates” and accounted for using the equity method of accounting in the consolidated financial statements of the Group.

INFORMATION OF QUARTO

Quarto is a company incorporated in the United States and the issued shares of which are listed on the main market of the London Stock Exchange (LSE: QRT). Quarto is principally engaged in illustrated book publishing.

Save as mentioned above, to the best knowledge, information and belief of the Directors after having made all reasonable enquiries, as at the date of this announcement, Quarto is an Independent Third Party.

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION

The terms of the Subscription Letter, the Loan Note and the Subordination Deed were negotiated on an arm's length basis amongst the Subscriber, Quarto and other parties to the Subordination Deed. The Directors consider that the subscription of the Loan Note and entry into of the Subscription Letter and the Subordination Deed are essential for Quarto to refinancing its banking facilities. As a shareholder of Quarto, the Company will benefit from the financial performance of Quarto as the Group accounts for its interest in Quarto as an associated company.

In light of the above, the Directors are of the view that the terms of the Subscription Letter, the Loan Note and the Subordination Deed are fair and reasonable and the Subscription is in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios (as defined under the Listing Rules) in respect of the Subscription exceed 5% but below 25%, the Subscription constitutes a discloseable transaction of the Company and is therefore subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

In this announcement, the following expressions shall have the meanings set out below unless the context requires otherwise:

“2018 Loan Note”	US\$7 million 3.5% fixed rate subordinated and unsecured loan note 2018 issued by Quarto and subscribed by the Subscriber in 2018
“2018 Subordination Deed”	the deed dated 31 October 2018 entered into amongst the Subscriber and Mr. Lau as subordinated creditors, Quarto, Natwest Market plc (as security agent) and The Royal Bank of Scotland plc (as agent) as amended by a supplemental agreement dated 16 January 2020

“Board”	the board of Directors
“Company”	Lion Rock Group Limited (獅子山集團有限公司*), an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1127)
“Director(s)”	director(s) of the Company
“Facilities Agreement”	the agreement dated 16 February 2021 in respect of the US\$20 million revolving credit and term loan facilities entered into by Quarto, Quarto Publishing plc, National Westminster Bank Plc and Santander UK Bank plc (as mandated lead arrangers and original banks), National Westminster Bank Plc (as security agent and agent)
“Finance Documents”	the Facilities Agreement and other ancillary finance documents as specified in the Facilities Agreement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Third Party”	third party who is independent of the Company and its connected persons (as defined in the Listing Rules)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Note”	US\$10 million 4% fixed rate subordinated and unsecured loan note 2021 to be issued by Quarto and subscribed by the Subscriber
“Ms. Lam”	Ms. Lam Mei Lan, an executive Director and a non-executive director of Quarto
“Mr. Lau”	Mr. Lau Chuk Kin, an executive Director and substantial Shareholder, and a shareholder and executive director of Quarto
“Obligors”	Quarto Publishing plc (a wholly-owned subsidiary of Quarto and as borrower under the Facilities Agreement) or certain wholly-owned subsidiaries of Quarto (as guarantors under the Facilities Agreement)

“PRC”	the People’s Republic of China
“Quarto”	The Quarto Group, Inc., a company incorporated in the United States and the issued shares of which are listed on the London Stock Exchange (LSE: QRT)
“Quarto Shares”	share(s) of US\$0.1 each in the issued share capital of Quarto
“Refinancing”	the refinancing of the existing banking facilities of Quarto under the Facilities Agreement dated 16 February 2021
“Secured Liabilities”	all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally or in any other capacity whatsoever) of each Obligor to any secured party under each Finance Document provided that the secured liabilities shall not include any excluded swap obligations as specified in the Facilities Agreement
“Senior Debt”	the liabilities owed by any Obligor to the secured parties under or in connection with the Finance Documents
“Senior Debt Discharge Date”	the date on which: <ul style="list-style-type: none"> (a) all the Senior Debt has been unconditionally and irrevocably paid and discharged in full, as determined by the agent under the Facilities Agreement, whether or not as a result of enforcement; and (b) the finance parties under the Facilities Agreement are under no further obligation to provide financial accommodation to any of the Obligors under any of the Finance Documents
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subordination Deed”	the deed dated 16 February 2021 entered into amongst the Subscriber and Mr. Lau as subordinated creditors, Quarto, National Westminster Bank (as security agent and agent)

“Subordination Period”	the period beginning on the date of the Subordination Deed and ending on the earlier of the Senior Debt Discharge Date and the Trigger Event End Date
“Subscriber”	1010 Printing Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company
“Subscription”	the subscription of the US\$10 million Loan Note by the Subscriber
“Subscription Letter”	the subscription letter dated 16 February 2021 issued by the Subscriber to Quarto in respect of the Subscription
“Trigger Event”	(i) Mr. Lau and all persons connected with him or (ii) the Company, any affiliate of the Company or any funds controlled by the Company, ceasing together or individually, and directly or indirectly, to have the power (whether by way of ownership of shares, proxy, contract, agency or otherwise) to appoint two directors or other equivalent officers of Quarto (or if such directors or officers are removed otherwise than with the prior written consent of the Company)
“Trigger Event End Date”	the date when the liabilities owed by Quarto to the Subscriber under the Loan Note and to the other creditors under the Other Loan Notes have been unconditionally and irrevocably paid and discharged in full
“US\$”	United States dollars, the lawful currency of the United States
“%”	per cent

By Order of the board of directors
Lion Rock Group Limited
Yeung Ka Sing
Chairman

Hong Kong, 16 February 2021

For the purpose of illustration only and unless otherwise stated, conversion of US\$ to HK\$ in this announcement is based on the exchange rate of US\$1.00 to HK\$7.75. Such conversion should not be construed as a representation that any amounts have been, could have been, or may be, exchanged at this or any other rate.

As at the date of this announcement, the board of directors of the Company comprises Mr. Lau Chuk Kin, Ms. Lam Mei Lan and Mr. Chu Chun Wan as executive directors; Mr. Li Hoi David and Mr. Guo Junsheng as non-executive directors; Mr. Yeung Ka Sing, Prof. Lee Hau Leung and Dr. Ng Lai Man, Carmen as independent non-executive directors.

** For identification purposes only*