Swiss Merchant Group AG
St. Niklausenstrasse 59
CH-6047 Kastanienbaum

T: +41 41 511 37 00
E: smg_convertible@swissmerchantgroup.com
W: www.swissmerchantgroup.com

SWISS MERCHANT GROUP

Term Sheet

8.00% Convertible Bond 2023 – 2026
up to CHF 5,000,000
convertible to registered shares of Swiss Merchant Group AG

Issuer / Borrower	Swiss Merchant Group AG
Placement Quote	100%
Coupon	8.00%
Day Count Convention	Act/Act
Payment and Delivery	03.08.2023
Maturity	3 years
Max. Volume of Credit	CHF 5,000,000
Convertible Redemption/Redemption Price	100% on 02.08.2026
Early Redemption	Issuer has call option after 1 year at 105%, and after 2 years at 103%
Early Redemption Procedure	Investor to be informed by registered mail no later than 10 business days before call date
Status and security	Subordinated, Unsecured
Par Amount	CHF 1,000
Minimum Investment	CHF 10,000
Face Value per Share	CHF 0.01
Agio on converted Shares	CHF 0.19
Registered Shares	Registered shares, value CHF 0.20
Number of shares Pre- / Post Conversion:	100,000,000 shares // 125,000,000 shares
Creditor Conversion right timing	up to 02.08.2026
Applicable Law / Jurisdiction	Switzerland, Luzern
Initiation of Conversion	The investor has the right to convert the convertible bond into shares of Swiss Merchant Group AG. For each convertible bond with a face value of CHF 1,000 the investor will receive 5,000 shares of Swiss Merchant Group AG valued at CHF 0.20.
Procedure of Conversion	The investors can execute his right of conversion via registered mail to Swiss Merchant Group AG.
Offering Restrictions	USA/ US persons, non-professional or non-qualified Investors United Kingdom, European Economic Area

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DISCLAIMER

Publication of this Term Sheet in accordance with article 64 para. 3 FinSA:
This Term Sheet may be ordered and obtained free of charge at the Issuer's registered office at St. Niklausenstrasse 59 CH-6047 Kastanienbaum or via email under smg_convertible@swissmerchantgroup.com for the entire term of the bond.

The offer, this term sheet of convertible bonds in Switzerland is exempt from the prospectus obligation under Swiss Financal Services Law (Schweizerischen Finanzdienstleistungsgesetz («FIDLEG»)) since the public offer of the convertible bond does not amount to more than CHF 8 million within a time frame of 12 months and is addressed at fewer than 500 investors.

This term sheet is not a prospectus or any other message in conjunction with FIDLEG and there will be no prospectus available or other documents regarding this offering. This term sheet has the purpose of information regarding Art 5, Paragraph of the Swiss Banking Rules & Regulation.

This term sheet is not a prospectus under Swiss Bond Law (Schweizerisches Obligationenrecht) nor is it a listing advertisement or listing prospectus on behalf of the Listing Rules of SIX Swiss Exchange. The term sheet is not an offer to buy or a recommnedation to participate in convertible bonds, shares, rights or other securities.

Upon signing the subscription form and payment of the loan amount a credit agreement under private law between the creditor and the borrower under Swiss Bond Law (Obligationenrecht) comes into effect. The convertible bonds are unsecured. This is a subordinated bond with an attached right to convert the loan into shares of the creditor.

THIS TERMSHEET DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITY. THE DISTRIBUTION OF THIS TERMSHEET MAY BE RESTRICTED BY LAW IN CERTAIN JURISDICTIONS. PERSONS IN POSSESSION OF THIS TERMSHEET ARE REQUIRED TO INFORM THEMSELVES ABOUT AND OBSERVE SUCH RESTRICTIONS. ANY FAILURE TO COMPLY WITH THESE RESTRICTIONS MAY CONSTITUTE A VIOLATION OF THE SECURITIES LAWS OF ANY SUCH JURISDICTIONS SWISS MERCHANT GROUP DOES NOT ACCEPT ANY RESPONSIBILITY FOR ANY VIOLATION BY ANY PERSON OF ANY SUCH RESTRICTIONS. IN PARTICULAR, SECURITIES MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES UNLESS THEY ARE REGISTERED OR ARE EXEMPT FROM REGISTRATION. SWISS MERCHANT GROUP AG DOES NOT INTEND TO REGISTER ANY OFFERING OF SECURITIES IN THE UNITED STATES OR TO CONDUCT A PUBLIC OFFERING IN THE UNITED STATES.

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Subscription Form

8.00% Convertible Loan 2023 – 2026
Up to CHF 5,000,000
convertible to registered shares of Swiss Merchant Group AG

First Name ________________________

Name/Company ________________________

Date of Birth ________________________

Place of Origin ________________________

Zip Code/Residence ________________________

Street ________________________

Banking Details for Interest Payment

Bank ________________________________

Address ________________________________

BIC ________________________________

IBAN ________________________________

Loan Amount in CHF ________________________________
(in Increments of 1,000 CHF)

X)I have been reading and understanding the terms and conditions and fully agree to them.

City_______________Date______________Signature______________________

Swiss Merchant Group AG is planning an Initial Public Offering / Listing on Swiss SIX Börse. Swiss Merchant Group plans to convert the registered shares into registered bearer shares. An ISIN number will be added to enable custodian services of SIX. The SMG AG shares will be held as Bucheffekten im Sinne des Bucheffektengesetzes (BEG) and will be able to be booked electronically.

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Account details of
Swiss Merchant Group AG

Bank Heritage S.A.
Geneva
Currency: CHF, Swiss France
Account Name: Swiss Merchant Group AG
IBAN: CH1308788009983600100
BIC CODE: ***HFTCCHGGXXX***
Clearing : 8788
Ref. Name:_______
Amount:_______ SMG Convertible Loan Obligation

RISK DISCLOSURES

Key Risks Regarding the Convertible Loan

The issuer is a holding company and will rely on the business activities of its subsidiaries to fulfil its obligations under the convertible bonds.
Apart from loans to subsidiaries and equity investments in its subsidiaries, the issuer does not have significant assets. Therefore, the issuer's ability to meet its financial obligations under the convertible bonds depends on the availability of payments from its subsidiaries and affiliated companies in the form of dividends, loan repayments, intra-group advances, and other payments. The issuer's direct and indirect subsidiaries are independent legal entities, and under certain circumstances, legal and contractual restrictions may limit these subsidiaries' ability to provide funds to the issuer to fulfil its obligations under the issuer's securities, such as the convertible bonds, through dividends, distributions, loans, or other payments. The issuer cannot assure potential investors that its subsidiaries' ability to refinance the loans or the operating results of its subsidiaries will be sufficient at any given time to make dividends, distributions, or other payments to the issuer or that these dividends, distributions, or other payments will be sufficient to pay principal and interest, as well as other payments, due under the convertible bond and its other liabilities when they become due. The convertible loan is solely obligations of the issuer and are not guaranteed by any of its subsidiaries. Therefore, in the event of bankruptcy, liquidation, reorganization, or similar proceedings with respect to a subsidiary of the issuer, the right of the subscribers to participate in the distribution of the assets of that subsidiary will be subordinate to the creditors of that subsidiary (including creditors arising from the subsidiary's business) unless the issuer has direct claims against that subsidiary. In the event of any of the aforementioned events, there can be no assurance that sufficient assets will be available to pay the amounts due on the convertible loan.

Foreign Exchange Risks and Currency Controls
The issuer will make payments of principal and interest on the convertible loan in Swiss Francs. This entails certain risks related to currency conversions when the financial activities of a holder of the convertible bonds are primarily denominated in a currency or currency unit (the investor's currency) other than the Swiss Franc. These risks include the risk that exchange rates may fluctuate significantly (including changes due to a depreciation of the Swiss Franc or an appreciation of the investor's currency) and the risk that authorities responsible for the investor's currency may impose or modify currency controls. An appreciation of the investor's currency against the Swiss Franc would (i) reduce the currency-equivalent return of the investor on the convertible bonds, (ii) reduce the currency-equivalent value of the principal to be paid by the investor on the convertible loan, and (iii) reduce the currency-equivalent market value of the investor's convertible loan. Government and currency authorities may impose currency controls (as some have done in the past) that could adversely affect an applicable exchange rate. As a result, investors in the convertible loan may receive less interest or principal than expected or may not receive any interest or principal at all.

The market value of the convertible bonds can be influenced by unforeseen factors.
Numerous factors, most of which are beyond the issuer's control, impact the value of the convertible loan and the price at which securities dealers may be willing to buy or sell the convertible bonds on the secondary market, if at all: (i) the creditworthiness of the issuer, including its operating results, financial condition, and liquidity profile, (ii) supply and demand for the convertible loan, including inventory held by each securities dealer, and (iii) economic, financial, political, or regulatory events or judicial decisions affecting the issuer or the financial markets in general. Consequently, a holder, when selling their convertible loan on the secondary market, may not be able to obtain a price that corresponds to the principal amount of those convertible loan or the price they paid for those convertible loan.

In certain cases, holders may be bound by certain changes to the terms of the convertible loan to which they did not consent.
The convertible loan is governed by Swiss law, which allows for the convening of a creditors' meeting to consider matters affecting their interests. These provisions permit defined majorities to bind all subscribers of the convertible loan, including subscribers who did not participate or vote at the relevant meeting and subscribers who voted contrary to the majority. According to the relevant statutory provisions of Swiss law in effect as of the date of this document: (i) the issuer is required to give subscribers at least ten days' advance notice of any creditors' meeting, (ii) the issuer is obligated to convene a creditors' meeting within 20 days if requested by creditors representing at least one-twentieth of the outstanding aggregate principal amount of the convertible loan, and (iii) only creditors or their proxies are entitled to attend or vote at a creditors' meeting.

The issuer can be replaced by another entity as the issuer of the convertible loan without the consent of the holders.
Under the terms of the convertible loan, the issuer can be replaced by another entity as the issuer of the convertible loan without the consent of the holders, subject to certain conditions. As long as the conditions described in the terms of the convertible loan are met, this entity can be a company that exists in a jurisdiction other than Switzerland or has a legal form different from the issuer. In such a case, the rights of the holders under the laws of the jurisdiction of that entity may differ from the rights of the holders against the issuer under Swiss law. For example, different types of legal entities or entities formed in other jurisdictions may be subject to different insolvency regimes or may not be enforceable in the same manner.

As a result, holders may be required to comply with legal procedures for asserting a claim or enforcing a lawsuit against such an entity that differ from the legal procedures required for asserting a claim or enforcing a lawsuit against the issuer under Swiss law.

The terms of the loan do not include any restrictions on the amount or type of additional securities or debts that the issuer may issue or incur.
Similarly, the terms of the convertible loan do not impose any limitations on the amount or type of additional securities or debts that the issuer may issue, enter into, or guarantee, whether senior or pari-passu with the convertible loan. The issuance or guarantee of such additional securities or debts may restrict the issuer's ability to fulfil its obligations under the convertible bonds and reduce the amount that holders of the convertible bonds could receive in the event of the issuer's liquidation or dissolution.

Investing in the convertible loan also carries risks associated with changes in the interest rate environment.
The convertible loan bears a fixed interest rate, which means that investing in them entails the risk that a subsequent increase in market interest rates above such fixed rate could adversely affect the real return (and value) of the convertible bonds.

Taxes
In the future, changes or revocations in tax legislation, case law, tax authorities' practices, or agreements with tax authorities (tax rulings) could have adverse effects on the business, financial, and earnings position of the issuer. Such developments may also affect previous financial years that have not yet been definitively assessed. In the consolidated financial statements, deferred taxes are determined using the balance sheet liability method and calculated based on the tax rates in effect or announced at the balance sheet date. Changes in deferred taxes are recognized in the income statement. Deferred tax liabilities take into account the income and property tax differences between the valuation for consolidated financial reporting purposes and the respective valid tax valuation of individual assets and liabilities. A deferred tax is calculated for differences resulting in timing differences in taxation. An individual tax rate is applied for the revaluation of investment properties, with a minimum holding period of ten years for the investment properties. After ten years, a three-year holding period is assumed for the calculation of deferred tax liabilities. Deferred tax assets from tax loss carry forwards and undervaluation of investment properties (negative difference between tax value and market value) are recognized at the current tax rate if their utilization appears secure with future taxable profits. Due to the complexity of value-added tax, particularly in real estate transfers, management of opted real estate, and self-consumption in the construction industry, subsequent objections to value-added tax returns by the tax authorities cannot be ruled out, which may result in significant value-added tax repayments.

Legal Disputes
The issuer may become involved in disputes with various parties involved in property rental, purchase, development, and sale, such as tenants, contractors, builders, other suppliers, and buyers. Disputes with third parties, such as neighbouring property owners, are also possible. These disputes can lead to legal proceedings or other procedures, resulting in additional costs and project delays. It is possible that compensation claims arising from such legal disputes may not be fully covered or covered at all by the group's insurance. Furthermore, disagreements with governmental authorities and regulatory bodies may arise in the course of the company's business activities, leading to administrative proceedings and unfavourable decisions and other governmental actions that may result in financial losses and project implementation delays.

Risks from Future Financing Needs
The issuer will have future financing needs to implement its strategic objectives, which may not be met or may not be met on economically acceptable terms.

Dominant Influence of Major Shareholders
A few shareholders with significant holdings may exercise or acquire a dominant influence over the company through the general meeting of shareholders.

Risks from Dependence on Qualified Personnel
The issuer employs only a few employees and has not filled all positions with multiple employees, relying on external third-party support in certain areas. This could lead to disruptions in business operations in the event of a short-term absence of an employee or external third party.

Insolvency Risk/Counterparty Risk
Securities are issued by companies or authorities that may potentially become insolvent during the period in which you trade these financial instruments. The likelihood of insolvency depends on the creditworthiness of the issuer. In the event of insolvency, you may become a creditor with respect to the insolvency estate of the bankrupt company. To assess the insolvency risk, you should gather information on the creditworthiness of the issuer and familiarize yourself with your rights in the event of a potential insolvency.