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**ZH INTERNATIONAL HOLDINGS LIMITED**

**正恒國際控股有限公司**

*(Incorporated in Hong Kong with limited liability)*

(Stock Code: 185)

**CONTINUING CONNECTED TRANSACTIONS**

**RENEWAL OF THE MASTER SERVICES AGREEMENT**

**AND**

**REVISION OF ANNUAL CAPS**

**Independent Financial Adviser**

**to the Independent Board Committee and the Independent Shareholders**



**建泉融資有限公司**

**VBG Capital Limited**

**RENEWAL OF THE MASTER SERVICES AGREEMENT AND REVISION OF ANNUAL CAPS**

References are made to (i) the Company's announcement dated 22 December 2015 and its circular dated 22 January 2016 in relation to the Master Services Agreement; and (ii) the Company's announcements dated 21 February 2017 and 21 March 2017 and its circular dated 26 April 2017 in relation to the 2017 Supplemental Agreement to the Master Services Agreement and the revision of annual caps. The Renewed 2017 Master Services Agreement contemplated Transactions that, pursuant to which, Zensun Development agreed to provide, or procure its subsidiaries to provide the Contracting Services and Ancillary Services to the Group during the term from the effective date of the Renewed 2017 Master Services Agreement, and up to and including 31 December 2019.

The Group wishes to continue to have the relevant member(s) of Zensun Development Group for their Services as a result of consequential demand stemming from the rapidly increasing land reserves over the past years. Accordingly, on 11 October 2018, the Company and Zensun Development entered into the 2018 Supplemental Agreement to further extend the term of the Renewed 2017 Master Services Agreement up to and including 31 December 2020 and revise and propose the annual caps for the Transactions contemplated thereunder the Renewed 2018 Master Services Agreement for each of the financial years ending 31 December 2018, 2019 and 2020 in this respect.

### **LISTING RULES IMPLICATIONS**

As Zensun Development is beneficially wholly-owned by Mr. Zhang and Mr. Zhang is an executive Director and the spouse of Ms. Huang, the controlling shareholder of the Company interested in approximately 57.95% of the issued share capital of the Company as at the date of this announcement, Zensun Development is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Transactions constitute continuing connected transactions of the Company under the Listing Rules, and the 2018 Supplemental Agreement, the Transactions and the Revised 2018-2020 Annual Caps are subject to re-compliance with the requirements under Chapter 14A of the Listing Rules.

As the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) of the Revised 2018-2020 Annual Caps are higher than 5% and the Revised 2018-2020 Annual Caps exceed HK\$10,000,000, the 2018 Supplemental Agreement, the Transactions and the Revised 2018-2020 Annual Caps are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **GENERAL**

The Company will convene the EGM for the purpose of seeking approval from the Independent Shareholders in relation to the 2018 Supplemental Agreement, the Transactions and the Revised 2018-2020 Annual Caps. An Independent Board Committee has been established to advise the Independent Shareholders on whether or not the 2018 Supplemental Agreement, the Transactions and the Revised 2018-2020 Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. VBG Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the 2018 Supplemental Agreement, the Transactions and the Revised 2018-2020 Annual Caps.

A circular containing, among other things, (a) further information about the 2018 Supplemental Agreement, the Transactions and the Revised 2018-2020 Annual Caps; (b) the letter of advice from VBG Capital to the Independent Board Committee and the Independent Shareholders in relation to the 2018 Supplemental Agreement, the Transactions and the Revised 2018-2020 Annual Caps; (c) the recommendation from the Independent Board Committee in relation to the 2018 Supplemental Agreement, the Transactions and the Revised 2018-2020 Annual Caps; and (d) a notice of the EGM will be despatched to the Shareholders on or before 2 November 2018.

## **BACKGROUND**

References are made to (i) the Company's announcement dated 22 December 2015 (the "**2015 Announcement**") and its circular dated 22 January 2016 (the "**2016 Circular**") in relation to the Master Services Agreement; (ii) the Company's announcements dated 21 February 2017 and 21 March 2017 (collectively, the "**2017 Announcements**") and its circular dated 26 April 2017 (the "**2017 Circular**") in relation to the 2017 Supplemental Agreement to the Master Services Agreement and the revision of annual caps.

As disclosed in the 2015 Announcement and the 2016 Circular, the Company and Zensun Development entered into the Master Services Agreement on 22 December 2015 pursuant to which Zensun Development agreed to provide, or procure its subsidiaries to provide the Contracting Services and Ancillary Services to the Group. The Master Services Agreement and the Transactions contemplated thereunder and the annual caps for each of the financial years ending 31 December 2016, 2017 and 2018 (the "**2016-2018 Annual Caps**") were approved by the Independent Shareholders at the extraordinary general meeting of the Company held on 12 February 2016. For the principal terms of the Master Services Agreement and the 2016-2018 Annual Caps, please refer to the 2015 Announcement and the 2016 Circular.

As disclosed in the 2017 Announcements and the 2017 Circular, on 21 February 2017 the Company and Zensun Development entered into the 2017 Supplemental Agreement to amend certain terms of the Master Services Agreement and to revise the annual caps for each of the financial years ending 31 December 2017, 2018 and 2019, which were then further revised on 21 March 2017. The 2017 Supplemental Agreement and the Transactions contemplated thereunder and the annual caps for each of the financial years ending 31 December 2017, 2018 and 2019 as indicated in the announcement of the Company dated 21 March 2017 (the "**Revised 2017-2019 Annual Caps**") were approved by the Independent Shareholders at the extraordinary general meeting of the Company held on 16 May 2017. For the principal terms of the 2017 Supplement Agreement and the Renewed 2017 Master Services Agreement and the Revised 2017-2019 Annual Caps, please refer to the 2017 Announcements and the 2017 Circular.

## **2018 SUPPLEMENTAL AGREEMENT**

The Group wishes to continue to have the relevant member(s) of Zensun Development Group for their Services as a result of consequential demand stemming from the rapidly increasing land reserves over last years. Accordingly, on 11 October 2018, the Company and Zensun Development entered into the 2018 Supplemental Agreement to further extend the term of the Renewed 2017 Master

Services Agreement up to and including 31 December 2020. The 2018 Supplemental Agreement is conditional upon approval by the Independent Shareholders at the EGM having been obtained.

Principal terms of the Renewed 2018 Master Services Agreement are summarised as follows:

**Parties:** (1) The Company; and

(2) Zensun Development

**Date of the 2018 Supplemental Agreement:** 11 October 2018

**Terms amended:** Original terms under the Renewed 2017 Master Services Agreement:

- the effective date of the Renewed 2017 Master Services Agreement shall be 1 January 2017, subject to the fulfilment of conditions precedent to the 2017 Supplemental Agreement being fulfilled
- the effective term of the Renewed 2017 Master Services Agreement shall run from the effective date of the Renewed 2017 Master Services Agreement, and shall continue up to and including 31 December 2019

New terms under the Renewed 2018 Master Services Agreement:

- the effective date of the Renewed 2018 Master Services Agreement shall be 1 January 2018, subject to the fulfilment of conditions precedent to the 2018 Supplemental Agreement being fulfilled
- the effective term of the Renewed 2018 Master Services Agreement shall run from the effective date of the Renewed 2018 Master Services Agreement, and shall continue up to and including 31 December 2020

Save as disclosed above, all existing terms and conditions under the Renewed 2017 Master Services Agreement remain unchanged. Accordingly, when entering into the Definitive Agreement(s), the pricing policy, selection process of construction companies and corporate governance relating to the Transactions as stated in the 2017 Circular remain in place.

## **THE REVISION OF THE ANNUAL CAPS**

### **The Revised 2018-2020 Annual Caps**

The Revised 2017-2019 Annual Caps for the Transactions for each of the financial years ending 31

December 2017, 2018 and 2019 are RMB367,000,000, RMB599,000,000 and RMB237,000,000, respectively. The Board proposed to set the Revised 2018-2020 Annual Caps for the Transactions for each of the financial years ending 31 December 2018, 2019 and 2020 as RMB1,133,000,000, RMB2,404,000,000 and RMB1,534,000,000, respectively.

The Revised 2018-2020 Annual Caps were determined based on:

- (i) the unaudited actual transaction amounts incurred for the Transactions for the six months ended 30 June 2018 which was approximately RMB252.2 million, as disclosed in the paragraph headed “Historical transaction amounts” in this announcement;
- (ii) the forecast amounts of the Transactions for each of the financial years ending 31 December 2018, 2019 and 2020 in relation to certain land parcels with an aggregated estimated GFA of approximately 2.92 million square meters held by the Group on hand that have completed their tendering process and awarded to Zensun Development Group; and
- (iii) an additional 10% buffer as possible variance of the costs in respect of relevant Services for these land parcels.

The Revised 2018-2020 Annual Caps did not take into account of the estimated transaction amounts which may arise from the Group's business plan for future continual acquisition of land parcels.

The Directors (excluding the independent non-executive Directors who will only provide their view after considering the advice of the Independent Financial Adviser, and Mr. Zhang and Ms. Huang who have abstained themselves in this regard) considered that the Revised 2018-2020 Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **Historical transaction amounts**

The actual transaction amounts paid and payable by the Group to Zensun Development Group for the provision of Contracting Services and Ancillary Services pursuant to the Master Services Agreement and the Renewed 2017 Master Services Agreement for the financial year ended 31 December 2016, for the financial year ended 31 December 2017 and for the six months ended 30 June 2018 were approximately RMB91.3 million, approximately RMB355.0 million and approximately RMB252.2 million respectively.

As at the date of this announcement, the Directors confirm that the actual transaction amounts paid and payable by the Group to Zensun Development Group pursuant to the Renewed 2017 Master Services Agreement were within and not exceeded the Revised 2017-2019 Annual Caps.

## **REASONS FOR AND BENEFITS OF THE 2018 SUPPLEMENTAL AGREEMENT AND REVISION OF THE ANNUAL CAPS**

Since the second quarter of 2017, the Group has adopted a concrete strategy for further expansion of its property development business in the PRC. The Group has proactively and continuously attended different public auctions and successfully completed acquisitions of land use rights of 19 and 40 land parcels through listings for sale and acquisition processes with different local, governmental land bureaus, independent third parties during the year of 2017 and the first three quarters of 2018, respectively. These 59 newly acquired land parcels have contributed total site area of approximately 2.59 million square meters and aggregate estimated GFA of approximately 6.54 million square meters in support of our land reserves in the PRC. As at the date of this announcement, the Group had two completed property projects and 26 property projects under development and planning on hand with 66 land parcels with total site area of approximately 3.03 million square meters and aggregate estimated GFA of approximately 8.36 million square meters in the PRC. The continual successful land acquisitions complement the Group's strategy in expanding its business operation in Henan Province, the PRC. Thus, the Board will continue to identify new property development projects and bid for land use rights of other selective land parcels in the PRC with a focus on Zhengzhou City, Henan Province and other first and second tier cities in the PRC in the coming few years.

In view of the strong support to the expanding land reserves for the Group's property development business in the PRC, it is anticipated that the demand for the respective Contracting Services and Ancillary Services for the Group's property projects on hand are rapidly and substantially increasing. In this regards, the Board considers that the Renewed 2018 Master Services Agreement and the Revised 2018-2020 Annual Caps will facilitate the Group to cope with the construction and development of these land parcels.

As disclosed in the 2017 Circular, Zensun Development Group possesses the required qualifications and experience in carrying out the Contracting and Ancillary Services with good quality standard for property projects in the PRC, accordingly, the Board wishes to continue to invite Zensun Development Group to tender for their Contracting Services and Ancillary Services for the Group's property projects.

Having considered the forecast amounts for constructing and developing of these newly acquired land parcels together with the ongoing property projects, it is estimated that the Revised 2017-2019 Annual Caps in relation to each of the financial years ending 31 December 2018 and 2019 will not be sufficient to meet the Group's requirements. The Company therefore contemplates to revise and propose the Revised 2018-2020 Annual Caps under the Renewed 2018 Master Services Agreement.

The Directors (excluding the independent non-executive Directors who will only provide their view after considering the advice of the Independent Financial Adviser, and Mr. Zhang and Ms. Huang who have abstained themselves in this regard) are of the view that (i) the terms of the 2018 Supplemental Agreement and the Transactions have been negotiated on an arm's length basis and on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) the Revised 2018-2020 Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **INFORMATION OF THE GROUP AND THE ZENSUN DEVELOPMENT GROUP**

The Group is principally engaged in property development, property investment and trading, hotel operations and securities trading and investment in Hong Kong, the PRC and overseas.

So far as known to the Directors, the core business of Zensun Development Group includes property development, property management, Contracting Services and investment holdings in the PRC.

## **LISTING RULES IMPLICATIONS**

As Zensun Development is beneficially wholly-owned by Mr. Zhang and Mr. Zhang is an executive Director and the spouse of Ms. Huang, the controlling shareholder of the Company interested in approximately 57.95% of the issued share capital of the Company as at the date of this announcement, Zensun Development is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Transactions constitute continuing connected transactions of the Company under the Listing Rules, and the 2018 Supplemental Agreement, the Transactions and the Revised 2018-2020 Annual Caps are subject to re-compliance with the requirements under Chapter 14A of the Listing Rules.

As the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) of the Revised 2018-2020 Annual Caps are higher than 5% and the Revised 2018-2020 Annual Caps exceed HK\$10,000,000, the 2018 Supplemental Agreement, the Transactions and the Revised 2018-2020 Annual Caps are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **GENERAL**

Mr. Zhang, an executive Director and Ms. Huang, a non-executive Director and the controlling shareholder of the Company, are considered to have material interests in the 2018 Supplemental Agreement, the Transactions and the Revised 2018-2020 Annual Caps by virtue of their interests and/or directorship in Zensun Development. As a result, Mr. Zhang and Ms. Huang have abstained from voting on the Board resolutions in relation to the 2018 Supplemental Agreement, the Transactions and the Revised 2018-2020 Annual Caps.

The Company will convene the EGM for the purpose of seeking approval from the Independent Shareholders in relation to the 2018 Supplemental Agreement, the Transactions and the Revised 2018-2020 Annual Caps. In view of the interests of Mr. Zhang and Ms. Huang in the Transactions,

Mr. Zhang and Ms Huang and their associates, in aggregate held 3,579,612,209 Shares (approximately 57.95% of the issued share capital of the Company) as at the date of this announcement, will abstain from voting at the EGM. An Independent Board Committee has been established to advise the Independent Shareholders on whether or not the 2018 Supplemental Agreement, the Transactions and the Revised 2018-2020 Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. VBG Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the 2018 Supplemental Agreement, the Transactions and the Revised 2018-2020 Annual Caps.

A circular containing, among other things, (a) further information about the 2018 Supplemental Agreement, the Transactions and the Revised 2018-2020 Annual Caps; (b) the letter of advice from VBG Capital to the Independent Board Committee and the Independent Shareholders in relation to the 2018 Supplemental Agreement, the Transactions and the Revised 2018-2020 Annual Caps; (c) the recommendation from the Independent Board Committee in relation to the 2018 Supplemental Agreement, the Transactions and the Revised 2018-2020 Annual Caps; and (d) a notice of the EGM will be despatched to the Shareholders on or before 2 November 2018.

## **DEFINITIONS**

The following terms have the following meanings in this announcement, unless the context otherwise requires:

“2017 Supplemental Agreement”	the supplemental agreement dated 21 February 2017 entered into between the Company and Zensun Development to amend certain terms of the Master Services Agreement
“2018 Supplemental Agreement”	the second supplemental agreement dated 11 October 2018 entered into between the Company and Zensun Development to amend certain terms of the Renewed 2017 Master Services Agreement
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Ancillary Services”	services which are ancillary but pertaining to the delivery of the Contracting Services, including but not limited to administration, payroll, human resources, disposal of construction wastes
“Board”	the board of Directors
“Company”	ZH International Holdings Limited, a company incorporated in Hong



	Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“continuing connected transactions”	has the meaning ascribed to it under the Listing Rules
“Contracting Services”	the provision of construction, engineering and related services by the relevant members of the Zensun Development Group to the relevant members of the Group, including but not limited to, building and general construction, civil engineering, building exterior and interior design, building repair, renovation, maintenance, consultancy and other services, demolition, piling and foundation, building and property fitting out and decoration work, construction and project management, supply of construction and building equipment and materials, electrical and mechanical engineering works, supply and installations of air-conditioning, heating and ventilation systems, fire services systems, plumbing and drainage systems, lift repair and maintenance services and electrical systems
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Definitive Agreement(s)”	definitive agreement(s) which may be entered into between any member(s) of the Group and any member(s) of the Zensun Development Group from time to time in relation to any of the Transactions at any time during the term of and pursuant to the Master Services Agreement
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened for the purposes of considering and, if thought fit, approving the 2018 Supplemental Agreement, the Transactions and the Revised 2018-2020 Annual Caps

“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors, namely, Dr. Liu Qiao, Mr. Liu Da and Mr. Ma Yuntao, formed to advise the Independent Shareholders in relation to the 2018 Supplemental Agreement, the Transactions and the Revised 2018-2020 Annual Caps
“Independent Financial Adviser” or “VBG Capital”	VBG Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the 2018 Supplemental Agreement, the Transactions and the Revised Annual Caps
“Independent Shareholder(s)”	Shareholder(s) other than Mr. Zhang, Ms. Huang and their respective associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Services Agreement”	the agreement in relation to the Transactions entered into between the Company and Zensun Development on 22 December 2015
“Mr. Zhang”	Mr. Zhang Jingguo, an executive Director, and the chairman, the chief executive officer and a controlling shareholder of the Company
“Ms. Huang”	Ms. Huang Yanping, the spouse of Mr. Zhang, the non-executive Director and a controlling shareholder of the Company
“PRC”	the People’s Republic of China, and for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan

“Renewed 2017 Master Services Agreement”	the Master Services Agreement as amended by the 2017 Supplemental Agreement
“Renewed 2018 Master Services Agreement”	the Renewed 2017 Master Services Agreement as amended by the 2018 Supplemental Agreement
“Revised 2017-2019 Annual Caps”	the original maximum aggregate annual transaction amounts payable by the Group to Zensun Development Group for the relevant Services for each of the financial years ending 31 December 2017, 2018 and 2019 as detailed in announcement of the Company dated 21 March 2017 and the 2017 Circular
“Revised 2018-2020 Annual Caps”	the proposed revised maximum aggregate annual transaction amounts payable by the Group to Zensun Development Group for the relevant Services for each of the financial years ending 31 December 2018, 2019 and 2020, being RMB1,133,000,000, RMB2,404,000,000 and RMB1,534,000,000, respectively.
“RMB”	Renminbi, the lawful currency of the PRC
“Services”	the Contracting Services and the Ancillary Services
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	the holder(s) of share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to it under Section 15 of the Companies Ordinance
“Transactions”	the transactions contemplated under the Master Services Agreement, the Renewed 2017 Master Services Agreement, and the Renewed 2018 Master Services Agreement, respectively
“Zensun Development”	Henan Zensun Corporate Development Company Limited (河南正

商企業發展有限責任公司), a company established under the laws of the PRC, which is beneficially wholly-owned by Mr. Zhang

“Zensun Development Group” Zensun Development, its subsidiaries, and/or any other company in the equity capital of which Zensun Development and/or any of its subsidiaries taken together are directly or indirectly interested so as to exercise or control the exercise of 30% (or such other amount as may from time to time be specified in the Code on Takeovers and Mergers as being the level for triggering a mandatory general offer) or more of the voting power at general meetings, or to control the composition of a majority of the board of directors, and the subsidiaries of such company, and for the purpose of the Renewed 2018 Master Services Agreement, excludes members of the Group

“0%” per cent.

By Order of the Board  
**ZH International Holdings Limited**  
**Zhang Jingguo**  
*Chairman, Chief Executive Officer  
and Executive Director*

Hong Kong, 11 October 2018

*As at the date of this announcement, the executive Directors are Mr. Zhang Jingguo and Mr. Zhang Guoqiang; the non-executive Director is Ms. Huang Yanping and the independent non-executive Directors are Mr. Liu Da, Dr. Liu Qiao and Mr. Ma Yuntao.*