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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)**

### **CONNECTED TRANSACTION SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE**

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



**建泉融資有限公司**

**VBG Capital Limited**

#### **THE SUBSCRIPTION AGREEMENT**

The Board is pleased to announce that, on 2 May 2019, the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, the Subscription Shares at the Subscription Price on the Completion Date.

The Subscription Shares represent approximately 66.67% of the number of issued Shares as at the date of this announcement, and approximately 40.00% of the number of issued Shares as enlarged by the proposed allotment and issue of the Subscription Shares. The Subscription Shares will be issued under the specific mandate to be granted by the Independent Shareholders in the EGM and will rank *pari passu* in all respects among themselves and with the issued Shares as at the Completion Date.

The gross proceeds of the Subscription are estimated to be HK\$1,564.8 million, and the net proceeds of the Subscription (after deducting all applicable costs and expenses reasonably incurred in relation to the entering of the Subscription Agreement and the related documents) are estimated to be HK\$1,562.9 million.

## **LISTING RULES IMPLICATIONS**

As at the date of this announcement, the Subscriber is a controlling Shareholder, holding 3,579,612,209 Shares, representing approximately 57.95% of the number of the issued Shares. Since the Subscriber is a connected person of the Company under the Listing Rules, the Subscription will constitute a connected transaction for the Company, and is subject to the announcement, reporting and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **EGM**

The EGM will be convened and held to consider and, if thought fit, approve the Subscription Agreement and the transactions contemplated thereunder and the grant of the specific mandate to allot and issue the Subscription Shares. The Subscriber and its associates shall be required to abstain from voting on the resolution(s) of the Company in approving the Subscription Agreement and the transactions contemplated thereunder at the EGM.

Save as disclosed and to the best knowledge, information and belief of the Directors, no other Shareholder has a material interest in the Subscription and is required to abstain from voting on the resolution(s) of the Company in approving the Subscription Agreement and the transactions contemplated thereunder at the EGM.

## **ESTABLISHMENT OF INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER**

The Independent Board Committee comprising all the independent non-executive Directors has been established to give a recommendation to the Independent Shareholders as to whether the terms of the Subscription Agreement are on normal commercial terms or better and fair and reasonable, whether the Subscription is in the interests of the Company and the Shareholders as a whole and as to voting at the EGM. VBG Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) details of the Subscription Agreement; (ii) the recommendation from the Independent Board Committee in respect of the Subscription; (iii) the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription; and (iv) the notice of the EGM is expected to be despatched to the Shareholders on or before 23 May 2019.

**Completion is subject to the fulfillment of the conditions precedent set forth in the Subscription Agreement. As the Subscription may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.**

The Board is pleased to announce that, on 2 May 2019, the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, the Subscription Shares at the Subscription Price on the Completion Date.

Principal terms of the Subscription Agreement are set forth below:

## **THE SUBSCRIPTION AGREEMENT**

### **Date**

2 May 2019

### **Parties**

- (1) the Company as issuer; and
- (2) the Subscriber as subscriber.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Subscriber is an investment holding company incorporated in the British Virgin Islands with limited liability. As at the date of this announcement, the Subscriber is a controlling Shareholder, holding 3,579,612,209 Shares, representing approximately 57.95% of the number of the issued Shares, accordingly, the Subscriber is a connected person of the Company under Chapter 14A of the Listing Rules.

### **Number of Subscription Shares**

4,117,879,979 Subscription Shares, which represent approximately 66.67% of the number of issued Shares as at the date of this announcement, and approximately 40.00% of the number of issued Shares as enlarged by the proposed allotment and issue of the Subscription Shares.

The Subscription Shares will be issued under the specific mandate to be granted by the Independent Shareholders in the EGM.

### **The Subscription Price**

The Subscription Price is HK\$0.38 per Subscription Share, and the aggregate Subscription Price for all Subscription Shares shall be paid by the Subscriber to the Company in cash upon Completion. It represents:

- (i) a premium of approximately 11.76% to the closing price of HK\$0.34 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement;
- (ii) a premium of approximately 7.34% to the average closing price of approximately HK\$0.354 per Share as quoted on the Stock Exchange for the last five trading days immediately prior to the date of the Subscription Agreement; and

- (iii) a premium of approximately 80.95% to consolidated net asset value per Share of approximately RMB0.18 (equivalent to approximately HK\$0.21) (based on the audited consolidated net asset value attributable to the owners of the Company as at 31 December 2018 of approximately RMB1.13 billion (equivalent to approximately HK\$1.31 billion)).

The Subscription Price was determined, among others, with reference to the market price of the Shares under the prevailing market conditions, performance and financial position of the Group and was negotiated on an arm's length basis between the Company and the Subscriber.

The net issue price per Subscription Share is approximately HK\$0.379.

### **Ranking of Subscription Shares**

The Subscription Shares, when issued and fully paid, will rank *pari passu* in all respects among themselves and with the issued Shares as at the Completion Date.

### **Conditions of the Subscription**

Completion is subject to the following conditions:

- (i) the Board having approved the terms and authorised the execution of and performance by the Company of its obligations under the Subscription Agreement;
- (ii) the Independent Shareholders having approved the terms and authorised the execution of and performance by the Company of its obligations under the Subscription Agreement;
- (iii) the board of directors of the Subscriber having approved the terms and authorised the execution of and performance by the Subscriber of its obligations under the Subscription Agreement;
- (iv) the Stock Exchange having granted the listing of, and permission to deal in, the Subscription Shares on the Stock Exchange;
- (v) the Company will be able to meet the public float requirement under the Listing Rules upon Completion;
- (vi) all other necessary consents, approvals, permits or licences from the relevant governmental or regulatory authorities or other third parties in relation to the transactions contemplated under the Subscription Agreement having been obtained; and
- (vii) the representations and warranties made by the Company where required to be repeated in accordance with the Subscription Agreement at Completion being materially true and accurate at the time of Completion, as though then made and the Company not otherwise being in material breach of its obligations under the Subscription Agreement.

Each of the conditions set out above is not waivable under any circumstances.

If the conditions set out above are not fulfilled on or before 12 August 2019, being the long stop date, the Subscription Agreement shall terminate.

## **Completion**

Completion shall take place within five (5) Business Days after the fulfilment of the conditions (or at such other time and place as designated by the Company).

## **APPLICATION FOR LISTING**

Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Subscription Shares.

## **REASONS FOR THE SUBSCRIPTION AND INTENDED USE OF PROCEEDS**

The Group is principally engaged in property development, property investment and management, hotel operations and securities trading and investment.

The Directors (excluding the independent non-executive Directors who will form their view after considering the advice of the independent financial adviser with regard to the Subscription) consider that the Subscription will strengthen the capital base of the Company and that the terms of the Subscription Agreement are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

The gross proceeds of the Subscription are estimated to be approximately HK\$1,564.8 million, and the net proceeds of the Subscription (after deducting all applicable costs and expenses reasonably incurred in relation to the entering of the Subscription Agreement and the related documents) are estimated to be approximately HK\$1,562.9 million. The net proceeds of the Subscription are intended to be applied in the following manner:

- (i) approximately HK\$625.1 million (representing approximately 40.0% of the estimated net proceeds from the Subscription) for the construction payment which is expected to be paid for two of our ongoing property projects (namely, Zensun Fenghuashangjing (正商豐華上境) and Zensun River Home (Phase II) (正商家河家二期) in order to alleviate the funding requirement for the development stage of the projects of the Group (the “**Project Development Cost**”); and
- (ii) approximately HK\$625.1 million (representing approximately 40.0% of the estimated net proceeds from the Subscription) for the repayment of bank loans due during the period ending 31 December 2019 (the “**Repayment of Bank loans**”), to improve the liquidity, borrowing power and gearing ratio of the Company;
- (iii) approximately HK\$312.7 million (representing approximately 20.0% of the estimated net proceeds from the Subscription) for the general working capital for the Group.

Regarding the Project Development Cost, total budget development cost of the Group are approximately RMB6,405.0 million for the nine months ending 31 March 2020, the Company intends to apply as to approximately HK\$625.1 million (equivalent to RMB534.3 million) or 40.00% of the net proceeds for the development of Zensun River Home (Phase II) and Zensun Fenghuashangjing and the outstanding amount will be funded by internal resources of the Group and other sources of funding including equity or debt financing, and/or financial support from the Company's controlling Shareholder. A summary of the relevant budget development cost is set out below.

	Budget development cost of the Group (RMB'000)			Total
	Zensun River Home (Phase II)	Zensun Fenghuashangjing	Other property development projects	
<b>Period:</b>				
During 1 July 2019 to 31 March 2020	384,300	150,000	5,870,700	6,405,000

Regarding the Repayment of Bank Loans, there are approximately RMB1,204.0 million bank loans will be due during the period ending 31 December 2019, the Company intends to apply as to approximately HK\$625.1 million (equivalent to RMB534.3 million) or 40.0% of the net proceeds for the repayment of existing debt and the outstanding amount will be funded by internal resources of the Group and other sources of funding including equity or debt financing, and/or financial support from the Company's controlling Shareholder. The Company had considered other fund raising alternatives available to the Group such as debt financing, rights issues and open offer. However, debt financing will result in additional interest burden, given the gearing ratio of the Group was approximately 21.6x as at 31 December 2018 (i.e gearing ratio was calculated by the aggregate amounts of bank and other borrowings, amounts due to related companies and loans from a related company, net of the aggregate amounts of cash and cash equivalents, restricted bank balances and pledged deposits). Accordingly, the Company considers that it is prudent to finance the funding needs of the Group in the form of equity which will not increase the Group's finance costs. On the other hand, rights issue or open offer usually require discount to the current market price of the Shares and involve the issue of listing documents with other application and administrative procedures which is relatively more time consuming and less cost effective, the Company considers that the issue of Subscription Shares under specific mandate is a more desirable solution for the Group to reduce the gearing ratio and enlarge the capital base for business development.

Although the allotment and issue of the Subscription Shares will have a dilution effect to the existing Shareholders, having considered (i) the Subscription Price represents a premium over the market price of the Shares as of the date of the Subscription Agreement and net tangible assets of the Group per Shares as of 31 December 2018; (ii) the Subscription Shares, when allotted and issued, will be recognized entirely as equity of the Company which in turn will reduce the gearing ratio, enlarge the capital base for business development and enhance the net asset position of the Company; and (iii) the Company can save any future interest expenses arising from the Repayment of Bank Loans, the Directors consider that the dilution effect arising from the allotment and issue of the Subscription Shares is justifiable in this regard. In view of the above, the Directors (other than members of the Independent Board Committee who will form their view after receiving and considering the advice by the independent financial adviser regarding the Subscription and the transactions contemplated thereunder) consider that the terms of the Subscription Agreement (including the Subscription Price) are fair and reasonable so far as the Company and the Shareholders are concerned.

## FUND RAISING ACTIVITIES BY THE COMPANY IN THE PAST TWELVE MONTHS

The Directors confirm that the Company has not conducted any fund raising activity involving the issue of its equity securities in the 12 months immediately preceding the date of this announcement.

## CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately after Completion, assuming that no further Shares have been issued or repurchased before Completion:

	As at the date of this announcement		Immediately after Completion (assuming that no further Shares have been issued or repurchased before Completion)	
	Number of shares	Approximate %	Number of shares	Approximate %
The Subscriber <sup>(Note)</sup>	3,579,612,209	57.95	7,697,492,188	74.77
Public Shareholders	<u>2,597,207,760</u>	<u>42.05</u>	<u>2,597,207,760</u>	<u>25.23</u>
Total	<u>6,176,819,969</u>	<u>100</u>	<u>10,294,699,948</u>	<u>100</u>

*Note:* These Shares are directly owned by Joy Town Inc., which are ultimately owned by a discretionary trust established by Ms. Huang Yanping as settlor and protector and Vistra Trust (Singapore) Pte Limited as trustee. Joy Town Inc. is wholly-owned by Zensun Group Limited. Zensun Group Limited is a wholly owned subsidiary of Notable Reward Limited, which in turn is wholly-owned by Superior Glory Enterprises Limited and the entire issued share capital of Superior Glory Enterprises Limited became assets of the trust. Ms. Huang Yanping is the sole director of Joy Town Inc. and Notable Reward Limited and Mr. Zhang Jingguo is the sole director of Zensun Group Limited.

## LISTING RULES IMPLICATIONS

As at the date of this announcement, the Subscriber is a controlling Shareholder, holding 3,579,612,209 Shares, representing approximately 57.95% of the number of the issued Shares. Since the Subscriber is a connected person of the Company under the Listing Rules, the Subscription will constitute a connected transaction for the Company, and is subject to the announcement, reporting and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the Subscriber is an associate of Mr. Zhang Jingguo and Ms. Huang Yanping, Mr. Zhang Jingguo and Ms. Huang Yanping are considered to have a material interest in the Subscription and have abstained from voting on the Board resolution(s) of the Company to approve the Subscription Agreement and the transactions contemplated thereunder. Save as disclosed, no other Director has a material interest in the Subscription and therefore has abstained from voting on the board resolution(s) of the Company to approve the Subscription Agreement and the transactions contemplated thereunder.

## **EGM**

The EGM will be convened and held to consider and, if thought fit, approve the Subscription Agreement and the transactions contemplated thereunder and the grant of the specific mandate to allot and issue the Subscription Shares. The Subscriber and its associates shall be required to abstain from voting on the resolution(s) of the Company in approving the Subscription Agreement and the transactions contemplated thereunder at the EGM.

Save as disclosed and to the best knowledge, information and belief of the Directors, no other Shareholder has a material interest in the Subscription and is required to abstain from voting on the resolution(s) of the Company in approving the Subscription Agreement and the transactions contemplated thereunder at the EGM.

## **ESTABLISHMENT OF INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER**

The Independent Board Committee comprising all the independent non-executive Directors has been established to give a recommendation to the Independent Shareholders as to whether the terms of the Subscription Agreement are on normal commercial terms or better and fair and reasonable, whether the Subscription is in the interests of the Company and the Shareholders as a whole and as to voting at the EGM. VBG Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) details of the Subscription Agreement; (ii) the recommendation from the Independent Board Committee in respect of the Subscription; (iii) the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription; and (iv) the notice of the EGM is expected to be despatched to the Shareholders on or before 23 May 2019.

**Completion is subject to the fulfillment of the conditions precedent set forth in the Subscription Agreement. As the Subscription may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.**



## DEFINITIONS

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

“associate(s)”	has the meaning ascribed to such term in the Listing Rules
“Board”	the board of Directors
“Business Day”	any day (other than a Saturday, a Sunday or a public holiday or a day on which a tropical cyclone warning No.8 or above or a “black rainstorm” warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which commercial banks are open for general banking business in Hong Kong
“Company”	ZH INTERNATIONAL HOLDINGS LIMITED (正恒國際控股有限公司), a company incorporated in Hong Kong with limited liability whose issued Shares are listed on the main board of the Stock Exchange
“Completion”	completion of the Subscription
“Completion Date”	the date on which Completion takes place
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held to consider and, if thought fit, approve the Subscription Agreement and the transactions contemplated thereunder and the grant of the specific mandate to allot and issue Subscription Shares
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollar, the lawful currency of the Hong Kong
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors
“Independent Shareholders”	Shareholders other than the Subscriber and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	share(s) in the issued share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Joy Town Inc., a company incorporated in the British Virgin Islands with limited liability and a controlling Shareholder
“Subscription”	the subscription for the Subscription Shares by the Subscriber pursuant to the terms and conditions of the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 2 May 2019 entered into between the Company and the Subscriber in respect of the Subscription
“Subscription Price”	HK\$0.38 per Subscription Share
“Subscription Share(s)”	4,117,879,979 Shares, being the Shares to be allotted and issued to the Subscriber subject to the terms of the Subscription Agreement
“%”	per cent

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

Hong Kong, 2 May, 2019

*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.*

*For the purpose of this announcement, translations of Renminbi into Hong Kong dollars or vice versa have been calculated by using an exchange rate of HK\$1.00 equal to RMB0.8547. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were, may have been or will be exchanged at such rate or any other rates or at all.*