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ZH INTERNATIONAL HOLDINGS LIMITED

正恒國際控股有限公司

(formerly known as Heng Fai Enterprises Limited)

(Incorporated in Hong Kong with limited liability)

(Stock Code: 185)

ANNOUNCEMENT MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF PROPERTY PROJECT

Financial adviser to the Company



Alliance Capital Partners Limited
同人融資有限公司

THE ACQUISITION

On 2 October 2015 (after trading hours), the Company and the Vendor entered into the Agreement, pursuant to which, the Vendor has conditionally agreed to sell and the Company has conditionally agreed to acquire the Sale Share. The Consideration for the Acquisition is HK\$405,000,000 which will be satisfied by issue of the Consideration Shares by the Company.

IMPLICATIONS OF THE LISTING RULES

The Vendor is the controlling Shareholder of the Company and a non-executive Director, accordingly the Vendor is a connected person of the Company.

In addition, one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition exceed 25% but below 100%. As a result, the Acquisition constitutes a major and connected transaction of the Company and is therefore subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

The Acquisition is subject to the approval by the Independent Shareholders by way of a poll and the Vendor and her associates, which together held approximately 55.31% of the issued share capital of the Company as at the date of this announcement, will be required to abstain from voting in respect of the resolution(s) to approve the Agreement and the Acquisition at the EGM.

GENERAL

A circular containing, amongst others, details of the Agreement and the Acquisition, a letter from the Independent Board Committee, a letter of advice from the Independent Financial Adviser and a notice of the EGM, is expected to be despatched to the Shareholders on or before 30 October 2015 so as to allow sufficient time for the preparation of the relevant information for inclusion in the circular.

Shareholders and potential investors should note that Completion is subject to the satisfaction of the conditions set out under the paragraph headed “Conditions of the Agreement” of the section headed “The Acquisition” of this announcement. As the transactions contemplated by the Agreement may or may not proceed, Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

INTRODUCTION

The Company and the Vendor entered into a sale and purchase agreement on 2 October 2015 (after trading hours), pursuant to which, the Vendor has conditionally agreed to sell and the Company has conditionally agreed to acquire the Sale Share.

THE ACQUISITION

The Agreement:

Date of Agreement:

2 October 2015

Purchaser: The Company

Vendor: Ms. Huang Yanping, a non-executive Director and the controlling shareholder of the Company

Assets to be acquired:

The Sale Share, representing the entire issued share capital of Vigor Capital Holdings Limited (i.e. the Target Company). The Target Company is the registered and beneficial owner of Total Star which in turn is the registered and beneficial owner of Henan Jingkai. Henan Jingkai is in turn undertaking the Property Project for property development.

The Consideration:

The Consideration of HK\$405,000,000, is to be satisfied by the issuance of 1,350,000,000 Consideration Shares credited as fully paid at the Issue Price of HK\$0.30 per Share to the Vendor (or her nominees) on Completion.

Basis of the Consideration

The Consideration (including the Issue Price) was determined after arm's length negotiations with reference to, among others:

1. the unaudited net asset value of the Target Group as at 31 July 2015 in an amount of approximately RMB298.9 million (approximately HK\$364.7 million);
2. the indicative valuation of the Property Project issued by an independent valuer, APAC Asset Valuation and Consulting Limited, at RMB470 million (approximately HK\$573.4 million);
3. the unaudited reassessed net asset value of the Target Group in an amount of approximately RMB354.2 million (equivalent to approximately HK\$432.1 million) which was determined by adding (i) the unaudited net assets value of the Target Group as at 31 July 2015; and (ii) the increase in the unaudited net assets value of the Target Group in an amount of approximately RMB55.3 million (equivalent to approximately HK\$67.4 million) arising from the indicative valuation of the Property Project issued by APAC Asset Valuation and Consulting Limited;
4. the average closing price of the Shares as quoted on the Stock Exchange for the last five trading days immediately preceding the Last Trading Day; and
5. the business development and future prospects of the Target Group.

Consideration Shares

The 1,350,000,000 Consideration Shares represent (i) approximately 33.5% of the existing issued share capital of the Company and (ii) approximately 25.1% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. The Consideration Shares when allotted and issued, will rank *pari passu* in all respects among themselves and with all existing Shares then in issue on the date of such allotment and issue, including the right to receive all future dividends and distributions declared, made or paid by the Company on or after the date of the issue of the Consideration Shares. The Consideration Shares will be issued pursuant to a specific mandate to be obtained from the Independent Shareholders at the EGM.

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

The Issue Price of HK\$0.30 per Consideration Share represents:

- (i) a premium of approximately 9.1% to the closing price of HK\$0.275 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 6.8% to the average closing price of approximately HK\$0.281 per Share as quoted on the Stock Exchange for the last 5 trading days immediately preceding and including the Last Trading Day; and
- (iii) a premium of approximately 46.8% over the audited net asset value of the Group attributable to the Shareholders of approximately HK\$0.2043 per Share as at 31 March 2015.

Based on the average closing price of the Shares as quoted on the Stock Exchange for the last five trading days immediately preceding the Last Trading Day at HK\$0.286, the value of the Consideration Shares represents a sum of HK\$386.1 million.

Conditions of the Agreement:

Completion is conditional on:

- (a) all requisite resolution(s) being passed by the Independent Shareholders by way of a poll at the EGM approving the terms of and the transactions contemplated in the Agreement and the implementation thereof;
- (b) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consideration Shares to be issued pursuant to the terms hereof;
- (c) completion of a due diligence review on the Target Group and the underlying properties to the sole satisfaction of the Company in its absolute discretion;
- (d) the Company being satisfied that no material adverse change on the Target Group has arisen or occurred since the accounts date which is 31 July 2015 and up to Completion;
- (e) there having been no breach by the Vendor of her pre-completion obligations in accordance with the Agreement; and
- (f) there having been no breach by the Vendor of the warranties in accordance with the Agreement.

If the conditions above have not been fulfilled (or waived (except for (a) and (b) above) by the Company) on or before 31 December 2015 or such other date as the Vendor and the Company may agree in writing, the Agreement shall terminate save whereupon the parties shall have no further claims against each other under the Agreement save for accrued rights.

Completion:

Completion shall take place on the third Business Day after all conditions precedent to the Agreement have been satisfied or waived by the Company (or such other time and date as the parties to the Agreement may agree in writing).

Lockup undertaking:

The Vendor agrees and undertakes to the Company not to dispose of or otherwise deal in the Consideration Shares for a period of six months after the date of Completion unless prior written approval has been obtained from the Company.

Information on the Target Group:

The Target Company is an investment holding company incorporated in the BVI, which indirectly hold 100% interest in Henan Jingkai. Henan Jingkai is a PRC incorporated company principally engaged in property development and investment. The Target Group is primarily engaged in the real estate development and investment, which owns the Property Project in Zhengzhou city in the PRC. Details of the Property Project as at 31 July 2015 is set out in the table below:

Major usage	Target Group's Shareholding (%)	Total GFA (sq.m.)	Current status	Expected completion year
Commercial	100	214,812	Under development	2017 4 th quarter

The Property Project consists of a land parcel located at the Economical and Technological Development Zone of Zhengzhou city with a site area of 47,736.04 sq.m. and a permitted plot ratio of not more than 4.5. The land parcel is designated for commercial usage. It is intended that the Property Project will be developed into a commercial centre.

The Property Project is expected to be completed at the last quarter of 2017. Henan Jingkai acquired the underlying land parcel of the Property Project in April 2015 and the aggregate costs associated with the acquisition and development of the Property Project amounted to approximately RMB414.7 million as at 31 July 2015. With reference to the indicative valuation of the Property Project issued by an independent professional valuer, APAC Asset Valuation and Consulting Limited, appointed by the Company, the valuation of the Property Project was approximately RMB470 million (approximately HK\$573.4 million as at 31 July 2015).

Immediately upon completion of the Acquisition, all members of the Target Group will become subsidiaries of the Company and their results will be consolidated into the financial statements of the Group.

The Target Company was established on 5 March 2015. The consolidated net loss before and after taxation of the Target Group as set out in the unaudited financial statements for the period from 5 March 2015 to 31 July 2015 was approximately RMB1.1 million (approximately HK\$1.3 million). The net asset value of the Target Group as set out in its unaudited financial statements as at 31 July, 2015 was approximately RMB298.9 million (approximately HK\$364.7 million). The Reassessed NAV of the Target Group as at 31 July 2015 was approximately RMB354.2 million (equivalent to approximately HK\$432.1 million).

Based on the unaudited consolidated management accounts of the Target Group as at 31 July 2015, the Target Group is indebted to Zensun in the amount of RMB 119.0 million (approximately HK\$145.2 million) as at 31 July 2015 (“Shareholder Loan”).

FINANCIAL ASSISTANCE FROM THE VENDOR

Under the Agreement, the Vendor has undertaken to the Company that she will procure Zensun to enter into a loan agreement with Henan Jingkai (“Loan Agreement”) pursuant to which Zensun shall, from Completion, provide upon Henan Jingkai’s request, additional maximum unsecured loan(s) of RMB200 million to finance the development of the Property Project for a duration of three years from the date of the Loan Agreement (“Additional Loan”). Such loan(s) will be available for drawdown by Henan Jingkai in accordance with actual needs within three years from the date of the Loan Agreement at an interest rate of 4% per annum on a fully unsecured basis on the loan(s) actually drawdown or such other interest rate that Henan Jingkai is able to borrow in an amount equal to the relevant loan from a bank or a financial institution, whichever is the lower. Whereas the existing Shareholder Loan will carry the same terms with the Additional Loan and be deemed drawdown at the date of the Completion (“Financial Support”).

The Financial Support will constitute a connected transaction in the form of financial assistance from Zensun in favour of Henan Jingkai. However, as the loans are not secured by any assets of the Group, and as the Directors consider that the loans are on normal commercial terms or better, the Financial Support is fully-exempted from shareholders’ approval, annual review and all disclosure requirements pursuant to Rule 14A.90 of the Listing Rules.

REASONS FOR AND BENEFITS OF THE ACQUISITION

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

As stated in the Group’s annual report for the year ended 31 March 2015, it is part of the Group’s strategy to explore business and development opportunity in China. The Directors consider that the Acquisition represents a strategic expansion of the Group in line with the Group’s general business strategy. The Property Project held by the Target Group comprises properties under development for sale. Such Property Project is expected to have positive impact on contracted sales, cash flows, revenue and profit after completion of the Acquisition, by directly leveraging the Group’s brand recognition and management expertise.

The Directors are of the view that the Acquisition are in the interest of the Group and the terms of Acquisition in the Agreement are on normal commercial terms, which are fair and reasonable and in the interests of the Shareholders as a whole.

EFFECT ON THE SHAREHOLDING STRUCTURE

Set out below is a table showing the Company's existing shareholding structure and that immediately after Completion:

	Existing shareholding as at the date of this announcement		Immediately after Completion	
	<i>No. of Shares</i>	<i>approx. %</i>	<i>No. of Shares</i>	<i>approx. %</i>
Joy Town	2,229,612,209	55.31	2,229,612,209	41.43
The Vendor	–	–	1,350,000,000	25.09
Controlling shareholders	2,229,612,209	55.31	3,579,612,209	66.52
Public	1,801,807,760	44.69	1,801,807,760	33.48
Total	<u>4,031,419,969</u>	<u>100.00</u>	<u>5,381,419,969</u>	<u>100.00</u>

FINANCIAL EFFECTS OF THE ACQUISITION

Upon completion of the Acquisition, the Group will hold 100% equity interest in the Target Group. All members of the Target Group will become subsidiaries of the Company and their financial results will be consolidated into the Group's financial statements.

The Director consider that the Acquisition will contribute to the revenue and earnings base of the Enlarged Group upon completion of the Property Project but the quantification of such contribution will depend on the future performance of the Target Group.

LISTING RULES IMPLICATIONS

The Vendor is the controlling Shareholder of the Company and a non-executive Director, accordingly the Vendor is a connected person of the Company.

In addition, one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition exceed 25% but below 100%. As a result, the Acquisition constitutes a major and connected transaction of the Company and is therefore subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

The Acquisition is subject to the approval by the Independent Shareholders by way of a poll and the Vendor and her associates, which together held approximately 55.31% of the issued share capital of the Company as at the date of this announcement, will be required to abstain from voting in respect of the resolution(s) to approve the Agreement and the Acquisition at the EGM.

As the Vendor is a controlling shareholder of the Company, the Financing Support will upon Completion, constitute a connected transaction in the form of financial assistance from Zensun in favour of Henan Jingkai. However, as the Financial Support will not be secured by any assets of the Group, and as the Directors consider that the Financial Support is on normal commercial terms or better, the Financial Support will be fully-exempted from shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.90 of the Listing Rules.

Shareholders and potential investors should note that Completion is subject to the satisfaction of the conditions set out under the paragraph headed "Conditions of the Agreement" of the section headed "The Acquisition" of this announcement. As the transactions contemplated by the Agreement may or may not proceed, Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

A circular containing, amongst others, details of the Agreement and the Acquisition, a letter from the Independent Board Committee, a letter of advice from the Independent Financial Adviser and a notice of the EGM is expected to be despatched to the Shareholders on or before 30 October 2015 so as to allow sufficient time for the preparation of the relevant information for inclusion in the circular.

DEFINITIONS

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

“Acquisition”	the proposed acquisition of the Sale Share pursuant to the Agreement
“Agreement”	the sale and purchase agreement dated 2 October 2015 entered into among the Company and the Vendor in respect of the Acquisition
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“Company”	ZH International Holdings Limited (formerly known as Heng Fai Enterprises Limited), a company incorporated in Hong Kong with limited liability and whose Shares are listed on the main board of the Stock Exchange

“Completion”	completion of the Acquisition
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration Share(s)”	1,350,000,000 Shares to be issued by the Company, as the consideration for the Acquisition, to the Vendor in accordance with the terms and conditions of the Agreement
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held for the purpose of, if thought fit, to approve the Agreement and transactions contemplated hereunder
“Enlarged Group”	the Group and the Target Group upon Completion
“Group”	the Company and its subsidiaries
“Henan Jingkai”	河南正商經開置業有限公司, a company established under the laws of the PRC and is wholly-owned by Total Star
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company, comprising all the independent non-executive Directors, namely Dr. Liu Qiao, Mr. Liu Da and Mr. Ma Yuntao, formed to advise the Independent Shareholders as to the Acquisition and the transaction contemplated thereunder
“Independent Financial Adviser”	V Baron Global Financial Services Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition and the transactions contemplated thereunder
“Independent Shareholder(s)”	has the meaning ascribed to it under the Listing Rules

“Issue Price”	HK\$0.30 per Share, being the issue price for the Consideration Shares
“Joy Town”	Joy Town Inc., a company incorporated in the BVI and the direct controlling shareholder of the Company, which is wholly owned by Ms. Huang
“Last Trading Day”	2 October 2015, being the last trading day of the Shares on the Stock Exchange before the publication of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, and for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Property Project”	a commercial property development project undertaken by Henan Jingkai in Zhengzhou city in the PRC with details set out in the paragraph “Information on the Target Group”
“Reassessed NAV”	the unaudited reassessed net assets value of the Target Group as at 31 July 2015, determined with reference to the basis and adjustments as set out in the paragraph “Basis of the Consideration” in this announcement
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Share”	the entire issued share capital of the Target Company
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of the issued share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Vigor Capital Holdings Limited, a limited liability company incorporated under the laws of the BVI
“Target Group”	the Target Company and its subsidiaries

“Total Star”	Total Star Development Limited, a company incorporated in Hong Kong with limited liability and is wholly-owned by the Target Company
“Vendor” or “Ms. Huang”	Ms. Huang Yanping, a non-executive director and controlling shareholder of the Company
“Zensun”	Henan Zensun Real Estate Co., Ltd, a company incorporated in the PRC with limited liability and ultimately controlled by the Vendor
“%”	per cent

Translation of RMB into Hong Kong dollars are based on the exchange rates of RMB0.82 to HK\$1.00 for information purpose only. Such translations should not be construed as a representation that the relevant amounts have been, could have been, or could be converted at that or any other rate or at all.

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

Hong Kong, 2 October, 2015

As at the date of this announcement, the executive Directors are Mr. Zhang Jingguo, Mr. Zhang Guoqiang, Mr. Eric Jackson Chang; 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.