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ZHONGZHENG INTERNATIONAL COMPANY LIMITED

中證國際有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 943)

ISSUE OF NEW SHARES UNDER GENERAL MANDATE FOR DEBT CAPITALISATION

THE AGREEMENT

After trading hours of the Stock Exchange on 1 August 2023, the Company and the Creditor entered into the Agreement, pursuant to which, subject to fulfilment of the conditions thereof, the Company has agreed to allot and issue, and the Creditor has agreed to subscribe for an aggregate of 2,102,817,178 Capitalisation Shares at the Issue Price of HK\$0.01 per Capitalisation Share. The amount of the total Issue Price will be fully set off against the Loan of approximately HK\$21.03 million owing by the Company to the Creditor on a dollar-to-dollar basis.

Assuming there will be no change in the issued share capital of the Company from the date of the Agreement and up to the Closing Date, the Capitalisation Shares represent (i) approximately 19.61% of the issued share capital of the Company as of the date of this announcement; and (ii) approximately 16.40% of the issued share capital of the Company as enlarged by the allotment and issue of the Capitalisation Shares.

The allotment and issue of the Capitalisation Shares will be pursuant to the General Mandate, and is conditional upon, among others, the Stock Exchange granting the listing of, and permission to deal in, the Capitalisation Shares.

An 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 Capitalisation Shares.

The Closing is conditional upon the fulfilment of all the conditions set out in the section headed “The Agreement – Conditions precedent” in this announcement, which may or may not be fulfilled. Accordingly, the Debt Capitalisation and the allotment and issue of the Capitalisation Shares may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

BACKGROUND

On 26 March 2021, the Company as borrower and the Creditor as lender entered into a loan agreement, pursuant to which the Company borrowed and the Creditor lent to the Company the Loan, being a one-year term loan in the principal amount of HK\$20 million bearing an interest rate of 2.2% per annum and repayable in one year after drawdown, for working capital purpose of the Group. The Loan was subsequently drawn down by the Company on 30 March 2021.

On 4 November 2022, the Company and the Creditor entered into a renewal agreement, pursuant to which the Company and the Creditor extended the repayment date of the Loan to 31 December 2023.

After arm's length negotiations with the Creditor, after trading hours of the Stock Exchange on 1 August 2023, the Company and the Creditor entered into the Agreement, pursuant to which, subject to fulfilment of the conditions thereof, the Company has agreed to allot and issue, and the Creditor has agreed to subscribe for an aggregate of 2,102,817,178 Capitalisation Shares at the Issue Price of HK\$0.01 per Capitalisation Share. The amount of the total Issue Price will be fully set off against the Loan, comprising the loan principal and unpaid interest accrued up to 31 July 2023 of approximately HK\$21.03 million in aggregate, owing by the Company to the Creditor on a dollar-to-dollar basis.

Details of the Agreement are set out below.

THE AGREEMENT

Date

1 August 2023 (after trading hours)

Parties

- (i) the Company, as issuer; and
- (ii) the Creditor, as subscriber

The Creditor is Mr. Yang Bin, who is a PRC national and a businessman. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, other than being a creditor of the Company, the Creditor is an Independent Third Party and has no shareholding in the Company as at the date of this announcement.

Debt Capitalisation

As at 31 July 2023, the Company was indebted to the Creditor the Loan in the sum of approximately HK\$21.03 million, comprising the loan principal of HK\$20 million and the accrued interests of approximately HK\$1.03 million.

Pursuant to the Agreement and subject to the fulfilment of the conditions thereof, the Company will allot and issue, and the Creditor will subscribe for the Capitalisation Shares at the Issue Price which will be set-off against the entire sum of the outstanding Loan owing by the Company to the Creditor on a dollar-to-dollar basis by execution of a deed of set-off upon Closing. The Creditor will waive all other interests that may be accrued during the period from 1 August 2023 to the Closing Date.

Capitalisation Shares

An aggregate of 2,102,817,178 Capitalisation Shares will be allotted and issued, credited as fully paid, by the Company to the Creditor under the Debt Capitalisation.

Assuming there will be no change in the issued share capital of the Company from the date of the Agreement and up to the Closing Date, the Capitalisation Shares represent (i) approximately 19.61% of the issued share capital of the Company as of the date of this announcement; and (ii) approximately 16.40% of the issued share capital of the Company as enlarged by the allotment and issue of the Capitalisation Shares.

Issue Price

The Issue Price of HK\$0.01 per Capitalisation Share represents:

- (i) the same price as the closing price of the Share quoted on the Stock Exchange on the Last Trading Day and the average of the closing prices of the Share as quoted on the Stock Exchange for the last five trading days, the last 10 trading days or the last 30 trading days up to and including the Last Trading Day of HK\$0.01 per Share; and
- (ii) a discount of approximately 88.1% to the net asset value of the Company of approximately HK\$0.085 per Share calculated based on the unaudited consolidated net asset value attributable to the Shareholders of approximately HK\$908.6 million as at 31 December 2022 and 10,721,666,832 Shares then in issue.

The Issue Price was arrived at after arm's length negotiation between the Company and the Creditor taking into account the prevailing market price and trading volume of the Shares as well as the current market conditions.

The Directors note that the Issue Price represents a deep discount of approximately 88.1% to the net asset value attributable to the Shareholders as at 31 December 2022. However, during the 180 trading days since May 2022 up to the Last Trading Day (not including the days on which the trading in the Shares were suspended between 3 October 2022 and 5 May 2023), the Shares had been consistently traded at deep discounts to the net asset value attributable to the Shareholders, with discounts ranging from approximately 78.9% to 88.9%. The Directors are of the view that this may indicate that investors might not have valued the Shares based on the underlying value of the Group's assets. Accordingly, having considered the business development of the Group and prevailing market conditions, the Directors consider that the Issue Price is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

There will be no cash proceeds arising from the allotment and issue of the Capitalisation Shares as the amount of the total Issue Price will be fully set off against the Loan owing by the Company to the Creditor on a dollar-to-dollar basis. The Group will use its internal resources to settle the professional fees and all related expenses which may be borne by the Company in connection with the Debt Capitalisation.

Conditions precedent

The Closing is subject to and conditional upon the fulfilment of the following conditions:

- (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Capitalisation Shares, and not having withdrawn or revoked such grant and permission; and
- (ii) the Company having obtained all the necessary approvals and permission for the Agreement and the transactions contemplated thereunder.

All the above conditions are not waivable. As at the date of this announcement, none of the conditions has been fulfilled.

If the above conditions are not fulfilled on or before 22 August 2023 (or such later date as may be agreed between the parties in writing), the Agreement shall cease and terminate and neither parties shall have any claim against the other for compensation save for any antecedent breach of the Agreement.

Closing

The Closing shall take place on the third Business Day after the date upon which all the aforesaid conditions have been fulfilled, or at such other date as the parties may agree in writing, and at the principal place of business of the Company in Hong Kong or such venue as the parties may agree.

Ranking of the Capitalisation Shares

The Capitalisation Shares, when issued and fully paid, will rank *pari passu* in all respects among themselves and with all other Shares in issue at the time of allotment and issue of the Capitalisation Shares.

General Mandate

The Capitalisation Shares will be allotted and issued under the general mandate (the “**General Mandate**”) granted by the Shareholders at the annual general meeting of the Company held on 20 July 2023, pursuant to which the Directors may exercise all powers of the Company to allot, issue and otherwise deal with up to 2,144,333,366 Shares, representing 20% of the issued share capital of the Company as at the date of that annual general meeting. As at the date of this announcement, no Shares have been allotted and issued pursuant to the General Mandate. Accordingly, 2,144,333,366 Shares remain available for allotment and issue under the General Mandate which is sufficient for the issue of the Capitalisation Shares. As a result, the allotment and issue of the Capitalisation Shares is not subject to further approval by the Shareholders.

Following the allotment and issue of the Capitalisation Shares, there will be 41,516,188 Shares remained for allotment and issue under the General Mandate.

Listing application

An 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 Capitalisation Shares.

EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming there will be no change in the issued share capital of the Company from the date of the Agreement and up to the Closing Date save for the allotment and issue of the Capitalisation Shares and the Creditor will not hold any other Shares save for the Capitalisation Shares on the Closing Date, the effect on the shareholding structure of the Company as a result of the Debt Capitalisation will be as follows:

Name of Shareholders	As at the date of this announcement		Immediately after the allotment and issue of the Capitalisation Shares	
	<i>Number of Shares</i>	<i>Approximate shareholding percentage (%)</i>	<i>Number of Shares</i>	<i>Approximate shareholding percentage (%)</i>
Leung Chung Shan	4,233,534,364	39.48%	4,233,534,364	33.01%
Lim Kim Chai	1,569,420,951	14.64%	1,569,420,951	12.24%
Hong Kong Zhongzheng Investment Co. Ltd	1,259,861,773	11.75%	1,259,861,773	9.82%
The Creditor	–	–	2,102,817,178	16.40%
Other public shareholders	3,658,849,744	34.13%	3,658,849,744	28.53%
Total	10,721,666,832	100.00%	12,824,484,010	100.00%

REASONS FOR AND BENEFITS OF THE DEBT CAPITALISATION

As mentioned in the section headed “Background” above, the Loan was first drawn down by the Company from the Creditor on 30 March 2021 and had become due after the one-year repayment period. During that time, the Company had been undergoing a proposed disposal of the entire issued capital of Hong Kong Zhongzheng City Investment Limited (the “Disposal”), and part of the proceeds therefrom was intended to be applied for the settlement of the outstanding Loan. However, the completion of the Disposal had been delayed. Consequently on 4 November 2022, the Creditor agreed to extend the repayment date of the Loan to 31 December 2023. As announced by the Company on 7 January 2023, the Disposal had ultimately fallen through due to the reasons as disclosed in the same announcement. Apart from the Disposal, the Company had considered the disposal of a factory land held by the Group in Dongguan, the PRC, with the proceeds to be used partly for repayment of the Loan. However, this would involve, among others, alignment of the disposal with the need of relocating the factory and zoning policy of the local government, which might not be able to proceed in a timely fashion. In the circumstances, the Company had been in discussion with the Creditor to further extend the repayment date of the Loan to accommodate the working capital planning of the Group or to capitalise the Loan into long term equity. Through arm’s length discussions, the agreement to the Debt Capitalisation has been reached by the parties.

As disclosed in the interim report of the Company for the six months ended 31 December 2022, the bank and cash balances (not including those amount restricted in use) of the Company as at 31 December 2022 amounted to only approximately HK\$23.7 million. Further, the gearing ratio as at 31 December 2022 calculated by dividing total debt and borrowings by total equity was approximately 151.3%. Considering the liquidity and the financial position of the Group, the Directors consider that the Debt Capitalisation would enable the Group to settle the outstanding Loan without utilizing existing financial resources and thereby avoid substantial cash outflow. The Directors are also of the view that, while reducing the overall gearing level of the Group, the Debt Capitalisation allows the Group to preserve as much liquidity as possible, and hence strengthens the financial position of the Group.

Although the allotment and issue of the Capitalisation Shares will have a dilutive effect to the existing Shareholders, having considered that (i) the Debt Capitalisation can alleviate the repayment and settlement pressure of the Group which will be due within a short period of time; (ii) the Loan will be converted into equity of the Company which in turn will enlarge the capital base of the Company; and (iii) the financial effect of the Debt Capitalisation will be to reduce the gearing ratio and enhance the net asset position of the Group, the Directors are of the view that, on balance, the dilutive effect arising from the allotment and issue of the Capitalisation Shares is justifiable.

In view of the above, the Directors consider that the terms of the Agreement are fair and reasonable and on normal commercial terms, and the entering into of the Agreement and the Debt Capitalisation are in the interests of the Company and the Shareholders as a whole.

INFORMATION OF THE COMPANY

The Company is an investment holding company. The Group is principally engaged in manufacturing and trading of healthcare and household products, money lending business and coal mining business, primary land development and property development in the PRC.

EQUITY FUND RAISING ACTIVITIES IN THE PAST 12 MONTHS

The Company has not conducted any equity fund raising activity in the past 12 months immediately preceding the date of this announcement.

The Closing is conditional upon the fulfilment of all the conditions set out in the section headed “The Agreement – Conditions precedent” in this announcement, which may or may not be fulfilled. Accordingly, the Debt Capitalisation and the allotment and issue of the Capitalisation Shares may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the following meanings when used herein:

“Agreement”	the subscription agreement dated 1 August 2023 between the Company and the Creditor relating to, among others, the Debt Capitalisation
“Board”	the board of Directors
“Business Day”	any day (excluding Saturday, Sunday and public holidays) on which banks are generally open for business in Hong Kong
“Capitalisation Shares”	2,102,817,178 new Shares to be allotted and issued by the Company to the Creditor, each a Capitalisation Share
“Closing”	completion of the allotment and issue of the Capitalisation Shares and the Debt Capitalisation
“Closing Date”	date of the Closing
“Company”	Zhongzheng International Company Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 943)

“Creditor”	Mr. Yang Bin, an Independent Third Party
“Debt Capitalisation”	the capitalisation of the Loan by way of allotment and issue of the Capitalisation Shares to set-off against the entire sum of the Loan
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons (as defined in the Listing Rules)
“Issue Price”	HK\$0.01 per Capitalisation Share
“Last Trading Day”	31 July 2023, being the last trading day of the Shares prior to the date of the Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	the outstanding loan principal and the interests accrued thereof owing by the Company to the Creditor
“PRC”	the People’s Republic of China, which for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Share(s)”	ordinary share(s) of HK\$0.00004 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares

“Stock Exchange” The Stock Exchange of Hong Kong Limited

“%” per cent.

By order of the Board
Zhongzheng International Company Limited
Liu Liyang
Executive Director

Hong Kong, 1 August 2023

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Leung Chung Shan, Mr. Tam Lup Wai, Franky and Mr. Liu Liyang; one non-executive Director, namely Mr. Lim Kim Chai, J.P.; and three independent non-executive Directors, namely Mr. Hau Chi Kit, Mr. Leung Chi Hung and Mr. Li Hon Kuen.