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HUAJUN INTERNATIONAL GROUP LIMITED

華君國際集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 377)

CONNECTED TRANSACTION — ISSUE OF CONVERTIBLE BOND UNDER SPECIFIC MANDATE

ISSUE OF CONVERTIBLE BOND

On 22 January 2020 (after trading hours), the Company entered into a conditional Subscription Agreement with CHG, the substantial shareholder of the Company, pursuant to which the Company has conditionally agreed to issue and CHG has conditionally agreed to subscribe the Convertible Bond in the principal amount of HK\$1,000,000,000 at the Issue Price.

The Convertible Bond carries the right to convert into the Conversion Shares at the Conversion Price of HK\$38.00 per Conversion Share (subject to adjustment). Assuming the Conversion Rights are exercised in full at the Conversion Price, 26,315,789 new Shares, being the Conversion Shares, may be allotted and issued to CHG subject to the Conversion Restriction, representing approximately 42.76% of the issued share capital of the Company as at the date of this announcement and approximately 29.95% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares, assuming that there are no other changes in the share capital of the Company from the date of this announcement to the Completion Date. The Conversion Shares will be allotted and issued under the Specific Mandate to be approved by the Independent Shareholders at the SGM.

IMPLICATIONS UNDER LISTING RULES

As at the date of this announcement, CHG is the substantial shareholder of the Company which holds 44,450,619 Shares, representing approximately 72.23% of the total issued share capital of the Company, and is ultimately wholly and beneficially owned by Mr. Meng. Accordingly, the Subscription constitutes a connected transaction of the Company subject to the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules by way of poll at the SGM. CHG, Mr. Meng and their respective associates are required to abstain from voting on the resolutions in respect of the Subscription at the SGM. To the best of the Directors' information, belief and knowledge having made all reasonable enquiry, save for CHG, Mr. Meng and their respective associates, no other Shareholders have any material interest in the Subscription and the grant of the Specific Mandate. Mr. Meng has also abstained from voting on the resolutions passed by the Board to approve the Subscription Agreement and the transactions contemplated thereunder.

GENERAL

An Independent Board Committee will be established to make recommendation to the Independent Shareholders regarding the Subscription Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bond. The Independent Financial Adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription and the grant of the Specific Mandate.

The SGM will be convened and held for the Independent Shareholders to consider, and if thought fit, to approve the Subscription and the grant of the Specific Mandate.

A circular containing, amongst other things, (i) further information of the Subscription; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Subscription Agreement and issue of the Convertible Bond; (iii) the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription, the Subscription Agreement and the issue of the Convertible Bond; and (iv) details of the Specific Mandate together with notice of the SGM, is expected to be despatched to the Shareholders on or before 28 February 2020, as the Company requires more time to prepare the relevant information to be included in the circular.

Completion is subject to the fulfillment and/or waiver (as the case may be) of the Conditions set out in the Subscription Agreement and therefore may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

ISSUE OF CONVERTIBLE BOND

On 22 January 2020 (after trading hours), the Company entered into a conditional Subscription Agreement with CHG, the substantial shareholder of the Company, pursuant to which the Company has conditionally agreed to issue, and CHG has conditionally agreed to subscribe for, the Convertible Bond in the principal amount of HK\$1,000,000,000 at the Issue Price.

Subscription Agreement

Date : 22 January 2020 (after trading hours)

Parties : Issuer: The Company

Subscriber: CHG

As at the date of this announcement, CHG holds 44,450,619 Shares, representing approximately 72.23% of the total issued share capital of the Company, and is ultimately wholly and beneficially owned by Mr. Meng. Mr. Meng, is the chairman, an executive Director and a substantial shareholder of the Company. Accordingly, CHG is a connected person of the Company under the Listing Rules.

Subject matter

Pursuant to the Subscription Agreement, the Company conditionally agreed to issue, and CHG conditionally agreed to subscribe for, the Convertible Bond in the principal amount of HK\$1,000,000,000 at the Issue Price.

Conversion Price

The Conversion Price of HK\$38.00 per Conversion Share, representing:

- (a) a premium of approximately 192.31% over the closing price of HK\$13.00 per Share as quoted on the Stock Exchange on 22 January 2020, being the date of the Subscription Agreement;
- (b) a premium of approximately 208.94% over the closing price of HK\$12.30 per Share as quoted on the Stock Exchange on Last Trading Date; and
- (c) a premium of approximately 204.49% over the average closing price of HK\$12.48 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days immediately prior to the Last Trading Date.

The Convertible Bond carries the right to convert into the Conversion Shares at the Conversion Price of HK\$38.00 per Conversion Share (subject to adjustment). Assuming the Conversion Rights are exercised in full at the Conversion Price, 26,315,789 new Shares, being the Conversion Shares, may be allotted and issued to CHG subject to the Conversion Restrictions, representing approximately 42.76% of the issued share capital of the Company as at the date of this announcement and approximately 29.95% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares, assuming that there are no other changes in the share capital of the Company from the date of this announcement to the Completion Date. The details of the shareholdings are set out in the paragraph headed “EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY” below.

The Conversion Shares will be allotted and issued under the Specific Mandate to be approved by the Independent Shareholders at the SGM.

Basis of the Conversion Price

The Conversion Price was arrived at after arm’s length negotiations between the Company and CHG with reference to the prevailing market prices of the Shares as shown above. The Directors (other than (i) Mr. Meng, who had abstained from voting at the relevant resolution of the Board meeting and will abstain from voting on the relevant resolutions at the SGM; and (ii) the independent non-executive Directors who will form an opinion after taken into consideration of the recommendation from the Independent Financial Advisor) consider the Conversion Price and the terms and conditions of the Subscription Agreement are fair and reasonable based on the current market conditions and in the interests of the Company and Shareholders as a whole.

Conditions precedent

Completion of the Subscription Agreement is conditional upon the fulfilment of the following Conditions:

- (a) the granting of the listing of, and permission to deal in, the Conversion Shares by the Listing Committee of the Stock Exchange;
- (b) the Independent Shareholders having passed the resolutions to approve the Subscription Agreement, the transactions contemplated thereunder and the allotment and issue of the Conversion Shares under the Specific Mandate, and such approval not having been amended and having remained fully effective; and
- (c) any necessary approval, confirmation, waiver or consent by the relevant bodies or other third parties as required relating to the issue of the Convertible Bond having been obtained.

Conditions (a) and (b) are non-waivable. If any of the Conditions cannot be fulfilled (or waived, as the case may be) on or before 30 June 2020 or such later date as agreed between the Company and CHG, the Subscription Agreement will lapse and the parties thereto shall be released from all obligations thereunder, save for the liabilities for any antecedent breaches of the terms of the Subscription Agreement.

Completion

Completion of the Subscription Agreement shall take place within 10 Business Days after the fulfillment (or waiver, as the case may be) of all Conditions.

The Issue Price shall be payable by CHG to the Company on the Completion Date in cash or by setting off with the same amount of, unsecured and interest free, loan owed by the Company to CHG.

CONVERTIBLE BOND

Principal terms of the Convertible Bond

Principal terms of the Convertible Bond are arrived at after arm's length negotiations between the Company and the CHG and are summarised as follows:

Issuer:	the Company
Principal Amount:	HK\$1,000,000,000
Conversion Price:	HK\$38.00 per new Share, subject to adjustment
Maturity Date:	the date falling on the fifth anniversary from the date of issue of the Convertible Bond
Interest:	interest-free

Redemption:

At Maturity

all outstanding principal amount of the Convertible Bond which have not been redeemed or converted in accordance with the conditions set out in the Instrument by the Maturity Date will be automatically redeemed by the Company on the Maturity Date at a redemption amount equal to 100% of the principal amount of such Convertible Bond, unless the Bondholders request for full conversion of their Convertible Bond

Conversion Rights:

each Bondholder shall have the right, exercisable during the Conversion Period, to convert the whole or any part (in multiples of HK\$1,000,000) of the outstanding principal amount of the Convertible Bond held by such Bondholder into such number of Shares as will be determined by dividing the principal amount of the Convertible Bond to be converted by the Conversion Price and no fraction of a Share shall be issued on conversion

Conversion Restrictions:

Conversion shall be subject to the following further conditions:

- (a) any exercise of Conversion Rights shall not trigger any mandatory offer under Rule 26 of the Takeovers Code, and in any event, any exercise of Conversion Rights shall not render the Company no longer maintain the minimum public float of the Shares required under the Listing Rules upon the Conversion;
- (b) any exercise of Conversion Rights shall be subject to all applicable laws, rules and regulations, including but not limited to the Listing Rules and the Takeovers Code; and
- (c) any conversion shall be in denominations and integral amounts of HK\$1,000,000.

The above restrictions are collectively referred to as the “**Conversion Restrictions**”.

Transferability: the Convertible Bond (nor any part thereof) can be transferred without the prior written consent of the Company, save and except to a connected person of the Company

any transfer of any Convertible Bond shall be in respect of the whole or any part (in an amount not less than HK\$1,000,000 or such other amount to be agreed by the Company) of the outstanding principal amount of that Convertible Bond

Ranking: the obligations of the Company arising under the Convertible Bond constitute general, unsecured and unsubordinated obligations of the Company and rank equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable law. Conversion Shares, when issued, shall rank pari passu in all respects with all other existing Shares in issue at the date of conversion

Adjustment Events: the Conversion Price shall be subject to adjustment upon occurrence of the following:

- (a) consolidation and subdivision; and
- (b) capitalisation of profits or reserves.

Application of Listing

No listing of the Convertible Bond will be sought from the Stock Exchange or any other stock exchange.

An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares that may be allotted and issued upon conversion of the Convertible Bond.

INFORMATION OF CHG

As advised by CHG, CHG is a company incorporated in British Virgins Islands with limited liabilities and its principal activity is investment holding. CHG is a connected person of the Company under the Listing Rules as disclosed above in this announcement.

EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

As at the date of this announcement, the Company has 61,543,075 Shares in issue. Assuming there are no other changes to the issued share capital of the Company from the date of this announcement to the Completion Date, set out below is the shareholding structure of the Company (i) as at the date of this announcement; (ii) immediately following the Completion and assuming full conversion of the Convertible Bond into Conversion Shares and all existing convertible bonds issued by the Company remain outstanding; and (iii) immediately following the Completion and assuming full conversion of all existing convertible bonds issued by the Company having been converted into new shares of the Company:

	(i) As at the date of this announcement		(ii) Immediately following the Completion and assuming full conversion of the Convertible Bond into Conversion Shares and all existing convertible bonds issued by the Company remain outstanding		(iii) Immediately following the Completion and assuming full conversion of all existing convertible bonds issued by the Company having been converted into new Shares of the Company	
	No. of Shares	Approximate %	No. of Shares	Approximate %	No. of Shares	Approximate %
Substantial Shareholder						
CHG	44,450,619	72.23%	70,766,408	80.55%	102,482,197	81.34%
Mr. Meng (Note 1)	799,560	1.30%	799,560	0.91%	799,560	0.64%
Sub-total	45,250,179	73.53%	71,565,968	81.46%	103,281,757	81.98%
Holder of existing convertible bonds (Note 2)	-	-	-	-	6,411,764	5.09%
Other public shareholders	16,292,896	26.47%	16,292,896	18.54%	16,292,896	12.93%
Total	61,543,075	100.00%	87,858,864	100.00%	125,986,417	100.00%

Note

1. Apart from 799,560 Shares held by Mr. Meng directly, Mr. Meng is also personally holding 387,351 share options. For further details of the said share options granted, please refer to the announcements of the Company dated 7 February 2017 and 5 December 2017.
2. As at the date of this announcement, the conversion rights attaching to the existing convertible bonds issued by the Company had yet been exercised and the existing convertible bonds have not yet been converted into new Shares.

The above shareholdings of the Company set out in the above table are for illustration purpose only. As one of the Conversion Restrictions is that any exercise of Conversion Rights shall not trigger any mandatory offer under Rule 26 of the Takeovers Code, and in any event, any exercise of Conversion Rights shall not render the Company no longer maintain the minimum public float of the Shares required under the Listing Rules upon the Conversion, the collective shareholding in the Company held by Mr. Meng, CHG and their respective associates shall never reach more than 75%.

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION AND USE OF NET PROCEEDS

The Company is an investment holding company. The principal activities of the Group are: (i) sale and manufacturing of high quality multi-colour packaging products, carton boxes, books, brochures and other paper products; (ii) trading and logistics; (iii) provision of financial services; (iv) property development and investments; and (v) manufacturing, processing and sales of photovoltaic products.

Mr. Meng, through CHG and/or his other associates, has from time to time provided interest free and unsecured financial assistance to the Company. Such arrangement is exempted financial assistance to the Company and is fully exempted from the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Although the allotment and issue of Conversion Shares might dilute the shareholding interests of the existing public Shareholders in the Company in future, the collective shareholding in the Company held by Mr. Meng, CHG and their respective associates shall never reach more than 75% as the Conversion Rights are subject to Conversion Restrictions. Furthermore, by way of allotment and issue of Conversion Shares, the Company's gearing ratio will be decreased accordingly. The Company has considered alternative debt financing. However, the use of debt financing may (i) create immediate additional interest burden to the Group, which might affect the Group's financial performance; (ii) involve provision of security ; (iii) subject to, including but not limited to, lengthy due diligence exercise due to investigation by the lending banks on pledged assets, if required, and negotiations with the banks with regards to the Group's financial position and capital structure; and (iv) the then prevailing stock market condition, the Directors consider that debt financing might be uncertain and time consuming in compared to the issue of Convertible Bond to CHG for financing of the operation of the Company.

The net proceeds from the Subscription will be approximately HK\$999,500,000 and are expected to be used with details as follow:

Use of proceeds	Approximate amount (in HK\$)
(i) Repayment of borrowings	537,600,000
(ii) Capital expenditure for high-end printing and packaging production base in Jiangsu (For details, please refer to the announcements published by the Company on 15 May 2019, 6 June 2019, 3 July 2019 and 18 July 2019)	168,000,000
(iii) General working capital	<u>293,900,000</u>
Total:	<u>999,500,000</u>

The net issue price, after deduction of the relevant expenses, is approximately HK\$37.98 per Conversion Share.

The Directors, excluding (i) Mr. Meng, who had abstained from voting on the relevant resolutions at the board meeting and will be abstained from voting on the relevant resolutions at the SGM; and (ii) the independent non-executive Directors whose view will be provided after taking into account the opinion and advice from the Independent Financial Adviser, consider that the terms of the Subscription Agreement including the term for issue of the Convertible Bond, are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE-MONTH PERIOD IMMEDIATELY PRECEDING THE DATE OF THIS ANNOUNCEMENT

During the past 12 months immediately preceding the date of this announcement, the Company has conducted the following equity fund raising activities:

Date of announcement	Event	Net Proceeds (approximately)	Intended use of proceed	Actual use of proceeds
16 August 2019	Issue of convertible bonds under specific mandate	Approximately HK\$995,500,000	<p>Repayment of borrowings in the sum of HK\$537,600,000</p> <p>Capital expenditure for high-end printing and packaging production base in Jiangsu (For details, please refer to the announcements published by the Company on 15 May 2019, 6 June 2019, 3 July 2019 and 18 July 2019)</p> <p>Construction of logistics center and commercials on the land successfully bid by the Group (For details of the bidding of the land by the Group through the Listing-for-Sale, please refer to the announcement published by the Company on 29 March 2019)</p> <p>General working capital</p>	Not applicable as the transaction was lapsed on 31 December 2019

IMPLICATIONS UNDER LISTING RULES

As at the date of this announcement, CHG is the substantial shareholder of the Company which holds 44,450,619 Shares, representing approximately 72.23% of the total issued share capital of the Company, and is ultimately wholly and beneficially owned by Mr. Meng. Accordingly, the Subscription constitutes a connected transaction of the Company subject to the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules by way of poll at the SGM. CHG, Mr. Meng and their respective associates are required to abstain from voting on the resolutions in respect of the Subscription at the SGM. To the best of the Directors' information, belief and knowledge having made all reasonable enquiry, save for CHG, Mr. Meng and their respective associates, no other Shareholders have any material interest in the Subscription and the grant of the Specific Mandate. Mr. Meng has also abstained from voting on the resolutions passed by the Board to approve the Subscription Agreement and the transactions contemplated thereunder.

GENERAL

An Independent Board Committee will be established to make recommendation to the Independent Shareholders regarding the Subscription Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bond. The Independent Financial Adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription and the grant of the Specific Mandate.

The SGM will be convened and held for the Independent Shareholders to consider, and if thought fit, to approve the Subscription and the grant of the Specific Mandate.

A circular containing, amongst other things, (i) further information of the Subscription; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Subscription Agreement and issue of the Convertible Bond; (iii) the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription, the Subscription Agreement and the issue of the Convertible Bond; and (iv) details of the Specific Mandate together with notice of the SGM, is expected to be despatched to the Shareholders on or before 28 February 2020, as the Company requires more time to prepare the relevant information to be included in the circular.

Completion is subject to the fulfillment and/or waiver (as the case may be) of the Conditions set out in the Subscription Agreement and therefore may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

DEFINITIONS

Unless otherwise specified, the following terms have the following meanings in this announcement:

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Bondholder(s)”	the holder(s) of the Convertible Bond
“Business Day(s)”	a day (excluding Saturday or Sunday and any day on which a tropical cyclone warning No. 8 or above is hoisted or remains hoisted or a “black” rainstorm warning signal is hoisted or remains in effect between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong and PRC are generally open for business

“CHG”	China Huajun Group Limited, a company incorporated in the British Virgin Islands and a controlling Shareholder (as defined under the Listing Rules) of the Company, which is ultimately wholly-owned by Mr. Meng
“Company”	Huajun International Group Limited (華君國際集團有限公司) (stock code: 377), a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Subscription pursuant to the terms and conditions of the Subscription Agreement
“Completion Date”	the date on which the Completion takes place in accordance with the Subscription Agreement, which is within ten (10) Business Days after the date of fulfilment (or waiver, as the case may be) of the last of the Conditions (or such other date as the Company and CHG shall agree in writing)
“Condition(s)”	the conditions precedent of the Subscription Agreement as set out in the paragraph headed “Conditions precedent” in this announcement
“connected person”	has the meaning ascribed to it under the Listing Rules
“Conversion Period”	the period commencing from the date of issue of the Convertible Bond and ending on the date which falls on the Business Day immediately before Maturity Date, both dates inclusive
“Conversion Price”	the conversion price of HK\$38.00 per Conversion Share
“Conversion Rights”	the conversion rights attaching to the Convertible Bond to convert the principal amount or a part there of into Conversion Shares
“Conversion Share(s)”	the 26,315,789 new Shares which may fall to be allotted and issued to CHG at the Conversion Price, credited as fully paid, upon full exercise of the Conversion Rights by CHG
“Convertible Bond”	convertible bond in the aggregate principal amount of HK\$1,000,000,000 to be issued by the Company, pursuant to the Subscription Agreement

“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“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, formed for the purpose of advising the Independent Shareholders
“Independent Financial Adviser”	the independent financial adviser to be appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription
“Independent Shareholders”	Shareholders other than those who are required by the Listing Rules to abstain from voting on the resolutions approving the Subscription Agreement, the transactions contemplated thereunder and the issue of the Convertible Bond and Conversion Shares under the Specific Mandate
“Issue Price”	the issue price of the Convertible Bond, which shall be 100% of the principal amount of the Convertible Bond
“Last Trading Date”	21 January 2020, being the last trading day immediately before the entering into the Subscription Agreement
“Listing Committee”	has the meaning ascribed to it in the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	the date falling on the fifth anniversary from the date of issue of the Convertible Bond
“Mr. Meng”	Mr. Meng Guang Bao (孟廣寶), the chairman, an executive Director and a substantial shareholder (as defined under the Listing Rules) of the Company

“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“SFC”	the Securities and Futures Commission
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, approve the Subscription and the grant of the Specific Mandate
“Share(s)”	ordinary share(s) of HK\$1.00 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Specific Mandate”	the specific mandate for the allotment and issue of the Conversion Shares to be granted to the Directors by the Independent Shareholders at the SGM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the convertible bond in the aggregate principal amount of HK\$1,000,000,000 by CHG pursuant to the Subscription Agreement
“Subscription Agreement”	the Subscription Agreement dated 22 January 2020 entered into by CHG and the Company in respect of the Subscription
“Takeovers Code”	the Code on Takeovers and Mergers published by the SFC from time to time
“%”	per cent.
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

By order of the Board
Huajun International Group Limited
Tam Ka Lung
Company Secretary

Hong Kong, 22 January 2020

As at the date of this announcement, the Board comprises Mr. Meng Guang Bao, Ms. Zhang Ye, Mr. Guo Song and Mr. Zeng Hongbo as executive Directors; and Mr. Zheng Bailin, Mr. Shen Ruolei and Mr. Pun Chi Ping as independent non-executive Directors.

If there is any inconsistency in this announcement between the Chinese and English versions, the English version shall prevail.