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FOREBASE INTERNATIONAL HOLDINGS LIMITED

申基國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 2310)

CONNECTED TRANSACTION LOAN CAPITALISATION INVOLVING ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE

THE LOAN CAPITALISATION

On 12 October 2018 (after trading hours of the Stock Exchange), the Company entered into the Loan Capitalisation Agreement with Mr. Shen pursuant to which the Company has conditionally agreed to allot and issue to Mr. Shen (or his designated nominee), and Mr. Shen has conditionally agreed to subscribe for 123,648,678 Loan Capitalisation Shares at the issue price of HK\$0.342 per Loan Capitalisation Share. The subscription amount payable by Mr. Shen under the Loan Capitalisation Agreement shall be satisfied by capitalising the entire Indebted Amount.

Assuming that there will be no change in the number of issued Shares between the date of this announcement and Completion, the Loan Capitalisation Shares, in aggregate represent (i) approximately 22.63% of the existing issued share capital of the Company as at the date of this announcement; and (ii) approximately 18.45% of the issued share capital of the Company as enlarged by the allotment and issue of the Loan Capitalisation Shares.

LISTING RULES IMPLICATION

Mr. Shen is an executive Director, the chairman and the ultimate Controlling Shareholder of the Company. Accordingly, Mr. Shen is a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the Loan Capitalisation constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules, Rules, and is subject to the reporting, announcement and Independent Shareholders' approval requirements.

Given that Mr. Shen has material interest in the Loan Capitalisation, Mr. Shen and his associates including Ultra Harvest Limited, Magic Blazes Limited, Ms. Meng Qing and Mr. Shen Ke are therefore required to abstain from voting on the relevant resolution(s) to be proposed at the EGM to approve the Loan Capitalisation Agreement and the transactions contemplated thereunder (including the allotment and issue of the Loan Capitalisation Shares under the Specific Mandate). Mr. Shen, being the Director, had abstained from voting on the Board resolutions for approving the Loan Capitalisation Agreement and the transactions contemplated thereunder.

The Independent Board Committee has been established to advise the Independent Shareholders as to whether the terms of the Loan Capitalisation Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms or better and in the interests of the Company and the Independent Shareholders as a whole. The Company will appoint an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

GENERAL

The EGM will be convened and held for the purpose of considering and, if thought fit, approving the Loan Capitalisation and the grant of the Specific Mandate for the allotment and issue of the Loan Capitalisation Shares.

A circular containing details of the Loan Capitalisation Agreement and a notice convening the EGM are expected to be despatched to the Shareholders on or before 5 November 2018.

BACKGROUND OF THE LOAN CAPITALISATION

Mr. Shen Yong (“Mr. Shen”), an executive Director, the chairman and the ultimate Controlling Shareholder of the Company, has provided the Loan to the Company as a support to the Company’s business and daily operation. The Loan is unsecured and carry interest of 1.3% per annum. As at the date of the Loan Capitalisation Agreement, the Company is indebted to Mr. Shen a total amount of HK\$42,287,848 comprising outstanding amount of the Loan and accrued interest up to the date of the Loan Capitalisation Agreement.

On 12 October 2018 (after trading hours of the Stock Exchange), the Company entered into the Loan Capitalisation Agreement with Mr. Shen pursuant to which the Company has conditionally agreed to allot and issue to Mr. Shen (or his designated nominee), and Mr. Shen has conditionally agreed to subscribe for 123,648,678 Loan Capitalisation Shares at the issue price of HK\$0.342 per Loan Capitalisation Share. The subscription amount payable by Mr. Shen under the Loan Capitalisation Agreement shall be satisfied by capitalising the entire Indebted Amount.

THE LOAN CAPITALISATION AGREEMENT

Detail terms of the Loan Capitalisation Agreement are as follows:

Date : 12 October 2018 (after trading hours of the Stock Exchange)

Parties : the Company (as issuer); and
Mr. Shen (as subscriber)

Mr. Shen is an executive Director, the chairman and the ultimate Controlling Shareholder of the Company. As at the date of this announcement, Mr. Shen together with his associates, are interested in 318,337,637 Shares, representing approximately 58.26% of the total issued share capital of the Company.

Loan Capitalisation Shares

Pursuant to the Loan Capitalisation Agreement, the Company has conditionally agreed to allot and issue to Mr. Shen (or his designated nominee), and Mr. Shen has conditionally agreed to subscribe for, 123,648,678 Loan Capitalisation Shares at the issue price of HK\$0.342 per Loan Capitalisation Share. The subscription amount payable by Mr. Shen under the Loan Capitalisation Agreement shall be satisfied by capitalising the entire Indebted Amount.

Assuming that there will be no change in the number of issued Shares between the date of this announcement and Completion, the Loan Capitalisation Shares, in aggregate represent:

- (i). approximately 22.63% of the existing issued share capital of the Company as at the date of this announcement; and
- (ii). approximately 18.45% of the issued share capital of the Company as enlarged by the allotment and issue of the Loan Capitalisation Shares.

Issue Price

The issue price of HK\$0.342 per Loan Capitalisation Share represents:

- (i). a premium of approximately 3.64% over the closing price of HK\$0.330 per Share as quoted on the Stock Exchange on the date of this announcement; and
- (ii). equivalent to the average closing price of HK\$0.342 per Share as quoted on the Stock Exchange for the five consecutive trading days of the Shares immediately preceding the date of this announcement.

The Issue Price was determined after arm's length negotiation between the Company and Mr. Shen with reference to the prevailing market prices of the Shares. The Directors (excluding Mr. Shen who had abstained from voting at the Board resolutions approving the Loan Capitalisation Agreement and the transactions contemplated thereunder and the independent non-executive Directors who will express their views after considering the advice from the independent financial adviser to be appointed) consider that the terms of the Loan Capitalisation Agreement (including the Issue Price) are fair and reasonable based on the current market conditions and in the interests of the Company and the Shareholders as a whole.

The net Issue Price, after deduction of relevant expenses, is estimated to be approximately HK\$0.338 per Loan Capitalisation Share.

Ranking of the Loan Capitalisation Shares

The Loan Capitalisation Shares when allotted and issued, shall rank pari passu in all respects with the Shares in issue on the date of their allotment and issue.

Application for listing

An application will be made by the Company to the Listing Committee of the Stock Exchange for the grant of the listing of, and permission to deal in, the Loan Capitalisation Shares.

Specific Mandate

The Loan Capitalisation Shares will be allotted and issued under the Specific Mandate proposed to be sought from the Independent Shareholders at the EGM.

Conditions precedent

Completion is conditional upon fulfillment of the following conditions:

- (i) the passing by the Independent Shareholders at the EGM to be convened and held, of the necessary resolutions to approve the Loan Capitalisation Agreement and the transaction contemplated thereunder (including but not limited to the allotment and issue of the Loan Capitalisation Shares under the Specific Mandate);
- (ii) the Listing Committee of the Stock Exchange granting the approval for the listing of, and permission to deal in, the Loan Capitalisation Shares and such approval and permission having not subsequently been revoked prior to the commencement of dealings in the Loan Capitalisation Shares on the Stock Exchange;
- (iii) the allotment, issue and subscription of the Loan Capitalisation Shares not being prohibited by any statute, order, rule, regulation, ruling, directive or request promulgated or issued after the date of the Loan Capitalisation Agreement by any legislative, executive or regulatory body or authority (including the Stock Exchange and the Securities and Futures Commission) which is applicable to the Company; and
- (iv) all necessary consents and approvals required to be obtained on the part of the Company in respect of the Loan Capitalisation Agreement and the transactions contemplated thereby having been obtained.

None of the above-mentioned conditions is waivable. If any of the above-mentioned conditions are not fulfilled on or before 23 November 2018 (or such other time and date as the parties shall agree in writing), any party to the Loan Capitalisation Agreement may, at any time thereafter, terminate the Loan Capitalisation Agreement by notice in writing to the other party, whereupon the obligations of the parties under the Loan Capitalisation Agreement shall forthwith cease and terminate and neither the Company nor Mr. Shen shall have any claim against the other party, save for any antecedent breach thereof.

Completion

Completion shall take place on the day following the fifth Business Day after the fulfillment of the conditions precedent (or such other date to be agreed by the parties).

REASONS FOR THE LOAN CAPITALISATION

The Group is principally engaged in hotel operation, properties development and provision of property management services.

The Directors consider that the Loan Capitalisation will allow the Company to settle the Indebted Amount without utilising existing financial resources of the Company while reducing the gearing level of the Group and hence can strengthen the financial position of the Group.

In view of the above, the Directors (excluding Mr. Shen who had abstained from voting at the Board resolutions approving the Loan Capitalisation Agreement and the transactions contemplated thereunder and the independent non-executive Directors who will express their views after considering the advice from the independent financial adviser to be appointed) consider that the terms of the Loan Capitalisation Agreement is on normal commercial terms or better and that the entering into of the Loan Capitalisation Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not conducted any equity fund raising activities in the past twelve months immediately before the date of this announcement.

EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (a) as at the date of this announcement; and (b) immediately after Completion (assuming there will be no other change in the issued share capital of the Company other than the allotment and issue of the Loan Capitalisation Shares):

	As at the date of this announcement		Immediately after Completion	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
Ultra Harvest Limited (Note 1)	235,162,125	43.04	235,162,125	35.10
Magic Blazes Limited (Note 2)	68,229,512	12.49	68,229,512	10.18
Mr. Shen Yong (Note 3)	3,936,000	0.72	127,584,678	19.04
Mr. Shen Ke (Note 4)	5,510,000	1.01	5,510,000	0.82
Ms. Meng Qing (Note 5)	5,500,000	1.01	5,500,000	0.82
Public Shareholders	228,070,706	41.73	228,070,706	34.04
Total	546,408,343	100	670,057,021	100

Note(s):

1. Ultra Harvest Limited is owned as to 51% by Mr. Shen Yong, 39% by Mr. Wang Yuqiang and 10% by Mr. Shen Ke.
2. Magic Blazes Limited is a wholly-owned subsidiary of Ultra Harvest Limited.
3. Mr. Shen Yong is the chairman of the Company and an executive Director.
4. Mr. Shen Ke the son of Mr. Shen Yong.
5. Ms. Meng Qing is the spouse of Mr. Shen Yong.

LISTING RULES IMPLICATION

Mr. Shen is an executive Director, the chairman and the ultimate Controlling Shareholder of the Company. Accordingly, Mr. Shen is a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the Loan Capitalisation constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules, Rules, and is subject to the reporting, announcement and Independent Shareholders' approval requirements.

Given that Mr. Shen has material interest in the Loan Capitalisation, Mr. Shen and his associates including Ultra Harvest Limited, Magic Blazes Limited, Ms. Meng Qing and Mr. Shen Ke are therefore required to abstain from voting on the relevant resolution(s) to be proposed at the EGM to approve the Loan Capitalisation Agreement and the transactions contemplated thereunder (including the allotment and issue of the Loan Capitalisation Shares under the Specific Mandate). Mr. Shen, being the Director, had abstained from voting on the Board resolutions for approving the Loan Capitalisation Agreement and the transactions contemplated thereunder.

The Independent Board Committee has been established to advise the Independent Shareholders as to whether the terms of the Loan Capitalisation Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms or better and in the interests of the Company and the Independent Shareholders as a whole. The Company will appoint an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

GENERAL

The EGM will be convened and held for the purpose of considering and, if thought fit, approving the Loan Capitalisation and the grant of the Specific Mandate for the allotment and issue of the Loan Capitalisation Shares.

A circular containing details of the Loan Capitalisation Agreement and a notice convening the EGM are expected to be despatched to the Shareholders on or before 5 November 2018.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday or a Sunday) on which banks are generally open for business in Hong Kong
“Company”	Forebase International Holdings Limited (申基國際控股有限公司) (stock code: 2310), a company incorporated in Hong Kong with limited liability and the issued shares of which are listed on the Main Board of the Stock Exchange
“Completion”	the completion of the Loan Capitalisation in accordance with the terms and conditions of the Loan Capitalisation Agreement
“connected person(s)”	has the same meaning ascribed thereto under the Listing Rules
“Controlling Shareholder”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, among other things, the Loan Capitalisation Agreement and the transactions contemplated thereunder (including the allotment and issue of the Loan Capitalisation Shares under the Specific Mandate)
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Indebted Amount”	the amount owing by the Company to Mr. Shen in an aggregate amount of HK\$42,287,848 as at the date of the Loan Capitalisation Agreement comprising outstanding amount of the Loan and accrued interest up to the date of the Loan Capitalisation Agreement
“Independent Board Committee”	the independent board committee of the Company comprising all independent non-executive Directors, namely Dr. LOKE Yu (alias Loke Hoi Lam), Mr. YU Lei and Mr. Ernst Rudolf ZIMMERMANN, to advise the Independent Shareholders on the Loan Capitalisation

“Independent Shareholders”	Shareholders other than Ultra Harvest Limited, Magic Blazes Limited, Mr. Shen Yong, Ms. Meng Qing and Mr. Shen Ke, together with their respective associates who are required by the Listing Rules to abstain from voting on the resolutions approving the Loan Capitalisation Agreement and the transactions contemplated respectively thereunder
“Issue Price”	the issue price of HK\$0.342 per Loan Capitalisation Share for the Loan Capitalisation
“Listing Committee”	has the meaning ascribed to it under the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	pursuant to a loan agreement executed by the Company and Mr. Shen on 31 March 2017, an unsecured loan in the principal amount of HK\$71,250,412.09 granted by Mr. Shen to the Company which carry interest of 1.3% per annum and will be due on 31 December 2018
“Loan Capitalisation”	the allotment and issue of 123,648,678 Loan Capitalisation Shares at the issue price of HK\$0.342 per Loan Capitalisation Share to Mr. Shen (or his designated nominee) by capitalising the Indebted Amount pursuant to the Capitalisation Agreement
“Loan Capitalisation Agreement”	the loan capitalisation agreement dated 12 October 2018 entered into between the Company and Mr. Shen in respect of the Loan Capitalisation
“Loan Capitalisation Shares”	new Shares to be allotted and issued to Mr. Shen (or his designated nominee) pursuant to the Loan Capitalisation Agreement
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Share(s)”	ordinary share(s) in the issued share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Specific Mandate”	the mandate to be granted to the Directors to allot and issue the Loan Capitalisation Shares at the EGM

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency for the time being of Hong Kong
“%” or “per cent.”	percentage or per centum

By order of the Board
Forebase International Holdings Limited
SHEN YONG
Chairman

Hong Kong, 12 October 2018

As at the date hereof, the executive Directors of the Company are Mr. SHEN Yong and Mr. GAN Lin; the non-executive Director of the Company is Mr. HUANG Xiang Yang and the independent non-executive Directors of the Company are Dr. LOKE Yu (alias Loke Hoi Lam), Mr. YU Lei and Mr. Ernst Rudolf ZIMMERMANN.