THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in the Company, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

ZHENGYE INTERNATIONAL HOLDINGS COMPANY LIMITED
正業國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 3363)

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE EQUITY INTEREST IN THE TARGET COMPANY AND NOTICE OF THE SGM

Financial Adviser to the Company

Lego Corporate Finance Limited
力高企業融資有限公司

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

RAINBOW.
RAINBOW CAPITAL (HK) LIMITED
浤 博 資 本 有 限 公 司

Capitalised terms used on this cover page have the same meaning as defined in this circular, unless the context requires otherwise.

A letter from the Board is set out on pages 5 to 17 of this circular. A letter of advice from the Independent Board Committee is set out on pages 18 and 19 to this circular. A letter of advice of Rainbow Capital, the Independent Financial Adviser, containing its opinion and advice to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 36 of this circular.

A notice convening the SGM to be held at SOHO 2, 6/F, No. 28 Des Voeux Road West, Sheung Wan, Hong Kong on 11 January 2022, Tuesday at 3:00 p.m. is set out on pages SGM-1 to SGM-3 of this circular.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

PRECAUTIONARY MEASURES FOR THE SGM

Please see page ii of this circular for measures being taken to try to prevent and control the spread of the COVID-19 at the SGM, including:

- compulsory temperature check and health declaration
- mandatory wearing of face mask
- prohibit attendance at the SGM if the attendee has a fever. Persons exhibiting flu-like symptoms may also be refused admittance
- prohibit attendance at the SGM if the attendee is subject to any prescribed quarantine by the Hong Kong Government or has close contact with any person under quarantine
- no distribution of corporate gift and/or refreshments served at the SGM

Any person who does not comply with these precautionary measures may be denied entry into the SGM venue. The Company encourages attendees (even without flu-like symptoms) to wear surgical masks and reminds Shareholders that they may vote by proxy or appoint the chairman of the meeting as their proxy to vote on the relevant resolutions at the SGM as an alternative to attending the SGM in person.

Hong Kong, 23 December 2021

CONTENTS

In view of the Coronavirus Disease 2019 ("**COVID-19**") situation, the Company will be taking the following precautionary measures at the SGM:

- All attendees will be required to undergo a temperature check and sign a health declaration form before entering the SGM venue.
- Every attendee is required to wear a face mask at any time within the SGM venue.
- Any person who has a fever will not be permitted to attend the SGM. Persons exhibiting flu-like symptoms may also be refused admittance at the Company's discretion.
- Any person who is subject to any prescribed quarantine by the Hong Kong Government or has close contact with any person under quarantine will be denied entry into or be required to leave the SGM venue at the Company's discretion.
- There will be no distribution of corporate gift and/or refreshments at the SGM.

Shareholders who are feeling unwell or have been placed on leave of absence on the date of the SGM are advised not to attend the SGM.

Shareholders who prefer not to attend or are restricted from attending the SGM, may still vote by proxy or appoint the chairman of the SGM as their proxy to vote on the relevant resolutions and are advised to take note of the last date and time for the lodgement of the proxy form.

As the COVID-19 situation continues to evolve, the Company will closely monitor the situation and reserves the right to take further measures as appropriate in order to minimise any risk to Shareholders and others attending the SGM and to comply with any requirements or recommendations of any government agencies from time to time.

The Company seeks the understanding and cooperation of all Shareholders to minimise the risk of community spread of COVID-19.

The SGM will commence sharply at 3:00 p.m., and Shareholders are encouraged to arrive at the SGM venue at least half an hour prior to the meeting commencement time to avoid delays from precautionary measures mentioned above in the registration process.

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

"Acquisition"	the transfer of the entire equity interest in the Target Company from the Vendors to the Purchaser pursuant to the Sale and Purchase Agreement
"associates"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"Business Day(s)"	a day(s) (other than a Saturday or Sunday) on which licensed banks in Hong Kong and the PRC are generally open for normal banking business
"Company"	Zhengye International Holdings Company Limited (正業國際控股有限公司), a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 3363)
"Completion"	the completion of the Acquisition pursuant to the terms of the Sale and Purchase Agreement
"Completion Date"	the fifth Business Day after the fulfilment (or waiver, where applicable) of all conditions precedent under the Sale and Purchase Agreement and the payment of the first instalment of the Consideration by the Purchaser, or such other date as the Purchaser and the Vendors may agree in writing
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Consideration"	the consideration payable by the Purchaser to the Vendors in relation to the Acquisition under the Sale and Purchase Agreement
"controlling shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"Director(s)"	the director(s) of the Company
"Enlarged Group"	the Group as enlarged by the Acquisition immediately upon Completion
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, 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 independent non-executive Directors to advise the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder
"Independent Financial Adviser" or "Rainbow Capital"	Rainbow Capital (HK) Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the Acquisition
"Independent Shareholder(s)"	Shareholder(s) who is (are) not required to abstain from voting at the SGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder
"Latest Practicable Date"	17 December 2021, being the latest practicable date prior to the bulk printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Parties"	Parties to the Sale and Purchase Agreement
"PRC"	the People's Republic of China, which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"PRC Legal Advisers"	Beijing Jingtian & Gongcheng Law Firm (北京市競天公誠律師事務所)
"Properties"	(i) a parcel of land and an industrial building located at No. 119 Dong Cheng Road, Dong Sheng Town, Zhongshan City, Guangdong Province, the PRC, and (ii) a parcel of land and four industrial buildings located at No. 126 Dong Cheng Road, Dong Sheng Town, Zhongshan City, Guangdong Province, the PRC
"Purchaser"	Zheng Ye Packaging (Zhongshan) Company Limited (正業包裝(中山)有限公司), a company established in the PRC with limited liability and is an indirect wholly-owned subsidiary of the Company

"Sale and Purchase Agreement"	the sale and purchase agreement (as supplemented by a supplemental agreement dated 13 December 2021) dated 22 October 2021 entered into between the Vendors and the Purchaser in relation to the Acquisition
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	a special general meeting of the Company to be convened for the Independent Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the issued Shares
"Stock Exchange"	the Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed thereto under the Listing Rules
"Target Company"	Zhongshan City Zheng Ye Lease Company Limited* (中山市正業租賃有限公司), a company established in the PRC with limited liability and is owned as to 100% by the Vendors as at the Latest Practicable Date
"Transaction Agreements"	refers to the Sale and Purchase Agreement and its appendices, supplementary agreements (if any) and other legal documents signed by the Vendors, Purchaser and the Target Company individually or jointly for the purpose of completing the Acquisition under the Sale and Purchase Agreement
"Vendor A"	Hu Zheng, an executive Director
"Vendor B"	Hu Hancheng, an executive Director
"Vendor C"	Hu Hanchao, an executive Director
"Vendor D"	Hu Jianwen, the niece of Vendor A, Vendor B and Vendor C and the spouse of Mr. Chen Riyue, a non-executive Director

"Vendors"	collectively, Vendors A, B, C and D
"%"	per cent.

In this circular:

(1) *the English names of PRC nationals, entities, facilities and localities are unofficial translation or transliteration from their Chinese names and are for identification purposes only; and*

(2) *amounts denominated in RMB have been translated into HK$ at the rate of RMB0.833 = HK$1.00 for illustration purpose only.*

* *For identification purpose only*

ZHENGYE INTERNATIONAL HOLDINGS COMPANY LIMITED
正業國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 3363)

Executive Directors
Mr. Hu Zheng (Mr. Hu Jianpeng as his alternate)
Mr. Hu Hancheng (Mr. Hu Jianjun as his alternate)
Mr. Hu Hanchao (Mr. Tan Xijian as his alternate)

Non-executive Director
Mr. Chen Riyue

Independent non-executive Directors
Mr. Chung Kwok Mo John
Mr. Liew Fui Kiang
Mr. Shin Yick Fabian

Registered Office
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Place of Business in Hong Kong
Suite 2502, 25th Floor
Chinaweal Centre
414–424 Jaffe Road
Wanchai
Hong Kong

23 December 2021

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE EQUITY INTEREST IN THE TARGET COMPANY AND NOTICE OF THE SGM

INTRODUCTION

Reference is made to the announcement of the Company dated 22 October 2021 in relation to the Acquisition, pursuant to which the Purchaser (an indirect wholly-owned subsidiary of the Company) and the Vendors entered into the Sale and Purchase Agreement in respect of the entire equity interest in the Target Company.

The Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules as all of the Vendors are connected persons of the Company. As certain applicable percentage ratios in respect of the Acquisition are more than 25% but less than 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the

Listing Rules. In light of the foregoing, the Acquisition is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14 and 14A of the Listing Rules.

The purpose of this circular is to provide you with, among other things, (i) details of the Sale and Purchase Agreement; (ii) further information of the Group and the Target Company; (iii) the recommendations from the Independent Board Committee to the Independent Shareholders in respect of the Acquisition; (iv) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition; and (v) a notice of the SGM and the form of proxy.

THE SALE AND PURCHASE AGREEMENT

On 22 October 2021, the Purchaser (an indirect wholly-owned subsidiary of the Company) and the Vendors entered into the Sale and Purchase Agreement (as supplemented by a supplemental agreement dated 13 December 2021) in relation to the Acquisition, the principal terms of which are set out as follows:

Date: 22 October 2021

Parties:
(i) The Purchaser, a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company

(ii) Hu Zheng (胡正), being Vendor A

(iii) Hu Hancheng (胡漢程), being Vendor B

(iv) Hu Hanchao (胡漢朝), being Vendor C

(v) Hu Jianwen (胡健雯), being Vendor D

As at the Latest Practicable Date, Vendor A, Vendor B and Vendor C, each of whom an executive Director, holds 51%, 25% and 20% of equity interest in the Target Company, respectively. Vendor D, who holds 4% of the equity interest in the Target Company, is the niece of Vendor A, Vendor B and Vendor C and the spouse of Mr. Chen Riyue, a non-executive Director. As such, all of the Vendors are connected persons of the Company.

Assets to be acquired

Pursuant to the Sale and Purchase Agreement, the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the entire equity interest in the Target Company.

As detailed in Appendix IV to this circular, the transaction is accounted for as an asset acquisition instead of a business combination. The assets to be acquired mainly include the Properties and one motor vehicle.

Consideration

The aggregate Consideration for the Acquisition is RMB186,000,000 (equivalent to approximately HK$223,289,316), which shall be satisfied by the Purchaser by instalments in the following manner:

(a) the first instalment of RMB57,660,000, representing 31% of the Consideration, shall be paid in cash before 31 January 2022, of which RMB24,273,000 shall be paid to Vendor A, RMB14,415,000 shall be paid to Vendor B, RMB11,532,000 shall be paid to Vendor C, and RMB7,440,000 shall be paid to Vendor D;

(b) the second instalment of RMB37,200,000, representing 20% of the Consideration, shall be paid in cash before 31 December 2022, of which RMB20,460,000 shall be paid to Vendor A, RMB9,300,000 shall be paid to Vendor B and RMB7,440,000 shall be paid to Vendor C;

(c) the third instalment of RMB46,500,000, representing 25% of the Consideration, shall be paid in cash before 31 December 2023, of which RMB25,575,000 shall be paid to Vendor A, RMB11,625,000 shall be paid to Vendor B and RMB9,300,000 shall be paid to Vendor C; and

(d) the fourth instalment of RMB44,640,000, representing 24% of the Consideration, shall be paid in cash before 31 December 2024, of which RMB24,552,000 shall be paid to Vendor A, RMB11,160,000 shall be paid to Vendor B and RMB8,928,000 shall be paid to Vendor C.

The Purchaser agreed to pay interest to the Vendors in respect of the unpaid amount of the Consideration, based on the medium and long-term interest rate level announced by the People's Bank of China (five-year loan prime rate). As an indicative reference, the five-year loan prime rate has remained at 4.65% since April 2020 up to the Latest Practicable Date. The Purchaser shall calculate and pay all the interest payable for the current year before 31 January of each year. Taxes and fees payable due to the collection of interest shall be borne by the Vendors, and shall be withheld and paid at the time of payment by the Purchaser. The Vendors agreed not to request the Target Company to declare any dividend to them after the date of the Sale and Purchase Agreement, either by cash or any other means. In the event a dividend or any other form of distribution is actually received by any Vendor, such Vendor shall unconditionally credit or transfer any such distribution to the Purchaser.

The Consideration was arrived at after arm's length negotiations between the Vendors and the Purchaser with reference to a preliminary business valuation (the "**Preliminary Valuation**") of 100% equity interest in the Target Company of RMB186,409,580 (equivalent to approximately HK$223,781,010) as at 30 September 2021 (the "**Valuation Date**"), which is based on the equitable value of the net assets of the Target Company as appraised by Valor Appraisal & Advisory Limited (the "**Valuer**"), an independent valuer, using predominantly the cost approach. The finalised business valuation report is set out in Appendix VI to this circular.

The Board's view on the competency and independence of the Valuer

The Directors have considered the competence and independence of the Valuer before engaging the Valuer. Having considered that (i) the Valuer is an experienced advisory and valuation firm in the Greater China Region based on its track records; and (ii) the person in charge of the appraisal has over 10 years of experience in financial valuation and business consulting in Hong Kong and the PRC, the Directors believe that the Valuer has sufficient qualification, reputation and experience in performing the appraisal of the Target Company and the Properties and has the relevant expertise and adequate resources to perform its role as an independent valuer properly. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the Valuer is independent from the Group, the Vendors, the Target Company and their respective connected persons.

Key assumptions adopted in the valuation of each of the motor vehicle and the Properties, and the Board's assessment on their fairness and reasonableness

In undertaking the valuation of the Properties and the assets and liabilities of the Target Company (which include, among others, a motor vehicle), the Valuer have made certain valuation assumptions. For details of the key assumption adopted by the Valuer in respect of the Properties and the assets and liabilities of the Target Company, please refer to the paragraphs headed 'Valuation Assumptions' in Appendix V to this circular and the paragraphs headed 'Key Assumptions' in Appendix VI to this circular, respectively.

In valuing the Properties, the Valuer has adopted the depreciated replacement cost approach instead of the market approach, due to the lack of market information on the Properties. Under the depreciated replacement cost approach, the Valuer considers the replacement costs of the subject assets with allowances of accrued depreciation based on their expected useful life and maintenance condition. In particular, in valuing the land parcels, the Valuer has made reference to comparable sales transaction of other lands located near to the subject land, with adjustments made in respect of the remaining terms of land use rights. In valuing the motor vehicle, the Valuer has adopted market approach, which takes into account the sales prices recently paid for similar assets in the second-hand market.

The Board understands from the Valuer that the above methodologies in valuing major assets and liabilities of the Target Company are common methodologies used in establishing the valuation of those major assets under cost valuation approach. Based on the discussion with the Valuer, the Board has not identified any major factors which cause it to doubt the fairness and reasonableness of the principal bases and assumptions used in arriving at their valuation.

The Valuer's selection criteria of the comparables for each of the motor vehicle and the Properties, and the Board's assessment on their fairness and reasonableness

In respect of the motor vehicle, having discussed with the Valuer regarding the selection of comparable transactions, the Directors understand that the comparable transactions were selected mainly with reference to the following selection criteria: (i) recent public available transaction prices for the period from 1 January 2021 to 30 September 2021 of second-hand motor vehicles; (ii) same brand and model and carrying capacity; and (iii) similar ex-factory date and with mileage information available. Having considered the comparable transactions selected by the Valuer, the Directors are of the view that the comparable transactions have suitably similar characteristics to the subject motor vehicle and were recently transacted and constitute a fair and representative sample for direct assessment and comparison. Hence, the Board is of the view that the selection criteria in the valuation of the motor vehicle is fair and reasonable.

In respect of the Properties, having discussed with the Valuer regarding the selection of comparable sales transactions, the Directors understand that the comparable sales transactions were selected mainly with reference to the following selection criteria: (i) located in the same city; (ii) similar size and industrial usage; and (iii) transacted within 2021. Having considered the comparable sales transactions selected by the Valuer, the Directors are of the view that the comparable transactions have suitably similar characteristics to the subject land parcels and were recently transacted and constitute a fair and representative sample for assessment and comparison. Hence, the Board is of the view that the selection criteria in the valuation of the land parcels is fair and reasonable.

The Vendors undertook that the difference in net asset value of the Target Company as at the Completion Date and that as at the Valuation Date shall not be more than RMB0.5 million. In the event that the net asset value of the Target Company as at the Completion Date is lower than that as at the Valuation Date for more than RMB0.5 million, the Vendors agreed to adjust the Consideration to reflect the portion of the difference that exceeds RMB0.5 million through reducing the amount payable in the first instalment of the Consideration. On the other hand, if the net asset value of the Target Company as at the Completion Date is higher than that as at the Valuation Date, no adjustment to the Consideration will be made.

The Consideration will be financed by internal resources of the Group, banking facilities and/or other borrowings.

Upon completion of the transfer of all the shares in the Target Company to the Purchaser, the Vendors will cease to hold any equity interest in the Target Company, and the Target Company will be owned as to 100% by the Group. Accordingly, the Target Company will become an indirect wholly-owned subsidiary of the Company. The Target Company's financial results will be consolidated into the Group's consolidated financial statements upon the completion of the first stage of the share transfer, whereby 51% of its shares will be transferred to the Purchaser.

The Directors (including the independent non-executive Directors whose views have been set out in this circular together with the advice of the Independent Financial Adviser but excluding the Directors who are required to abstain from voting) consider that the Consideration to be fair and reasonable and on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Conditions Precedent

Completion is conditional upon the fulfillment (or where applicable, waiver thereof by the Purchaser) of the following conditions:

(1) the registered capital of the Target Company has been fully paid up, and there is no overstated or false capital contribution or withdrawal of contributed capital;

(2) the warranties given by the Vendors contained in the Sale and Purchase Agreement remaining true, accurate and complete;

(3) there are no laws which would reasonably be expected to prohibit, restrict or cancel the Acquisition under the Sale and Purchase Agreement or judgments, rulings, awards, injunctions or orders of government departments and the Stock Exchange, nor are there any pending litigations, arbitrations, judgments, rulings, injunctions or orders that have or will adversely affect the Acquisition;

(4) the Vendors having provided the Purchaser with all the authorisations, approvals and/or filings of various government departments necessary for the completion of the Acquisition with the content and in the format satisfactory to the Purchaser; and in terms of notification to government departments (if any) or other third parties in relation to the Acquisition, the Target Company and the Vendors having completed the relevant notification;

(5) the Acquisition and other matters in relation thereto having been approved by the board of directors and shareholders of the Target Company;

(6) the Independent Shareholders passing the ordinary resolution at the SGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder;

(7) the Target Company and the Vendors having signed and delivered to the Purchaser the original Transaction Agreements where the Target Company and the Vendors are named as parties and have reached an agreement, including the Sale and Purchase Agreement;

(8) there being no material adverse change in respect of the assets, business, operating conditions and industry of the Target Company since the date of the Sale and Purchase Agreement;

(9) there are no (and no event indicates that there are) claims filed by or against the Target Company or Vendors that attempt to restrict the Acquisition or has a material adverse effect on the conditions of the Acquisition, and, according to the reasonable judgment of the Purchaser, such claim may make the completion of the Acquisition impossible or illegal; there are also no (and no event indicates that there are) claims filed by or brought against any subject that will have a material adverse effect on any company or its business or assets;

(10) the Target Company having signed employment agreements (if applicable) and confidentiality and non-competition agreements with key employees in the format and with contents satisfactory to the Purchaser; and

(11) the PRC Legal Advisers appointed by the Purchaser having issued a legal opinion on the authenticity and completeness of the Target Company.

If the conditions precedent to the Sale and Purchase Agreement are not fulfilled or waived by the Purchaser on or before 15 January 2022, the Purchaser may, at its option and without prejudice to the rights of the Purchaser, designate another date on or before which the conditions precedent have to be fulfilled, or terminate the Sale and Purchase Agreement.

As at the Latest Practicable Date, except conditions precedent numbered 1, 4, 5, 7 and 10 which have been fulfilled, none of the above conditions precedent has been fulfilled or waived.

Completion

Completion shall take place on the fifth Business Day after the fulfilment (or waiver, where applicable) of all conditions precedent under the Sale and Purchase Agreement and the payment of the first instalment of the Consideration by the Purchaser, or such other date as the Purchaser and the Vendors may agree in writing. Without prejudice to the rights of the Purchaser, each of the conditions precedent (other than those which are mandatory requirements under the laws of the PRC and the requirement relating to the approval by Independent Shareholders, namely conditions precedent numbered 2, 4, 5, 6 and 7 in the paragraph headed "Conditions Precedent" above) may be waived by the Purchaser in its sole and absolute discretion. On the Completion Date, the Vendors shall deliver to the Purchaser all signed documents necessary for completing the registration for the change in shareholding of the Target Company in relation to the Acquisition. Based on the information available to the Parties as at the Latest Practicable Date, Completion is expected to take place on or before 31 January 2022.

Pursuant to the Sale and Purchase Agreement, the Vendors will conduct the registration of the transfer of shares in the Target Company under the Acquisition in three stages as follows:

(a) Before 28 February 2022, the Vendors shall register the transfer of 51% equity interest in the Target Company, among which, 24.05%, 12.75%, 10.20% and 4.00% of the equity interest in the Target Company will be transferred by Vendor A, Vendor B, Vendor C and Vendor D, respectively;

(b) Before 31 January 2024, the Vendors (other than Vendor D) shall register the transfer of 25% equity interest in the Target Company, among which, 13.75%, 6.25% and 5.00% of the equity interest in the Target Company will be transferred by Vendor A, Vendor B and Vendor C, respectively; and

(c) Before 31 January 2025, the Vendors (other than Vendor D) shall register the transfer of 24% equity interest in the Target Company, among which, 13.20%, 6.00% and 4.80% of the equity interest in the Target Company will be transferred by Vendor A, Vendor B and Vendor C, respectively.

If there are changes to the timeline for subsequent registrations, the timeline as agreed between both parties shall prevail.

In order to ensure that the Purchaser will pay the remaining three instalments of the Consideration after Completion in accordance with the Sale and Purchase Agreement, the Purchaser shall, within 15 days after completing the registration of the transfer of 51% equity interest in the Target Company, or within any other time limit as agreed between the Parties, pledge to the Vendors the 51% equity interest in the Target Company as guarantee. Within seven days after the Purchaser has paid the Vendors the total amount of the Consideration for the entire equity interest in the Target Company, or any other time limit as agreed between the Parties, the Vendors shall cooperate with the Purchaser to complete the cancellation of registration for the aforementioned share pledge.

The Vendors shall repay in full any amount due to the Target Company (RMB890,491.38 as at 30 September 2021), which were advances made to the Vendors by the Target Company for their family and general living expenses, and were non-trade in nature, before the completion of the registration of the transfer of the 51% equity interest in the Target Company as set out in (a) above.

INFORMATION OF THE PURCHASER, THE COMPANY AND THE GROUP

The Purchaser is a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company, principally engaged in the manufacturing and operating of paper-based packaging products, packaging related business and printing of decorative packaging products.

The Company is the holding company of the Group which is listed on the Main Board of the Stock Exchange. The Group is principally engaged in the manufacture and sale of paper, paperboard and paper-based packaging products.

INFORMATION OF THE VENDORS

Vendor A is the chairman and executive Director and one of the founders of the Company. Vendor A is the brother of Vendor B and Vendor C and uncle of Vendor D. As at the Latest Practicable Date, Vendor A indirectly holds approximately 38.25% of the entire issued Shares.

Vendor B is the co-chairman of the Company and executive Director. Vendor B is the brother of Vendor A and Vendor C and uncle of Vendor D. As at the Latest Practicable Date, Vendor B indirectly holds approximately 18.75% of the entire issued Shares.

Vendor C is an executive Director. Vendor C is the brother of Vendor A and Vendor B and uncle of Vendor D. As at the Latest Practicable Date, Vendor C indirectly holds approximately 15% of the entire issued Shares.

Vendor D is the niece of Vendor A, Vendor B and Vendor C and the spouse of Mr. Chen Riyue, a non-executive Director. As at the Latest Practicable Date, Vendor D indirectly holds approximately 3% of the entire issued Shares.

INFORMATION OF THE TARGET COMPANY

The Target Company is principally engaged in real estate leasing and property management. It was established by Vendor C and his father in November 1995. As at the date of the Sale and Purchase Agreement, it has a registered capital of RMB1,000,000. The assets of the Target Company include, among others, the Properties. As detailed in the paragraph headed "Reasons for and benefits of the Acquisition" below, the Purchaser has been leasing the premises for its business operations from the Target Company.

As at the Latest Practicable Date, the Target Company is owned as to 100% by the Vendors. Vendors A, B, C and D holds 51%, 25%, 20% and 4% of the equity interest of the Target Company respectively. Vendors A, B and C are executive Directors.

The Vendors will cease to hold any equity interest in the Target Company after the completion of the transfer of all the shares in the Target Company to the Purchaser and the Target Company will be owned as to 100% by the Group.

The followings are the summary of audited financial information of the Target Company for the three years ended 31 December 2020 and the six months ended 30 June 2020 and 2021 as extracted from the accountants' report of the Target Company set out in Appendix II to this circular:

	For the year ended 31 December			**For the six months ended 30 June**	
	2018	**2019**	**2020**	**2020**	**2021**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Turnover	5,677	5,723	6,028	3,022	2,998
Profit before tax	3,325	1,864	2,090	1,083	1,119
Profit after tax	2,494	1,728	1,930	1,025	1,082

As at 30 June 2021, the Target Company has audited net asset value of approximately RMB15.3 million.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company. The Target Company's financial results will be consolidated into the Group's consolidated financial statements upon the completion of the first stage of the share transfer, whereby 51% of its shares will be transferred to the Purchaser. Upon completion of the share transfer in full, the Purchaser will hold as to 100% of the Target Company. Please refer to Appendix IV to this circular for more information on the basis of preparation of the unaudited pro forma financial information of the Enlarged Group. The pro forma financial information of the Enlarged Group has been prepared based on the judgments and assumptions of the Directors for illustrative purposes only. It may not reflect the true financial position of the Enlarged Group as at 30 June 2021 or any future date due to its hypothetical nature.

Earnings

As set out in the accountants' report on the Target Company in Appendix II to this circular, the net profit after tax of the Target Company for the three years ended 31 December 2020 and for the six months ended 30 June 2020 and 2021 were approximately RMB2,494,000, RMB1,728,000, RMB1,930,000, RMB1,025,000 and RMB1,082,000, respectively. Following Completion, barring any unforeseen circumstances, as all the revenue from the Target Company represents the rental income from the Group, it is expected that the Enlarged Group will be able to save the rental expenses on a consolidated basis, whereas the Enlarged Group is also expected to incur interest expenses on the unpaid Consideration upon Completion until the end of December 2024.

Assets and Liabilities

Based on the unaudited pro forma financial information as set out in Appendix IV to this circular, assuming that the Completion had taken place on 30 June 2021, (i) the total assets of the Enlarged Group would have decreased from approximately RMB3,052,736,000 to approximately RMB3,045,186,000; (ii) the total liabilities of the Enlarged Group would have decreased from approximately RMB1,795,539,000 to approximately RMB1,787,442,000; and (iii) the net assets of the Enlarged Group would have increased from approximately RMB1,257,197,000 to approximately RMB1,257,744,000, in each case on a pro forma basis.

The details of the financial effect of the Acquisition on the financial position together with the bases and assumptions taken into account in preparing the unaudited pro forma financial information are set out, for illustration purposes only, in Appendix IV to this circular.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Purchaser, the main core operating entity of the packaging division of the Company, has been leasing the premises for its business operations from the Target Company which is ultimately controlled by the controlling shareholders of the Company since the listing of the Company. As the main business premises of the Purchaser is not owned within the Group, the leasing of the business premises from the Target Company constitutes a continuing connected transaction of the Company. This has caused certain difficulties and increased the administrative inefficiencies in terms of independent operation, development and expansion, and the financing of the business of the Purchaser. Therefore, the Acquisition aims to consolidate the Target Company into the Group, so as to reduce the Group's dependence on the assets of the controlling shareholders of the Company. The Directors also consider that, given the overall trend of increasing market rent in the surrounding area of the premises, the Group will benefit from the Acquisition as it will enable the Group to save rental expenses in the long run.

In view of the above, the Directors (including the independent non-executive Directors whose views have been set out in this circular together with the advice of the Independent Financial Adviser but excluding the Directors who are required to abstain from voting) believe that the terms of the Acquisition are fair and reasonable and on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, Vendor A, Vendor B and Vendor C, each of whom being an executive Director, holds 51%, 25% and 20% of equity interest in the Target Company, respectively. Vendor D, who holds 4% of the equity interest in the Target Company, is the niece of Vendor A, Vendor B and Vendor C and the spouse of Mr. Chen Riyue, a non-executive Director. As such, all of the Vendors are connected persons of the Company. Hence, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As certain applicable percentage ratios in respect of the Acquisition are more than 25% but less than 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules.

In light of the foregoing, the Acquisition is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, has been established to give recommendations to the Independent Shareholders in respect of the Acquisition. Rainbow Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the Acquisition.

Vendor A, Vendor B and Vendor C, being connected Directors and Mr. Chan Riyue, who is the spouse of Vendor D and considered to have a material interest in the Acquisition, have abstained from voting on the resolutions of the Board for approving the Acquisition. Save as disclosed above, none of the Directors has any material interest in the Acquisition.

As at the Latest Practicable Date, (i) Vendor A indirectly holds 191,250,000 Shares, representing approximately 38.25% of the total issued Shares, (ii) Vendor B indirectly holds 93,750,000 Shares, representing approximately 18.75% of the total issued Shares, (iii) Vendor C indirectly holds 75,000,000 Shares, representing approximately 15% of the total issued Shares, and (iv) Vendor D indirectly holds 15,000,000 Shares, representing approximately 3%

of the total issued Shares. The Vendors and their respective associates shall abstain from voting on the resolutions to be proposed at the SGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

SGM

Set out on pages SGM-1 to SGM-3 of this circular is a notice convening the SGM to be held at SOHO 2, 6/F, No. 28 Des Voeux Road West, Sheung Wan, Hong Kong on 11 January 2022, Tuesday at 3:00 p.m. at which the relevant resolutions will be proposed at the SGM to approve, among other things, the Sale and Purchase Agreement and the transaction contemplated thereunder. The resolutions proposed to be approved at the SGM will be taken by poll and an announcement on the results of the SGM will be made by the Company after the SGM.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, there is (i) no voting trust nor other agreement nor arrangement nor understanding entered into or binding upon any Shareholders; and (ii) no obligation nor entitlement of any Shareholder as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

In accordance with the Listing Rules, the Vendors and their respective associates shall abstain from voting on the resolutions to be proposed at the SGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder. Save as disclosed above, no Shareholder has a material interest in the Sale and Purchase Agreement that is required to abstain from voting and being counted towards the quorum on the relevant resolutions at the SGM.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Mr. Chung Kwok Mo John, Mr. Liew Fui Kiang and Mr. Shin Yick Fabian, being all independent non-executive Directors, has been formed to advise the Independent Shareholders as to the fairness and the reasonableness of the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder and as to how to vote at the SGM.

Rainbow Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder.

The Independent Board Committee, having taken into account the advice and recommendation of Rainbow Capital, consider that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable and on normal commercial terms and is in the best interests of the Company and the Shareholders as a whole, and accordingly recommends the Independent Shareholders to vote in favour of the ordinary resolutions which will be proposed at the SGM for approving the Sale and Purchase Agreement and the transactions contemplated thereunder.

RECOMMENDATION

The Board (including the independent non-executive Directors composing the Independent Board Committee but excluding the Directors who are required to abstain from voting), having taken into account the reasons set out in the paragraph headed "Reasons for and Benefits of the Acquisition" above and the recommendations of the Independent Board Committee and the Independent Financial Adviser, considers that entering into of the Sale and Purchase Agreement is in the ordinary course of business of the Group and that the terms therein are determined on an arm's length basis among the relevant parties and are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolutions which will be proposed at the SGM for approving the Sale and Purchase Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 18 and 19 of this circular which contains its views in relation to the Sale and Purchase Agreement; and (ii) the letter from the Independent Financial Adviser set out on pages 20 to 36 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Sale and Purchase Agreement and the principal factors and reasons considered by it in arriving at its opinions.

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By order of the Board
Zhengye International Holdings Company Limited
Hu Zheng
Chairman

ZHENGYE INTERNATIONAL HOLDINGS COMPANY LIMITED
正業國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 3363)

23 December 2021

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE EQUITY INTEREST IN THE TARGET COMPANY

We refer to the circular of the Company dated 23 December 2021 (the "**Circular**") to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members to form the Independent Board Committee and to advise you as to whether, in our opinion, the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Rainbow Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in these respects. Details of its advice, together with the principal factors and reasons taken into consideration in arriving at such advice, are set out on pages 20 to 36 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 5 to 17 of the Circular and the additional information set out in the appendices of the Circular.

Having considered the terms of the Sale and Purchase Agreement, the principal factors and reasons considered by, and the advice and recommendation of the Independent Financial Adviser, we are of the opinion that (i) the terms of the Sale and Purchase Agreement are on normal commercial terms or better which are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into of the Sale and Purchase Agreement, while not in the ordinary and usual course of business of the Group, is in the interest of the

Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Sale and Purchase Agreement.

Yours faithfully,
Independent Board Committee of
Zhengye International Holdings Company Limited

Chung Kwok Mo John	**Liew Fui Kiang**	**Shin Yick Fabian**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the full text of a letter of advice from Rainbow Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

RAINBOW.

RAINBOW CAPITAL (HK) LIMITED
浤 博 資 本 有 限 公 司

23 December 2021

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF ENTIRE EQUITY INTEREST IN THE TARGET COMPANY

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Group's proposed acquisition of the entire equity interest in the Target Company, pursuant to the sale and purchase agreement (as supplemented by a supplemental agreement dated 13 December 2021) dated 22 October 2021. Details of the Sale and Purchase Agreement and the Acquisition are set out in the "Letter from the Board" (the "**Letter from the Board**") contained in the circular issued by the Company to the Shareholders dated 23 December 2021 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As at the Latest Practicable Date, the Target Company is wholly-owned by the Vendors, namely Vendor A, Vendor B, Vendor C and Vendor D. Amongst which, Vendor A, Vendor B and Vendor C, each of whom being an executive Director, holds 51%, 25% and 20% equity interests in the Target Company respectively, and Vendor D, who holds 4% of the equity interest in the Target Company, is the niece of Vendor A, Vendor B and Vendor C and the spouse of Mr. Chen Riyue, a non-executive Director. As such, all of the Vendors are connected persons of the Company and the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

As certain applicable percentage ratios in respect of the Acquisition are more than 25% but less than 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules. In light of the foregoing, the Acquisition is subject to the announcement, reporting and independent shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules. Since Vendor A, Vendor B, Vendor C are the controlling Shareholders and Vendor D is their niece, whom all have material interests in the Sale and

Purchase Agreement and the Acquisition, the Vendors and their respective associates will abstain from voting on the ordinary resolution to be proposed at the SGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

The Independent Board Committee, comprising Mr. Chung Kwok Mo John, Mr. Liew Fui Kiang and Mr. Shin Yick Fabian has been formed to advise the Independent Shareholders in respect of the Sale and Purchase Agreement and the Acquisition. We, Rainbow Capital, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, we did not have any relationships or interests with the Group and the Vendors that could reasonably be regarded as relevant to our independence. In the last two years, there was no engagement between the Group and us. Apart from normal professional fees paid or payable to us in connection with this appointment as the independent financial adviser, no arrangements exist whereby we had received any fees or benefits from the Group or the Vendors. Accordingly, we are qualified to give independent advice on the Sale and Purchase Agreement and the Acquisition.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, or any of its respective substantial shareholders, subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the Sale and Purchase Agreement and the Acquisition are fair and reasonable in so far as the Independent Shareholders are concerned, we have taken into account the following principal factors and reasons:

1. Background to and reasons for entering into the Sale and Purchase Agreement

(i) The Group

Listed on the Stock Exchange in June 2011, the Group is principally engaged in the production of paper-based packaging products, namely watermark cartons, colour printing cartons and honeycomb paper-based products, and manufacture of corrugated medium paper in the PRC. The Group's principal products are mainly suitable for the packaging of consumer products for well-known domestic and foreign manufacturers of air conditioners, food seasonings and consumer electronic products. In addition, it also provides comprehensive services including design, printing, logistics and other customer services to customers with integrated packaging solutions.

The following table summarises the financial information of the Group for the years ended 31 December 2019 and 2020 and the six months ended 30 June 2020 and 2021 as extracted from the annual report of the Company for the year ended 31 December 2020 (the "**2020 Annual Report**") and the interim report of the Company for the six months ended 30 June 2021 (the "**2021 Interim Report**"), respectively:

Summary of consolidated income statement

	For the years ended 31 December		**For the six months ended 30 June**	
	2020	**2019**	**2021**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	**2,493,041**	**2,367,151**	**1,609,364**	**982,522**
— *Sales of corrugated medium paper*	1,692,848	1,559,861	1,152,444	630,221
— *Sales of paper-based packaging products*	800,193	807,290	456,920	352,301
Gross profit	**390,865**	**448,813**	**303,187**	**140,098**
Profit before tax	64,931	119,180	78,880	10,578
Profit for the year/period attributable to owners of the Company	**54,772**	**82,184**	**51,633**	**8,743**

For the years ended 31 December 2019 and 2020

For the year ended 31 December 2020, revenue of the Group was approximately RMB2,493.0 million, representing an increase of approximately 5.3% as compared with the revenue of approximately RMB2,367.2 million for the year ended 31 December 2019. Such increase was mainly attributable to the increase in revenue generated from the paper making segment by approximately 8.5% from approximately RMB1,559.9 million to approximately RMB1,692.8 million, primarily due to (i) the increase in the production and sales volume of the Group after the upgrade of its two main papermaking bases in Zhongshan (the "**Zhongshan Bases**") since August 2020; and (ii) the expansion of the Group's paper making customers to other regions in the PRC after the acquisition of a Jiangxi papermaking base in March 2020. Such increase in revenue was partially offset by the slight decrease in revenue generated from the paper-based packaging products segment by approximately 0.9% from approximately RMB807.3 million to approximately RMB800.2 million, primarily due to the adverse effect of COVID-19 epidemic in the first half of 2020 which in general significantly decreased the sales order of the Group, although the domestic consumption and demand from downstream customers recovered strongly given that COVID-19 epidemic was more contained in the second half of the year.

For the year ended 31 December 2020, the profit attributable to owners of the Company was approximately RMB54.8 million, representing a decrease of approximately of 33.4% as compared with that of RMB82.2 million in the previous year, primarily attributable to (i) the increase in cost of the Group after transforming the use of gas from coal in the Zhongshan Bases, resulting from the gradual increase in standards in terms of environmental protection and ecology in paper production; and (ii) the downtime loss of some paper machine production lines equipment which underwent speed-up transformation for the Zhongshan Bases, which decreased the overall gross profit and gross profit margin of the Group.

For the six months ended 30 June 2020 and 2021

For the six months ended 30 June 2021, revenue of the Group was approximately RMB1,609.4 million, representing an increase of approximately 63.8% as compared with that of approximately RMB982.5 million for the six months ended 30 June 2020. Such increase was mainly attributable to the increase in revenue generated from (i) the paper making segment by approximately 82.9% from approximately RMB630.2 million to approximately RMB1,152.4 million, primarily due to (a) the increase in unit sales price, resulting from the sharp increase in international pulp prices and the price of waste paper driven by the international restrictions under the COVID-19 epidemic, which tighten the supply of finished raw paper; and (b) the completion of upgrade of the paper machines at the Group's three paper making bases in the first half of 2021, which significantly increased the overall sales volume of the Group; (ii) the paper-based packaging products segment by approximately 29.7% from approximately RMB352.3 million to approximately RMB456.9 million, primarily due to the general increase in sales orders as a result from the rebound in domestic customer demand after the general stabilisation of COVID- 19 epidemic.

For the six months ended 30 June 2021, the profit attributable to owners of the Company was approximately RMB51.6 million, representing an increase of approximately of 490.6% as compared with that of RMB8.7 million in the prior period, primarily attributable to the increase in revenue of the Group as discussed above.

Summary of consolidated statement of financial position

	As at 31 December		As at 30 June
	2020	**2019**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	(audited)	(unaudited)
Non-current assets	1,279,888	1,126,745	1,324,369
Current assets	1,402,887	1,297,806	1,728,367
Current liabilities	1,321,519	1,150,471	1,561,786
Non-current liabilities	171,682	149,673	233,753
Net current assets	81,368	147,335	166,581
Equity attributable to owners of the Company	965,681	925,909	1,017,314

As at 30 June 2021, total assets of the Group amounted to approximately RMB3,052.7 million, representing an increase of approximately 13.8% as compared to that as at 31 December 2020. Total assets primarily consist of (i) property, plant and equipment of approximately RMB1,080.2 million, which principally comprised the Group's plant and machineries and buildings; (ii) trade and other receivables of approximately RMB961.8 million; and (iii) bank balances and cash and pledged bank deposits in aggregate of approximately RMB530.0 million. As at 30 June 2021, property, plant and equipment, trade and other receivables, bank balances and cash and pledged bank deposits accounted for approximately 84.3% of total assets of the Group. The general increase in the equity attributable to the owners of the Company during the years/periods under review was primarily due to increase in inventories, trade and other receivables and bank balances and cash, which was in line with the business growth of the Group benefitting from the surge in unit sales price and sales volume of the Group's products as discussed above.

As at 30 June 2021, the Group had net current assets of approximately RMB166.6 million. As disclosed in the 2021 Interim Report, the net gearing ratio of the Group maintained at approximately 74.6% as compared to approximately 84.9% as at 31 December 2020.

Overall comment

In the first half of 2021, the Group's business operation has been demonstrating a promising growth. Coupled with the rebound of domestic consumption on the Group's products and the surge in international pulp prices, there has been a substantial increase in the total revenue and net profits of the Group for the period under review. As disclosed in the 2021 Interim Report, the Group intends to continue to strengthen the extension and integration of the paper packaging and papermaking industry chain and strengthen the systems for environmental protection.

(ii) The Target Company

The Target Company is established in the PRC by Vendor C and his father in November 1995, which is currently owned as to 100% by the Vendors, namely Vendor A, Vendor B, Vendor C and Vendor D, with each of them holding 51%, 25%, 20% and 4% equity interest in the Target Company, respectively. The Target Company is principally engaged in real estate leasing and property management business in the PRC. As at the Latest Practicable Date, as advised by the management of the Group, the Target Company has a registered capital of RMB1.0 million which has been fully paid up.

Since the listing, the Group has been leasing the Properties from the Target Company for its business operation. The assets of the Target Company include, among others, the Properties. The Properties, comprising two land parcels and five industrial buildings erected thereon, are situated at No. 119 and No. 126 Dong Cheng Road, Dong Sheng Town, Zhongshan city, Guangdong Province, the PRC (中國廣東省中山市東升鎮東成路119號及126號), respectively, and are currently used as one of the Group's production sites.

As disclosed in Appendix II to this Circular, during the three years ended 31 December 2020, all of the revenue of the Target Company was generated from the leasing of the Properties and the provision of management services to the Group, amounting to approximately RMB5.7 million, RMB5.7 million and RMB6.0 million, respectively. After deducting expenses which were incurred in normal business operation of the Target Company, its net profit amounted to approximately RMB2.5 million, RMB1.7 million and RMB1.9 million, respectively.

As at 30 June 2021, the Target Company had total assets of approximately RMB17.4 million. Amongst which, its investment property (mainly comprised the Properties) and other receivables (mainly comprised amounts due from the Vendors), accounted for a majority of total assets of the Target Company, amounting to approximately RMB12.3 million and RMB4.5 million, respectively. The amounts due from the Vendors were unsecured, interest free and repayable on demand. As advised by the management of the Group, as at 30 September 2021, the amounts due from the Vendors amounted to approximately RMB0.9 million.

As at 30 June 2021, the Target Company had net assets of approximately RMB15.3 million.

(iii) Reasons for and benefits of entering into the Sale and Purchase Agreement

The Group has been leasing the Properties from the Target Company, which is ultimately controlled by the controlling Shareholders, as the main production and business operation for its paper packaging business since the listing of the Company. As disclosed in the Letter from the Board, since the main business premises of the Purchaser, an indirect wholly-owned subsidiary of the Group, is not owned within the Group, the leasing of the Properties from the Target Company constitutes a continuing connected transaction of the Company. Such continuing connected transaction reduced the operating and administrative efficiency and caused certain difficulties to the Group in terms of independent operation, development and expansion.

As advised by the management of the Group, the Acquisition is expected to strengthen the Group's asset base, which is expected to facilitate the financing of the business of the Group and reduce the Group's dependence on the assets of the controlling Shareholders. From a long-term perspective, it will also help the Group in saving operating costs in view of the potential changes in rental expenses of the Properties of the Target Company.

Upon completion of the transfer of all the shares in the Target Company to the Purchaser, the Vendors will cease to hold any equity interest in the Target Company, and the Target Company will be owned as to 100% by the Group. Accordingly, the Target Company will become an indirect wholly-owned subsidiary of the Company. The Target Company's financial results will be consolidated into the Group's consolidated financial statements upon the completion of the first stage of the share transfer, whereby 51% of its shares will be transferred to the Purchaser.

Taking into account that the Acquisition (i) will consolidate the Target Company into the Group upon the completion of transfer of 51% equity interest of its share, which is expected to enhance the production capabilities of the Group and reduce the dependence from the controlling Shareholders; (ii) will enhance the Group's ability to manage, control and direct its business segments, given that the Properties as currently owned by the Target Company are located in Zhongshan city, the main production and operation sites of the Group; (iii) will reduce the rental expenses and management fees payable to the Target Company in respect of the Properties; and (iv) will allow the management of the Group to better formulate its business plan to accommodate future possible business growth, having considered the promising financial results of the Group in the first half of 2021, as disclosed in the sub-section above headed "1. (i) The Group", we are of the view that Sale and Purchase Agreement and the Acquisition are justifiable and fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Sale and Purchase Agreement

For details of the terms of the Sale and Purchase Agreement, please refer to the section headed "The Sale and Purchase Agreement" in the Letter from the Board. Set out below are the principal terms of the Sale and Purchase Agreement:

(i) Subject matters

Pursuant to the Sale and Purchase Agreement, the Purchaser (an indirect wholly-owned subsidiary of the Company) would purchase the entire equity interest of the Target Company from the Vendors. Upon Completion, the Company, through the Purchaser, will own the entire equity interest in the Target Company, and in turn the interests in the Properties.

(ii) Consideration

Pursuant to the Sale and Purchase Agreement, the Purchaser will pay to the Vendors an aggregate Consideration of RMB186.0 million (or approximately HK$223.3 million) for the acquisition of the Target Company. The Consideration was primarily arrived at by reference to a business valuation of 100% equity interest in the Target Company of approximately RMB186.4 million (or approximately HK$223.8 million) as at 30 September 2021 as appraised by Valor Appraisal & Advisory Limited (the "**Valuer**"), an independent valuer, using predominantly the cost approach.

It was further stated in the Sale and Purchase Agreement that, the Vendors undertook that the difference in book net asset value of the Target Company as at the Completion Date and that as at 30 September 2021 shall not be more than RMB0.5 million. In the event that the net asset value of the Target Company as at the Completion Date is lower than that as at the Valuation Date for more than RMB0.5 million, the Vendors agreed to decrease the Consideration to reflect the portion of the difference that exceeds RMB0.5 million through reducing the amount payable in the first instalment of the Consideration. On the other hand, if the net asset value of the Target Company as at the Completion Date is higher than that as at the Valuation Date, no adjustment to the Consideration will be made.

The Consideration will be payable by the Group in four instalments, as follows:

(a) the first instalment of RMB57,660,000, representing 31% of the Consideration, shall be paid in cash before 31 January 2022, of which RMB24,273,000 shall be paid to Vendor A, RMB14,415,000 shall be paid to Vendor B, RMB11,532,000 shall be paid to Vendor C, and RMB7,440,000 shall be paid to Vendor D;

(b) the second instalment of RMB37,200,000, representing 20% of the Consideration, shall be paid in cash before 31 December 2022, of which RMB20,460,000 shall be paid to Vendor A, RMB9,300,000 shall be paid to Vendor B and RMB7,440,000 shall be paid to Vendor C;

(c) the third instalment of RMB46,500,000, representing 25% of the Consideration, shall be paid in cash before 31 December 2023, of which RMB25,575,000 shall be paid to Vendor A, RMB11,625,000 shall be paid to Vendor B and RMB9,300,000 shall be paid to Vendor C; and

(d) the fourth instalment of RMB44,640,000, representing 24% of the Consideration, shall be paid in cash before 31 December 2024, of which RMB24,552,000 shall be paid to Vendor A, RMB11,160,000 shall be paid to Vendor B and RMB8,928,000 shall be paid to Vendor C.

The Purchaser agreed to pay interest to the Vendors in respect of the unpaid amount of the Consideration, based on the medium and long-term interest rate level announced by the People's Bank of China (five-year loan prime rate). The Purchaser shall calculate and pay all the interest payable for the current year before January 31 of each year. Taxes and fees payable due to the collection of interest shall be borne by the Vendors, and shall be withheld and paid at the time of payment by the Purchaser.

The Consideration will be financed by internal resources of the Group, banking facilities and/or other borrowings.

(iii) Conditions precedent

Completion of the Sale and Purchase Agreement is conditional upon, among others, (a) the registered capital of the Target Company has been fully paid up; (b) the warranties given by the Vendors in the Sale and Purchase Agreement remaining true, accurate and complete; (c) the Acquisition and other related matters having been approved by the board of directors and shareholders of the Target Company; and (d) approval of the Sale and Purchase Agreement by the Independent Shareholders at the SGM.

If the conditions precedent to the Sale and Purchase Agreement are not fulfilled or waived by the Purchaser on or before 15 January 2022, the Purchaser may, at its option and without prejudice to the rights of the Purchaser, designate another date on or before which the conditions precedent have to be fulfilled, or terminate the Sale and Purchase Agreement.

As at the Latest Practicable Date, except conditions precedent numbered 1, 4, 5, 7 and 10 which have been fulfilled pursuant to the Sale and Purchase Agreement, none of the above conditions precedent has been fulfilled or waived.

(iv) Completion

Completion shall take place on the fifth Business Days after the fulfilment (or waiver, where applicable) of all conditions precedent under the Sale and Purchase Agreement and the payment of the first instalment of the Consideration by the Purchaser, or such other date as the Purchaser and the Vendors may agree in writing. Pursuant to the Sale and Purchase Agreement, each of the conditions precedent (other than those which are mandatory requirements under the PRC laws and the requirement relating to the approval by the Independent Shareholders, namely conditions precedent numbered 2, 4, 5, 6 and 7 pursuant to the Sale and Purchase Agreement) may be waived by the Purchaser in its sole and absolute discretion. As disclosed in the Letter from the Board, the Completion is currently expected to take place on or before 31 January 2022.

It is further stated in the Sale and Purchase Agreement that the Vendors will conduct the registration of the transfer of shares in the Target Company under the Acquisition in three stages, with the transfer of 51%, 25% and 24% equity interest of the Target Company before 28 February 2022, 31 January 2024 and 31 January 2025, respectively.

In order to ensure that the Purchaser will pay the remaining three instalments of the Consideration after Completion in accordance with the Sale and Purchase Agreement, the Purchaser shall, within 15 days after completing the registration of the transfer of 51% equity interest in the Target Company, or within any other time limit as agreed between the parties, pledge to the Vendors the 51% equity interest in the Target Company as guarantee. Within seven days after the Purchaser has paid the Vendors the total amount of the Consideration for the entire equity interest in the

Target Company, or any other time limit as agreed between the parties, the Vendors shall cooperate with the Purchaser to complete the cancellation of registration for the aforementioned share pledge.

Overall comment

The Consideration was determined after arm's length negotiations with reference to the independent valuation of the Target Company conducted by an independent valuer as at 30 September 2021, and the Consideration is slightly lower than such valuation. Please refer to section below headed "3. Independent valuation and evaluation of the Consideration" for our detailed assessment.

Pursuant to the Sale and Purchase Agreement, the Group is allowed to settle the Consideration by cash in four instalments, which spans across approximately three years before 31 December 2024. In return, the Vendors will conduct the registration of the transfer of shares in the Target Company under the Acquisition in three stages, with the first registration of transfer of 51% equity interest before 28 February 2022 while that of the remaining 25% and 24% equity interest will be conducted by 31 January 2024 and 31 January 2025, respectively. We consider such term to be beneficial to the Group, on the basis that (i) the payment term by instalments effectively allows the Group to retain financial flexibility to develop its business and capture prospective business opportunities as and when they arise, thereby alleviating an immediate financial burden of the Group; (ii) the interest to be paid to the Vendors in respect of the unpaid amount of the Consideration is based on a five year loan prime rate (approximately 4.65% as announced by the People's Bank of China), a public and objective benchmark which is considered to be commercially acceptable by making reference to the duration of the payment term; and (iii) the Target Company, a net asset company comprising the Properties as its major asset, will be consolidated into the Group after the registration of 51% equity interest in the Target Company before 28 February 2022, while the Group is only required to settle less than the equivalent portion (i.e. 31%) of the Consideration under such transfer at the relevant time.

The Sale and Purchase Agreement contains a clause that 51% equity interest in the Target Company will be pledged to the Vendors as guarantee until the full settlement of the Consideration for the entire equity interest in the Target Company. We consider such clause a commercial reasonable term, taking into account (i) the share pledge will not affect the consolidation of the Target Company, and thus the Properties, into the Group from accounting perspective; (ii) the Group is not required to incur further rental expenses and management fees in respect of the Properties upon Completion and (iii) the share pledge will be released once full settlement of the Consideration is made.

Based on the above and taking into account of the reasons for and benefits of the Acquisition as mentioned in the sub-section above headed "1. (iii) Reasons for and benefits of entering into the Sale and Purchase Agreement", generally speaking, we consider the principal terms of the Sale and Purchase Agreement to be justifiable.

3. Independent valuation and evaluation of the Consideration

(i) Valuation of the Target Company as at 30 September 2021

The Consideration was determined after arm's length negotiations primarily with reference to the independent valuation of the entire equity interest of the Target Company conducted by the Valuer as at 30 September 2021 (the "**Target Valuation**"). The Target Valuation represents 100% of the market value of the business of the Target Company of approximately RMB186.4 million. The Target Company also holds the Properties with a market value of approximately RMB186.5 million (the "**Property Valuation**"). The text of the Target Valuation and the Property Valuation are set out in Appendix VI and V to the Circular, respectively.

In the process of assessing the Target Valuation, we are advised by the Valuer that they have considered three generally accepted valuation approaches, namely the market approach, the income approach and the cost approach. In determining the Target Valuation, the Valuer considered that the cost approach is the most appropriate one. In particular, the market approach was not adopted since the Valuer is of the view that there were insufficient similar companies having the size similar as the Target company and insufficient similar comparable transactions. The income approach is also not considered appropriate, given this method requires significant level of judgements and more subjective assumptions to be made.

In our view, we agree that it is not appropriate to use market approach due to the lack of publicly available comparable companies and comparable transactions of similar size as the Target Company. We also consider that income approach requires numerous assumptions which are subjective in nature. As such, we concur with the view of the Valuer that cost approach is an appropriate valuation approach to be adopted for the Target Valuation, since the value of the Target Group primarily depends on its asset base.

The cost approach relates to the valuation of individual assets and liabilities of the Target Company as at 30 September 2021, which include (i) non-current assets, comprising mainly the Properties (two land parcels and five industrial buildings and structures erected thereon) and a motor vehicle of the Target Company; (ii) current assets, comprising other receivables, bank balances and cash and amount due from a related party (principally comprises amounts due from the Vendors and rental income due from the Group); and (iii) current liabilities, comprising other payables and tax liabilities as at 30 September 2021. The methodologies adopted by the Valuer in valuing major assets of the Target Company as at 30 September 2021 are described as follows:

(a) Motor vehicle

In valuing the motor vehicle, the Valuer has adopted the market approach, which takes into account the sales prices recently paid for similar assets in the second-hand market. We have discussed with the Valuer regarding its selection criteria and assessed the appropriateness of the recent transaction prices of comparable motor vehicles selected. We noted from the Valuer that, its selection criteria was primarily made reference to the recent public available transaction prices of second-hand motor vehicles which possess the same brand and model, carrying capacity and similar ex-factory date as the motor vehicle of the Target Company. Given the recent transaction prices of the comparable second-hand motor vehicles is considered to be an appropriate benchmark for direct assessment and comparison in coming up the valuation, we are of the view that the selection criteria in the valuation of the motor vehicle is fair and reasonable. Besides, taking into account that the comparable motor vehicles share similar characteristics as the subject motor vehicle and were recently transacted, we consider it is fair and reasonable that the Valuer made reference to the recent transaction prices of the comparable motor vehicles and did not take account into any adjustments in deriving the valuation of subject motor vehicle.

(b) Current assets and current liabilities

In valuing the current assets and current liabilities, the Valuer has based on the book value as at 30 September 2021, which is assumed to be equitable value. We are advised by the Valuer that there were no significant differences between their market values and book values as at 30 September 2021.

(c) Properties

Please refer to the sub-section below headed "3. (ii) Valuation of the Properties" for further details of the Property Valuation.

We note that the valuation of the Target Company of RMB186.4 million as at 30 September 2021 is approximately RMB171.1 million higher than its audited net assets of approximately RMB15.3 million as at 30 June 2021. Such surplus principally represents the appreciation in market value of the Properties of approximately RMB174.2 million, which is partially offset by the changes in book value of other current assets and current liabilities of the Target Company of approximately RMB3.1 million as at 30 September 2021 compared to book value as at 30 June 2021.

We understand from the Valuer that the above methodologies in valuing major assets and liabilities of the Target Company are common methodologies used in establishing the valuation of those major assets under cost valuation approach. Based on our discussion with the Valuer, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the principal bases and assumptions used in arriving at their valuation.

(ii) Valuation of the Properties

In valuing the Properties, the Valuer has adopted the depreciated replacement cost approach instead of the market approach, due to the lack of market information on the Properties. Under the depreciated replacement cost approach, the Valuer considers the replacement costs of the subject assets with allowances of accrued depreciation based on their expected useful life and maintenance condition. In particular, in valuing the land parcels, the Valuer has made reference to comparable sales transaction of other lands located near to the subject land, with adjustments made in respect of the remaining terms of land use rights. We have discussed with the Valuer regarding its selection criteria and assessed the appropriateness of the comparable sales transaction of other lands selected. According to the Valuer, comparable lands of similar location and size are selected and then analysed. Based on our discussion with the Valuer, all the comparable lands are located in the vicinity of the same city and the prices of which are typically broadly comparable. As such, we consider the selection criteria in the valuation of the land parcels is fair and reasonable. We further noted from the Valuer that, adjustments will typically be made on the land parcels if necessary on factors, which include, among others, location, land usage, size and remaining terms of land use rights, in order to arrive at valuation of the land parcels by the Valuer. According to the Valuer, amongst all the adjustment factors, remaining terms of land use rights is generally considered to be a more important factor in affecting the valuation of the land parcels. Given that (i) the comparable lands share similar size and location, except the remaining terms of land use rights; and (ii) the adjustments of the remaining terms of land use rights, which are considered by the Valuer to be a more important factors in affecting the valuation of the land parcels, is objectively derived by making reference to the years of usage of the comparable land parcels, we consider the adjustments applied in the valuation of the land parcels are fair and reasonable.

Based on our discussion with the Valuer, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the principal bases and assumptions used in arriving at the Target Valuation and the Property Valuation. The Valuer has carried out inspections, made relevant enquiries and searches for the purpose of the Target Valuation and the Property Valuation. Based on our review and discussion with the Valuer regarding the bases, assumptions and calculation adopted for the Target Valuation and the Property Valuation, we consider that the assumptions adopted by the Valuer are fair and reasonable and the bases used are normal ones for valuing the Target Company and the Properties. We have also performed work as required under note (1)(d) to Rule 13.80 of the Listing Rules in relation to the Valuer and its work as regards the Target Valuation and the Property Valuation.

(iii) Valuer

In assessing the Valuer's experiences in valuing entities/properties similar to the Target Company/Properties, we have obtained information on the Valuer's track records on other valuations and noted that the Valuer had acted as the valuer for a wide range of public companies listed in Hong Kong for similar transactions. In addition, we understand that each of the signor of the Property Valuation and Target Valuation reports is a qualified registered professional surveyor and Chartered Financial Analyst charterholder, respectively, and both of whom possess over 10 years of experience in the valuation of properties, business and private entities across various sectors. As such, we are of the view that the Valuer is qualified, experienced and competent in performing business and property valuations in respect of the valuation of the Target Company and the Properties.

We have also enquired with the Valuer as to its independence from the Company and the parties to the Sale and Purchase Agreement and were given to understand that the Valuer is an independent third party of the Company and its connected persons. The Valuer also confirmed to us that it was not aware of any relationship or interest between itself and the Company or any other parties that would reasonably be considered to affect its independence to act as an independent valuer for the Company. The Valuer confirmed to us that apart from normal professional fees payable to it in connection with its engagement for the valuation, no arrangements exist whereby it will receive any fee or benefit from the Company and its associates. Given the above, we are of the view that the Valuer is independent from the Company in respect of the valuation of the Target Company and the Properties.

(iv) Evaluation of the Consideration

The Consideration of RMB186.0 million is priced at a slight discount to the Target Valuation of RMB186.4 million. We also note that the Consideration is approximately RMB171.1 million higher than the audited net assets of the Target Company of approximately RMB15.3 million as at 30 June 2021, which principally represents the appreciation in market value of the Properties. Taking into account of the above and our discussion with the Valuer in respect of the Target Valuation and the Property Valuation, we consider the Consideration to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

4. Financial effects on the Group

(i) Earnings and net asset value

Following Completion, the Target Company will become a wholly-owned subsidiary of the Group, and the financial results and financial position of the Target Company would be consolidated into the financial statements of the Group. Current rental payments on the Properties will be saved while the leasing income generated from the Properties of the Target Company will be eliminated on consolidation level upon Completion. Taking into account the average annual interest cost to be incurred on the unpaid amount of the Consideration which is expected to be approximately RMB4.0 million at current five-year loan prime rate in the PRC, overall speaking, the Acquisition is not expected to have any material impact on the consolidated turnover and profit of the Group upon Completion.

Following Completion, the Target Company, which principally holds the Properties, will be consolidated into the Group. As disclosed in Appendix IV to this Circular, assuming the Consideration will be fully settled in cash as at 30 June 2021 the Group's pro forma net asset value is not expected to change materially upon Completion.

(ii) Gearing and working capital

As disclosed in the 2021 Interim Report, the Group had net borrowings (defined as total bank and other borrowings less pledge deposits and bank balances and cash) of approximately RMB759.2 million and net gearing ratio of approximately 74.6% as at 30 June 2021. Since the Group currently intends to finance the Acquisition by internal resources, bank facilities and/or other borrowings, the Group's net gearing is expected to increase following the Completion.

As at 30 June 2021, the capital commitments of the Group, which mainly comprised of capital expenditure on property, plant and equipment, amounted to approximately RMB19.9 million.

Taking into account the Group's bank balances and cash, the Group's borrowings and capital commitments of the Group as at 30 June 2021, the payment of the Consideration amounting to approximately RMB186.0 million by four instalments before 31 December 2024 is not expected to have a significant adverse effect on the Group's financial position or working capital.

DISCUSSION AND ANALYSIS

The main purpose of the Acquisition is to acquire the Properties through the Target Company, so as to reduce the Group's dependence on the assets of the controlling Shareholders. The Group's main paper packaging division is currently run from rental premises of the Target Company in Zhongshan city, the PRC, which added certain operating and administrative inefficiencies of the operation. We consider that the Acquisition will allow the management of the Group to better formulate its business plan to accommodate future possible business growth.

The Consideration for the Acquisition is payable in four instalments, which we consider beneficial to the Group on the basis that such payment term will alleviate an immediate financial burden of the Group. On the other hand, the Consideration is primarily based on an independent valuation by the Valuer, and reflects a slight discount of approximately RMB0.5 million to the Target Valuation. We have discussed with Valuer the bases and assumptions for the Target Valuation and Property Valuation and consider them appropriate. We consider it reasonable for the Group to acquire the Target Company at the Target Valuation of RMB186.0 million.

As at 30 June 2021, the Group's net gearing ratio was approximately 74.6% and it is expected that the Acquisition will be funded by internal resources, bank facilities and/or other borrowings. Consequently, the Group's net gearing is expected to increase following the Completion. Upon Completion, the Group will own the entire equity interest in the Target Company, and in turn the interests in the Properties. Overall speaking, we do not consider the Acquisition will have a material adverse impact on the financial performance and financial position of the Group upon Completion.

OPINION AND RECOMMENDATION

Based on the above, we consider that the Sale and Purchase Agreement and the Acquisition are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the entering into of the Sale and Purchase Agreement, while not in the ordinary and usual course of business of the Group, is nevertheless in the interests of the Company and its shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Sale and Purchase Agreement and the Acquisition.

Yours faithfully,
For and on behalf of
Rainbow Capital (HK) Limited
Danny Leung
Managing Director

Mr. Danny Leung is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over ten years of experience in the corporate finance industry.

1. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Financial information of the Group for the three years ended 31 December 2020 and the six months ended 30 June 2021 are disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.zhengye-cn.com/).

- 2021 interim report (pages 10 to 51): https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0920/2021092000548.pdf
- 2020 annual report (pages 59 to 174): https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0423/2021042300987.pdf
- 2019 annual report (pages 73 to 182): https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0515/2020051501291.pdf
- 2018 annual report (pages 116 to 212): https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0426/ltn201904262139.pdf

2. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the expected completion of the Acquisition and the financial resources available to the Enlarged Group including internally generated funds and the available facilities, the Enlarged Group will have sufficient working capital to meet its requirements for at least 12 months from the date of this circular. The Company has obtained the confirmation from its auditors as required under Rule 14.66(12).

3. INDEBTEDNESS STATEMENT

As at the close of business on 31 October 2021, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had aggregate outstanding indebtedness of approximately RMB1,243,506,000, comprising the following:

	RMB'000
Bank borrowings, unsecured and guaranteed	151,454
Bank borrowings, secured and unguaranteed	237,693
Bank borrowings, secured and guaranteed	536,621
Other borrowings, unsecured and guaranteed	10,140
Other borrowings, secured and unguaranteed	121,198
Other borrowings, secured and guaranteed	146,644
Lease liabilities, secured and unguaranteed	36,630
Lease liabilities, unsecured and unguaranteed	3,126
	1,243,506

Bank borrowings

As at 31 October 2021, the secured bank borrowings of approximately RMB774,314,000 of the Enlarged Group were secured by:

(a) Land use rights of the Enlarged Group located in the PRC; and

(b) Certain properties and machineries, bank deposits, trade receivables, bills receivables and inventories of the Enlarged Group.

Other borrowings

As at 31 October 2021, the secured other borrowings of approximately RMB267,842,000 of the Enlarged Group were secured by bills receivables and certain machineries of the Enlarged Group.

Lease liabilities

As at 31 October 2021, the lease liabilities of approximately RMB36,630,000 of the Enlarged Group were secured by the lessor's charge over the rental deposits and certain machineries of the Enlarged Group.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables in the normal course of business, at the close of business on 31 October 2021, the Enlarged Group did not have any other debt securities issued and outstanding or authorized or otherwise created but unissued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, lease liabilities, hire purchase commitments, guarantees or other contingent liabilities.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020, being the date to which the latest published audited consolidated financial statement of the Company were made up.

5. FINANCIAL, BUSINESS AND TRADING PROSPECTS OF THE GROUP

The Company is the holding company of the Group, which is principally engaged in the manufacture and sale of paper, paperboard and paper-based packaging products.

The Enlarged Group will focus more on the high-quality development of the paper packaging industry and the optimisation of its internal business structure, and will make continuous research and development and innovative development as basis of its strategic development to unleash the growth potential of the Enlarged Group's business. In the future, the Enlarged Group will continue to strengthen the integration of the upstream and downstream of the packaging and paper-making industry chain, and continue to innovate and explore in the areas of paper packaging design, raw paper research and development, and business model innovation, in order to build a core competitiveness that can continue to create value for customers and shareholders while enhancing its own strength.

The Company has been actively looking to diversify the revenue sources of the Group in order to create shareholders' value. To continue the momentum of the Group's expansion of its property development and related investment business, the Acquisition offers a good opportunity for the Group to enhance its assets portfolio with a potential of capital appreciation in the long run. The Enlarged Group will strive to better allocate available resources to improve profitability, realise large-scale operation, expand market share, reduce investment risks, and improve the overall competitiveness of the Enlarged Group.

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION

Deloitte.
德勤

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF ZHONGSHAN CITY ZHENG YE LEASE COMPANY LIMITED TO THE DIRECTORS OF ZHENGYE INTERNATIONAL HOLDINGS COMPANY LIMITED

Introduction

We report on the historical financial information of Zhongshan City Zheng Ye Lease Company Limited (the "**Target Company**") set out on pages II-4 to II-33, which comprises the statements of financial position of the Target Company as at 31 December 2018, 2019 and 2020 and 30 June 2021 and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of the Target Company for each of the 3 years ended 31 December 2020 and the 6 months ended 30 June 2021 (the "**Relevant Periods**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-4 to II-33 forms an integral part of this report, which has been prepared for inclusion in the circular of Zhengye International Holdings Company Limited (the "**Company**") dated 23 December 2021 (the "**Circular**") in connection with the acquisition of the entire equity interest in the Target Company.

Directors' responsibility for the Historical Financial Information

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The directors of the Company are responsible for the contents of this Circular in which the Historical Financial Information of the Target Company is included, and such information is prepared based on accounting policies materially consistent with those of the Company.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Target Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Target Company's financial position as at 31 December 2018, 2019 and 2020 and 30 June 2021 and of the Target Company's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Target Company which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the 6 months ended 30 June 2020 and other explanatory information (the "**Stub Period Comparative Financial Information**"). The directors of the Target Company are responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

Dividends

We refer to Note 14 to the Historical Financial Information which contains information about the dividends declared and paid by the Target Company in respect of the Relevant Periods.

No historical financial statements for the Target Company

No financial statements have been prepared for the Target Company since its date of incorporation.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23 December 2021

HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Target Company for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("**Underlying Financial Statements**").

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Six months ended 30 June	
		2018	**2019**	**2020**	**2020**	**2021**
	NOTES	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Revenue	*5*	5,677	5,723	6,028	3,022	2,998
Cost of sales		(2,193)	(2,193)	(2,194)	(1,097)	(816)
Gross profit		3,484	3,530	3,834	1,925	2,182
Other income	*6*	148	13	3	2	1
Other losses	*7*	—	(14)	—	—	—
Administrative expenses		(161)	(1,665)	(1,747)	(844)	(1,064)
Finance costs	*8*	(146)	—	—	—	—
Profit before tax		3,325	1,864	2,090	1,083	1,119
Income tax expense	*9*	(831)	(136)	(160)	(58)	(37)
Profit and total comprehensive income for the year/period	*10*	2,494	1,728	1,930	1,025	1,082

STATEMENTS OF FINANCIAL POSITION

		At 31 December			At 30 June
		2018	2019	2020	2021
	NOTES	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current Assets					
Property, plant and equipment	*15*	71	14	14	14
Investment property	*16*	17,536	15,343	13,149	12,333
		17,607	15,357	13,163	12,347
Current Assets					
Other receivables	*17*	—	1	1	1
Amounts due from equity owners	*18*	—	3,356	4,190	4,450
Amount due from a related party		18	361	45	68
Bank balances and cash	*19*	1,614	2,382	152	532
		1,975	5,739	4,388	5,051
Current Liabilities					
Other payables	*20*	920	919	2,874	1,698
Tax liabilities		570	357	437	378
		1,490	1,276	3,311	2,076
Net Current Assets		485	4,463	1,077	2,975
Total Assets Less Current Liabilities		18,092	19,820	14,240	15,322
Capital and Reserves					
Paid-in capital	*21*	1,000	1,000	1,000	1,000
Reserves		17,092	18,820	13,240	14,322
Total Equity		18,092	19,820	14,240	15,322

STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital *RMB'000*	**Capital reserve** *RMB'000* *(note a)*	**Statutory reserve** *RMB'000* *(note b)*	**Retained profits** *RMB'000*	**Total** *RMB'000*
At 1 January 2018	1,000	1,413	8,358	8,203	18,974
Profit and total comprehensive income for the year	—	—	—	2,494	2,494
Dividend recognised as distribution *(note 14)*	—	—	—	(3,376)	(3,376)
At 31 December 2018	1,000	1,413	8,358	7,321	18,092
Profit and total comprehensive income for the year	—	—	—	1,728	1,728
At 31 December 2019	1,000	1,413	8,358	9,049	19,820
Profit and total comprehensive income for the year	—	—	—	1,930	1,930
Dividend recognised as distribution *(note 14)*	—	—	—	(7,510)	(7,510)
At 31 December 2020	1,000	1,413	8,358	3,469	14,240
Profit and total comprehensive income for the period	—	—	—	1,082	1,082
At 30 June 2021	1,000	1,413	8,358	4,551	15,322
(Unaudited)					
At 1 January 2020	1,000	1,413	8,358	9,049	19,820
Profit and total comprehensive income for the period	—	—	—	1,025	1,025
Dividend recognised as distribution *(note 14)*	—	—	—	(5,110)	(5,110)
At 30 June 2020	1,000	1,413	8,358	4,964	15,735

Notes:

(a) The amount mainly represents the waiver of amounts due to equity owners in prior years.

(b) In accordance with the relevant laws and regulations of the Peoples' Republic of China (the "**PRC**"), the Target Company is required to provide for the PRC statutory reserve, by way of appropriations from its statutory net profit but before dividend distributions. In accordance with the Articles of Association of the Target Company, the Target Company is required to transfer 10% of the profit after taxation to the statutory reserve. When the amount reached 50% of the registered capital, no further statutory reserve will be required to provide.

STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
OPERATING ACTIVITIES					
Profit before tax	3,325	1,864	2,090	1,083	1,119
Adjustments for:					
Finance costs	146	—	—	—	—
Interest income	(5)	(13)	(3)	(2)	(1)
Depreciation of property, plant and equipment	52	43	—	—	—
Depreciation of investment property	2,193	2,193	2,194	1,097	816
Loss on disposal of property, plant and equipment, net	—	14	—	—	—
Operating cash flows before movements in working capital	5,711	4,101	4,281	2,178	1,934
Increase in other receivables	—	(1)	—	—	—
(Decrease) increase in other payables	(75)	(1)	515	1,817	(216)
Decrease (increase) in amounts due from a related party	64	361	(45)	(618)	(23)
Net cash from operations	5,700	4,460	4,751	3,377	1,695
Income tax paid	(847)	(349)	(80)	(31)	(96)
NET CASH FROM OPERATING ACTIVITIES	4,853	4,111	4,671	3,346	1,599
INVESTING ACTIVITIES					
Interest received	5	13	3	2	1
Advances to equity owners	—	(3,356)	(834)	(180)	(360)
Repayment from equity owners	961	—	—	—	100
NET CASH FROM (USED IN) INVESTING ACTIVITIES	966	(3,343)	(831)	(178)	(259)

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
FINANCING ACTIVITIES					
Interest paid	(146)	—	—	—	—
Dividends paid	(3,376)	—	(6,070)	(5,110)	(960)
Repayment of bank borrowings	(3,200)	—	—	—	—
NET CASH USED IN FINANCING ACTIVITIES	(6,722)	—	(6,070)	(5,110)	(960)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(903)	768	(2,230)	(1,942)	380
CASH AND CASH EQUIVALENTS AT 1 JANUARY	2,517	1,614	2,382	2,382	152
CASH AND CASH EQUIVALENTS AT 31 DECEMBER/30 JUNE represented by bank balances and cash	1,614	2,382	152	440	532

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL

Zhongshan City Zheng Ye Lease Company Limited (the "**Target Company**") was established as a company with limited liability in the PRC on 22 November 1995. The addresses of the registered office and principal place of business of the Target Company is Yongsheng Management Are, Dongsheng, Zhongshan City, Guangdong Province, the PRC. The principal activities of the Target Company are provision of lease service for land and property in the PRC. The equity owners of the Target Company are Mr. Hu Zheng, Mr. Hu Hanchao, Mr. Hu Hancheng and Ms. Hu Jianwen.

The financial statements are presented in Renminbi ("**RMB**"), which is the same as the functional currency of the Target Company.

The financial statements have been prepared solely for the purpose of inclusion in the Historical Financial Information of the Target Company to be incorporated in the Circular in connection with the proposed acquisition. The comparative figures for the year ended 31 December 2018 have not been presented.

2. BASIS OF PREPARATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared based on the accounting policies set out in Note 4 which conform with HKFRSs.

3. ADOPTION OF NEW AND AMENDMENTS TO HKFRSs

For the purpose of preparing the Historical Financial Information for the Relevant Periods, the Target Company has consistently applied the HKFRSs, Hong Kong Accounting Standards ("**HKASs**"), amendments to HKFRSs and interpretations issued by the HKICPA, which are effective for the accounting period beginning on 1 January 2021 throughout the Relevant Periods.

New and amendments to HKFRSs in issue but not yet effective

At the date of this report, the following new and amendments to HKFRSs have been issued which are not yet effective:

HKFRS 17	Insurance Contracts and the related Amendments[3]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current related and amendments to Hong Kong Interpretation 5 (2020)[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[3]
Amendments to HKAS 8	Definition of Accounting Estimates[3]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[3]
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020[2]

[1] Effective for annual periods beginning on or after 1 April 2021
[2] Effective for annual periods beginning on or after 1 January 2022
[3] Effective for annual periods beginning on or after 1 January 2023
[4] Effective for annual periods beginning on or after a date to be determined

The directors of the Target Company anticipate the application of all new and amendments to HKFRSs will have no material impact on the financial statements of the Target Company in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies are set out below.

The Historical Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the Historical Financial Information, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are accounted for in accordance with HKFRS 16 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Revenue from contracts with customers

The Target Company recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Target Company's performance as the Target Company performs;

- the Target Company's performance creates or enhances an asset that the customer controls as the Target Company performs; or

- the Target Company's performance does not create an asset with an alternative use to the Target Company and the Target Company has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Target Company's performance in transferring control of goods or services.

Leases (prior to 1 January 2019)

The Target Company as a lessor

Classification and measurement of leases

Leases for which the Target Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term.

Rental income which are derived from the Target Company's ordinary course of business are presented as revenue.

Leases (upon application of HKFRS 16 since 1 January 2019)

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Target Company assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Target Company as a lessor

Classification and measurement of leases

Leases for which the Target Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term.

Rental income which are derived from the Target Company's ordinary course of business are presented as revenue.

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Target Company applies HKFRS 15 *Revenue from Contracts with Customers* ("**HKFRS 15**") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

The directors of the Target Company considered the application of HKFRS 16 have no material impact on the financial statements of the Target Company.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs and termination benefits

Payments to defined contribution retirement benefit plans/state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Termination benefits

A liability for a termination benefits is recognised at the earlier of when the Target Company entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Target Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Target Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Buildings and machinery in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Target Company's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of property, plant and equipment (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment on property, plant and equipment and investment properties

At the end of the reporting period, the Target Company reviews the carrying amounts of its property, plant and equipment and investment properties to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, (if any).

The recoverable amount of property, plant and equipment and investment properties are estimated individually. When it is not possible to estimate the recoverable amount individually, the Target Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or a cash-generating unit for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Target Company compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

In addition, the Target Company may irrevocably designate a financial asset that are required to be measured at the amortised cost as measured at fair value through profit or loss ("**FVTPL**") if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Impairment of financial assets subject to impairment assessment under HKFRS 9

The Target Company performs impairment assessment under expected credit loss ("**ECL**") model on financial assets (including other receivables, amounts due from equity owners, amount due from a related party, and bank balance) which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Target Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Target Company always recognises lifetime ECL for amount due from a related party. The ECL on amount due from a related party is assessed individually.

For all other instruments, the Target Company measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Target Company recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Target Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Target Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Target Company presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Target Company has reasonable and supportable information that demonstrates otherwise.

The Target Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Target Company considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Target Company, in full (without taking into account any collaterals held by the Target Company).

Irrespective of the above, the Target Company considers that default has occurred when a financial asset is more than 90 days past due unless the Target Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Target Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Target Company's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Target Company in accordance with the contract and the cash flows that the Target Company expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Target Company recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of amount due from a related party where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Target Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Target Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Target Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Target Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Target Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities (including other payables) are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

The Target Company derecognises financial liabilities when, and only when, the Target Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. REVENUE AND OPERATING SEGMENT

Revenue represents rental income under operating leases and management services income generated from a related party in relation to the lease of land and buildings located in the PRC. The rental income is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

For contracts that includes both lease and non-lease components (properties management services), the Group applies HKFRS 15 to allocate the consideration to separate lease and non-lease components on a relative stand-alone selling price basis.

Revenue relating to the properties management services is recognised over time.

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reporting about components of the Target Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance. Information reported to the directors of the Target Company, being the chief operating decision maker, for the purposes of resource allocation and assessment focuses on revenue analysis. No other discrete financial information is provided other than the Target Company's results and financial position as a whole. Accordingly, only entity-wide disclosures are presented.

	Year ended 31 December 2018 RMB'000	2019 RMB'000	2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	2021 RMB'000
Rental income	5,392	5,010	5,172	2,594	2,570
Management services income	285	713	856	428	428
	5,677	5,723	6,028	3,022	2,998

The Target Company's operations are all located in the PRC. All its non-current assets and sole customer are located in the PRC.

6. OTHER INCOME

	Year ended 31 December 2018 RMB'000	2019 RMB'000	2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	2021 RMB'000
Interest income	5	13	3	2	1
Guarantee income	143	—	—	—	—
	148	13	3	2	1

7. OTHER LOSSES

	Year ended 31 December 2018 RMB'000	2019 RMB'000	2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	2021 RMB'000
Loss on disposal of property, plant and equipment, net	—	(14)	—	—	—

8. FINANCE COSTS

	Year ended 31 December 2018 RMB'000	2019 RMB'000	2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	2021 RMB'000
Interest on bank borrowings	146	—	—	—	—

9. INCOME TAX EXPENSE

	Year ended 31 December 2018 RMB'000	2019 RMB'000	2020 RMB'000	Six months ended 30 June 2020 RMB'000 (unaudited)	2021 RMB'000
PRC Enterprise Income Tax:					
Current	831	136	160	58	37

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the Target Company is 25%. The Target Company has been approved as "small and low-profit enterprises" by the relevant government authorities and was subject to a two-tiered preferential rate since 2019. For the years ended 31 December 2019 and 2020, the first RMB1 million of taxable profit of the Target Company was taxed at 5%, and taxable profit above RMB1 million was taxed at 10%. For the six months ended 30 June 2021, the first RMB1 million of taxable profit of the Target Company was taxed at 2.5% and taxable profit above RMB1 million was taxed at 10%.

The tax expense for the year/period can be reconciled to the profit before tax per the statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Profit before tax	3,325	1,864	2,090	1,083	1,119
PRC Enterprise Income Tax at 25%	831	466	523	271	280
Effect of tax exemption on concessionary rates	—	(330)	(366)	(213)	(243)
Tax effect of expenses not deductible for tax purpose	—	—	3	—	—
Tax expense for the year/period	831	136	160	58	37

10. PROFIT FOR THE YEAR/PERIOD

Profit for the year/period has been arrived at after charging(crediting):

	Year ended 31 December			Six months ended 30 June	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Depreciation of property, plant and equipment	52	43	—	—	—
Depreciation of investment property	2,193	2,193	2,194	1,097	816
Total depreciation	2,245	2,236	2,194	1,097	816
Auditor's remuneration	—	—	—	—	—
Gross rental income from investment properties	(5,677)	(5,723)	(6,028)	(3,022)	(2,998)
Less: direct operating expenses incurred for investment properties that generated rental income during the year/period	2,193	2,193	2,194	1,097	816
	(3,484)	(3,530)	(3,834)	(1,925)	(2,182)
Staff costs (including directors' remuneration)					
— directors' emoluments	—	445	1,077	282	859
— salaries and other benefits costs other than directors	60	806	526	491	36
— retirement benefits schemes contributions other than directors	6	18	4	4	—
Total staff costs	66	1,269	1,607	777	895

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the directors for their services in connection with the management of the affairs of the Target Company were as follows:

	Fee	Salary	Performance related bonus	Retirement benefits schemes contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2018					
Director					
— Hu Zheng	—	—	—	—	—
	—	—	—	—	—
For the year ended 31 December 2019					
Directors					
— Hu Zheng	—	—	—	—	—
— Hu Jianpeng	—	—	—	—	—
— Hu Jianjun	—	—	—	—	—
— Hu Jianying	—	220	—	5	225
— Hu Jianwen	—	220	—	—	220
	—	440	—	5	445
For the year ended 31 December 2020					
Directors					
— Hu Jianpeng	—	—	—	—	—
— Hu Jianjun	—	—	—	—	—
— Hu Jianying	—	344	—	4	348
— Hu Jianwen	—	331	—	—	331
— He Yinming	—	198	—	—	198
— Liu Xueying	—	198	—	2	200
	—	1,071	—	6	1,077

	Fee	Salary	Performance related bonus	Retirement benefits schemes contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the six months ended 30 June 2021					
Directors					
— Hu Jianpeng	—	—	—	—	—
— Hu Jianying	—	189	24	5	218
— Hu Jianwen	—	187	24	—	211
— He Yinming	—	189	24	—	213
— Liu Xueying	—	189	24	4	217
	—	754	96	9	859
For the six months ended 30 June 2020 (unaudited)					
Directors					
— Hu Jianpeng	—	—	—	—	—
— Hu Jianjun	—	—	—	—	—
— Hu Jianying	—	146	—	3	149
— Hu Jianwen	—	133	—	—	133
	—	279	—	3	282

Note: Mr. Hu Zheng retired as the director of the Target Company on 29 March 2019, and Mr. Hu Jianpeng, Mr. Hu Jianjun, Ms. Jianying and Ms. Hu Jianwen were appointed as directors of the Target Company on 29 March 2019. Mr. Hu Jianjun retired as the director of the Target Company on 10 July 2020 and Ms. He Yinming and Ms. Liu Xueying were appointed as directors of the Target Company on 10 July 2020.

None of the directors waived any emoluments during the Relevant Periods.

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Target Company during the six months ended 30 June 2021 included four directors (2020: four directors, 2019: two directors, 2018: nil director), details of whose remuneration are set out in note 11 above. Details of the remunerations for the six months ended 30 June 2021 of remaining one (2020: one, 2019: three, 2018: one) highest paid employees who are neither a director nor chief executive of the Target Company are as follows:

	Year ended 31 December			**Six months ended 30 June**	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries	60	660	6	3	36
Retirement benefits schemes	6	5	—	—	—
	66	665	6	3	36

Their emoluments were within the following bands:

	Number of employees				
	Year ended 31 December			**Six months ended 30 June**	
	2018	**2019**	**2020**	**2020** (unaudited)	**2021**
Nil to HKD1,000,000	1	3	1	1	1

During the Relevant Periods, no emoluments of the five highest paid individuals (including directors and other employees) were incurred as inducement to join the Target Company or compensation for loss of office.

13. EARNINGS PER SHARE

No earnings per share information is presented for the purpose of this report as its inclusion is not considered meaningful.

14. DIVIDENDS

During the year ended 31 December 2018, the Target Company declared dividends of an aggregate amount of RMB3,376,000 to its equity owners. During the year ended 31 December 2020, the Target Company declared dividends of an aggregate amount of RMB7,510,000 to its equity owners. Dividend amounted to RMB6,070,000 was paid during the year ended 31 December 2020 and dividend amounted to RMB960,000 was paid during the six months ended 30 June 2021.

15. PROPERTY, PLANT AND EQUIPMENT

	Furniture *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
COST			
At 1 January 2018	272	274	546
Disposals	—	—	—
At 31 December 2018	272	274	546
Disposals	(272)	—	(272)
At 31 December 2019	—	274	274
Disposals	—	—	—
At 31 December 2020	—	274	274
Disposals	—	—	—
At 30 June 2021	—	274	274
DEPRECIATION			
At 1 January 2018	258	165	423
Provided for the year	—	52	52
At 31 December 2018	258	217	475
Provided for the year	—	43	43
Eliminated on disposals	(258)	—	(258)
At 31 December 2019	—	260	260
Provided for the year	—	—	—
At 31 December 2020	—	260	260
Provided for the period	—	—	—
At 30 June 2021	—	260	260
CARRYING VALUES			
At 31 December 2018	14	57	71
At 31 December 2019	—	14	14
At 31 December 2020	—	14	14
At 30 June 2021	—	14	14

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives and after taking into account of their estimated residual value at the following rates per annum:

Furniture	18%
Motor vehicles	18%

16. INVESTMENT PROPERTY

The Target Company leases out various offices and factories buildings under operating leases with rentals payable monthly. The leases typically run for an initial period of 3 years with increased rental on an annual basis. Majority of the lease contracts contain market review clauses in the event the lessee exercises the option to extend.

The Target Company is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the functional currency of the Target Company. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

	RMB'000
COST	
At 1 January 2018, 31 December 2019, 2020 and 30 June 2021	47,558
DEPRECIATION	
At 1 January 2018	27,829
Provided for the year	2,193
At 31 December 2018	30,022
Provided for the year	2,193
At 31 December 2019	32,215
Provided for the year	2,194
At 31 December 2020	34,409
Provided for the period	816
At 30 June 2021	35,225
CARRYING VALUES	
At 31 December 2018	17,536
At 31 December 2019	15,343
At 31 December 2020	13,149
At 30 June 2021	12,333

The fair value of the Target Company's investment properties at 30 June 2021 was RMB186,500,000. The fair value has been arrived at based on a valuation carried out by Valor Appraisal & Advisory Limited, independent valuers not connected with the Target Company.

The fair value was determined based on the depreciated replacement cost approach by a combination of the open market value of land portions and depreciated replacement cost of the buildings and structures standing on the land; in valuation of the land portions, reference has been made to the comparable sales transactions as available in the subject locations. In estimating the fair value of the properties, the highest and best use of the properties is their current use. The ongoing Covid-19 pandemic has resulted in greater market volatility depending on how the Covid-19 pandemic may progress and evolve, which has led to higher degree of uncertainties in respect of the valuations in the current year, and independent valuers included uncertainty clauses in the valuation reports.

Details of the Target Company's investment properties and information about the fair value hierarchy as at the end of the reporting period are as follows:

	As at 30 June 2021	
	Carrying amounts	**Fair value at Level 3 hierarchy**
	RMB'000	*RMB'000*
Land and buildings	12,333	186,500

The above investment properties are depreciated on a straight-line basis at the following rates per annum:

Leasehold lands	Over the term of the lease
Buildings	4%
Leasehold improvements	20%

17. OTHER RECEIVABLES

	At 31 December			At 30 June
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deposits	—	1	1	1

18. AMOUNT(S) DUE FROM EQUITY OWNERS/A RELATED PARTY

Amounts due from equity owners

The amounts due from equity owners were non-trade related, unsecured, interest free and repayable on demand.

Amount due from a related party

As at 1 January 2018, amount due from a related party amounted to RMB425,000.

The amount due from a related party was trade related, unsecured, interest free and repayable within 30 days on issuance of invoice.

The following is an aged analysis of amount due from a related party presented based on the date of rendering of services, at the end of the reporting period:

	At 31 December			At 30 June
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current or less than 30 days	361	—	45	68

19. BANK BALANCES AND CASH

Bank balances carry interest at market rates at 0.35% per annum.

20. OTHER PAYABLES

	At 31 December			At 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Rental deposit	450	450	450	450
Payroll payables	5	70	105	113
Dividend payables	—	—	1,440	480
Other tax payables	114	101	583	336
Others	351	298	296	319
	920	919	2,874	1,698

21. PAID-IN CAPITAL

Fully paid-up registered capital:

	Paid-in Capital
	RMB'000
At 1 January 2018, 31 December 2018, 2019 and 2020, and 30 June 2021	1,000

22. RETIREMENT BENEFITS SCHEMES

The employees of the Target Company are members of state-managed retirement benefit schemes operated by the PRC government. The Target Company are required to contribute certain percentage of payroll costs to the retirement benefits schemes to fund the benefits. The only obligation of the Target Company with respect to the retirement benefit schemes is to make the specific contributions.

The total cost charged to profit or loss of RMB6,000, RMB23,000, RMB10,000, RMB8,000 (unaudited) and RMB9,000 represents contributions payable to these schemes by the Target Company in respect of the years ended 31 December 2018, 2019, 2020 and the six months ended 30 June 2020 and 2021.

23. OPERATING LEASING ARRANGEMENTS

The Group as lessor

All of the investment properties held by the Target Company for rental purposes have committed lessees for the next one to three years.

Undiscounted lease payments receivable on leases are as follows:

	At 31 December			At 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	5,940	—	5,940	5,999
In the second year	—	—	6,058	3,029
	5,940	—	11,998	9,028

24. CAPITAL RISK MANAGEMENT

The Target Company manages its capital to ensure it will be able to continue as a going concern while maximising the return to equity owners through the optimisation of the debt and equity balance. The Target Company's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to owners of the Target Company, comprising paid-in capital and reserves.

The directors of the Target Company review the capital structure periodically. As part of the review, the directors consider the cost of capital and the risks associates with the capital. Based on recommendations of the directors, the Target Company will balance its overall capital structure through payment of dividends, new share issues as well as the issue of the new debt.

25. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	At 31 December			At 30 June
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Amortised cost	1,764	5,739	4,343	4,983
Financial liabilities				
Amortised cost	801	748	2,186	1,249

b. Financial risk management objectives and policies

The Target Company's major financial instruments include other receivables, amounts due from equity owners, amount due from a related party, bank balances and cash, and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk and impairment assessment

The Target Company's maximum exposure to credit risk which will cause a financial loss to the Target Company due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the statements of financial position.

The Target Company does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Amount due from a related party arising from lease contracts

In order to minimise the credit risk, the management of the Target Company has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Target Company uses an internal credit assessment system to assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Target Company performs impairment assessment under ECL model. The Target Company assessed the ECL on amount due from a related party individually.

The credit risks on bank balances are limited because the counterparties are banks/financial institutions with high credit ratings assigned by international credit-rating agencies.

Other receivables and amounts due from equity owners are assessed individually. The credit quality of these debtors have been assessed with reference to the historical information such as past due information, default rate and the financial position of counterparties and supportive forward looking information. The directors of the Target Company consider that the credit risk of these debtors is low in view of the good collection history.

The tables below detail the credit risk exposures of the Target Company's financial assets, which are subject to ECL assessment:

	Notes	**Internal credit rating**	**12m or lifetime ECL**	**Gross carrying amount**
				RMB'000
Year ended 31 December 2018				
Bank balances	*19*	*(note i)*	12m ECL	1,613
Amount due from a related party	*18*	*(note iii)*	Lifetime ECL (not credit-impaired)	361
Year ended 31 December 2019				
Bank balances	*19*	*(note i)*	12m ECL	2,382
Other receivables	*17*	*(note ii)*	12m ECL	1
Amounts due from equity owners	*18*	*(note ii)*	12m ECL	3,356
Year ended 31 December 2020				
Bank balances	*19*	*(note i)*	12m ECL	152
Other receivables	*17*	*(note ii)*	12m ECL	1
Amounts due from equity owners	*18*	*(note ii)*	12m ECL	4,190
Amount due from a related party	*18*	*(note iii)*	Lifetime ECL (not credit-impaired)	45
Six months ended 30 June 2021				
Bank balances	*19*	*(note i)*	12m ECL	532
Other receivables	*17*	*(note ii)*	12m ECL	1
Amounts due from equity owners	*18*	*(note ii)*	12m ECL	4,450
Amount due from a related party	*18*	*(note iii)*	Lifetime ECL (not credit-impaired)	68

Notes:

(i) For the purpose of internal credit risk management, the Target Company has made reference to the external credit rating for its major bank balances.

(ii) For the purposes of internal credit risk management, the Target Company uses past due information to assess whether credit risk has increased significantly since initial recognition. As at 31 December 2018, 2019, 2020 and 30 June 2021, the Target Company had no past due balance of other receivables and amounts due from equity owners.

(iii) For amount due from a related party, the Target Company has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. As at 31 December 2018, 2019, 2020 and 30 June 2021, the Target Company had only one debtor with amount due from a related party balance.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

During the years ended 31 December 2018, 2019, 2020 and the six months ended 30 June 2021, no impairment was made on the financial assets.

Liquidity risk

In the management of the liquidity risk, the Target Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Target Company's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Target Company's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Company can be required to pay.

Liquidity table

	Weighted average interest rate	**On demand or less than 1 year**	**Total undiscounted cash flows**	**Carrying amounts**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2018				
Other payables	N/A	801	801	801
31 December 2019				
Other payables	N/A	748	748	748
31 December 2020				
Other payables	N/A	2,186	2,186	2,186
30 June 2021				
Other payables	N/A	1,249	1,249	1,249

c. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Target Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

26. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Target Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Target Company's statements of cash flows as cash flows from financing activities.

	Bank borrowings	**Interest payables**	**Dividend payables**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2018	3,200	—	—	3,200
Financing cash flows	(3,200)	(146)	(3,376)	(6,722)
Interest expense	—	146	—	146
Dividend	—	—	3,376	3,376
At 31 December 2018	—	—	—	—
Financing cash flows	—	—	—	—
At 31 December 2019	—	—	—	—
Financing cash flows	—	—	(6,070)	(6,070)
Dividend	—	—	7,510	7,510
At 31 December 2020	—	—	1,440	1,440
Financing cash flows	—	—	(960)	(960)
At 30 June 2021	—	—	480	480
(Unaudited)				
At 1 January 2020	—	—	—	—
Financing cash flows	—	—	(5,110)	(5,110)
Dividend	—	—	5,110	5,110
At 30 June 2020	—	—	—	—

27. RELATED PARTIES TRANSACTIONS

(a) Name and relationship

Name	Relationship
Zheng Ye Packaging (Zhongshan) Company Limited ("**Zheng Ye Packaging**")	Controlled by the controlling shareholders of the Target Company
Zhongshan Yong Fa Paper Industry Company Limited ("**Zhongshan Yong Fa**")	Controlled by the controlling shareholders of the Target Company

(b) Related parties transactions

During the year/period, the Target Company entered into the following transactions with related parties:

	Year ended 31 December			Six months ended 30 June	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Zheng Ye Packaging					
— Lease income	5,677	5,723	6,028	3,022	2,998
Zhongshan Yong Fa					
— Guarantee income	143	—	—	—	—

(c) A rental deposit of RMB450,000 received from Zheng Ye Packaging has been included in other payables in the statements of financial position at 31 December 2018, 2019, 2020 and 30 June 2021.

(d) Related parties balances

Amounts due from equity owners and amount due from a related party are disclosed in note 18.

(e) Compensation of key management personnel

The remuneration of key management, which are the directors of the Target Company, during the Relevant Periods was disclosed in note 11.

The remuneration of directors and key executives is determined by the board of directors having regard to the performance of individuals.

28. SUBSEQUENT EVENTS

Saved as disclosed in the report, subsequent to the end of the Relevant Periods, a dividend amounted to RMB4,600,000 was declared on 30 September 2021 and paid partially by offsetting the balance of amounts due from equity owners.

29. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Company have been prepared in respect of any period subsequent to 30 June 2021.

Set out below is the management discussion and analysis of the Target Company for the three years ended 31 December 2020 and the six month ended 30 June 2020 and 2021.

Unless stated otherwise, terms used herein shall have the same meaning as those defined in the circular.

BUSINESS AND FINANCIAL REVIEW

The Target Company is principally engaged in real estate leasing and property management. The assets of the Target Company include, among others, the Properties. As detailed in the paragraph headed ''Reasons for and benefits of the Acquisition'' in the circular, the Purchaser has been leasing the premises for its business operations from the Target Company.

Upon completion of the transfer of all the shares in the Target Company to the Purchaser, the Vendors will cease to hold any equity interest in the Target Company, and the Target Company will be owned as to 100% by the Group. Accordingly, the Target Company will become an indirect wholly-owned subsidiary of the Company. The Target Company's financial results will be consolidated into the Group's consolidated financial statements upon the completion of the first stage of the share transfer, whereby 51% of its shares will be transferred to the Purchaser.

Set out below is the financial performance of the Target Company for the three years ended 31 December 2020 and the six month ended 30 June 2020 and 2021 respectively.

	Year ended 31 December			**Six months ended 30 June**	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	5,677	5,723	6,028	3,022	2,998
Gross profit	3,484	3,530	3,834	1,925	2,182
Profit before tax	3,325	1,864	2,090	1,083	1,119
Profit and total comprehensive income for the year/period	2,494	1,728	1,930	1,025	1,082

Revenue

The Target Company's revenue represents rental income under operating leases and management services income generated from a related party, being the Purchaser in relation to the lease of land and buildings located in the PRC. The Target Company recorded revenue of approximately RMB5,677,000, RMB5,723,000 and RMB6,028,000 for the three years ended 31 December 2018, 2019 and 2020, respectively, and RMB3,022,000 and RMB2,998,000 for the six months ended 30 June 2020 and 2021, respectively.

The revenue of the Target Company remained relatively stable at approximately RMB5,677,000 and RMB5,723,000 for the year ended 31 December 2018 ("**FY2018**") and the year ended 31 December 2019 ("**FY2019**"), respectively. The revenue of the Target Company increased from approximately RMB5,723,000 for FY2019 to approximately RMB6,028,000 for the year ended 31 December 2020 ("**FY2020**"), representing an increase of approximately 5.33%. Such increase was mainly due to the increase in rental amount in renewal of lease contract.

The revenue of the Target Company remained relatively stable at approximately RMB3,022,000 and RMB2,998,000 for the six months ended 30 June 2020 ("**6M2020**") and the six months ended 30 June 2021 ("**6M2021**"), respectively.

Revenue segments

The Target Company derives revenue from (i) rental income and (ii) management services income. The following table sets forth a breakdown of the Target Company's revenue for the three years ended 31 December 2020, and the six month ended 30 June 2020 and 2021 respectively.

	Year ended 31 December			Six months ended 30 June	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Rental income	5,392	5,010	5,172	2,594	2,570
Management services income	285	713	856	428	428
	5,677	5,723	6,028	3,022	2,998

Gross Profit

The Target Company recorded gross profit of approximately RMB3,484,000, RMB3,530,000 and RMB3,834,000 for FY2018, FY2019 and FY2020, respectively, and approximately RMB1,925,000 and RMB2,182,000 for 6M2020 and 6M2021, respectively.

The gross profit of the Target Company remained relatively stable for FY2018 and FY2019. The gross profit of the Target Company increased from approximately RMB3,530,000 for FY2019 to approximately RMB3,834,000 for FY2020, representing an increase of approximately 7.93%. The increase was mainly due to the increase in rental income and management services income.

The gross profit of the Target Company increased from RMB1,925,000 for 6M2020 to approximately RMB2,182,000 for 6M2021, representing an increase of approximately 13.35%. The increase was mainly due to the decrease in depreciation expense in cost of sales.

Profit and total comprehensive income for the year/period

The Target Company recorded net gain of approximately RMB2,494,000, RMB1,728,000 and RMB1,930,000 for FY2018, FY2019 and FY2020, respectively, and net gain of approximately RMB1,025,000 and RMB1,082,000 for 6M2020 and 6M2021, respectively.

The net gain for FY2019 decreased by approximately 44.33% as compared to FY2018. This was mainly because of the increase in administrative expenses. The net gain for FY2020 increased by approximately 11.69% as compared to FY2019. This was mainly due to the increase in rental income and management services income.

The net gain for 6M2021 increased by approximately 5.56% as compared with 6M2020, mainly because of the decrease in depreciation expense in cost of sales.

LIQUIDITY AND FINANCIAL RESOURCES

Set out below is the consolidated financial position of the Target Company as at 31 December 2018, 2019 and 2020 and 30 June 2021 as extracted from the accountants' report as set out in Appendix II to this circular.

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	17,607	15,357	13,163	12,347
Current assets	1,975	5,739	4,388	5,051
Total assets	19,582	21,096	17,551	17,398
Current liabilities	1,490	1,276	3,311	2,076
Non-current liabilities	—	—	—	—
Total liabilities	1,490	1,276	3,311	2,076
Net current assets	485	4,463	1,077	2,975
Net assets	18,092	19,820	14,240	15,322

As at 31 December 2018, 2019 and 2020 and 30 June 2021, the Target Company recorded net current assets of approximately RMB485,000, RMB4,463,000, RMB1,077,000 and RMB2,975,000, respectively, and net assets of RMB18,092,000, RMB19,820,000, RMB14,240,000 and RMB15,322,000, respectively. The net current assets and net assets of the Target Company primarily comprises amounts due from equity owners.

Gearing Ratio

As the Target Company did not have any borrowings as at 31 December 2018, 2019 and 2020 and 30 June 2021, the gearing ratio was not applicable.

Contingent liabilities

As at 31 December 2018, 2019 and 2020 and 30 June 2021, the Target Company did not have significant contingent liabilities.

Capital commitment

As at 31 December 2018, 2019 and 2020 and 30 June 2021, the Target Company did not have significant capital commitments.

Pledge of assets

As at 31 December 2018, 2019 and 2020 and 30 June 2021, the Target Company did not pledge any of its assets.

Charge on assets

As at 31 December 2018, 2019 and 2020 and 30 June 2021, the Target Company did not have any charges on assets.

Foreign exchange exposure

During FY2018, FY2019, FY2020, 6M2020 and 6M2021, the Target Company operated in the PRC with most of their transactions denominated and settled in RMB. As such, there is no significant currency mismatch in their operational cashflows and the Target Company is not exposed to any significant foreign currency exchange risk in its operations. The Target Company did not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities during FY2018, FY2019, FY2020, 6M2020 and 6M2021.

Material acquisition or disposal of subsidiary or associated company

During FY2018, FY2019, FY2020, 6M2020 and 6M2021, there was neither material acquisition nor disposal of subsidiaries or associated company by the Target Company.

Significant investment held

As at 31 December 2018, 2019 and 2020 and 30 June 2021, the Target Company did not hold any significant investments.

Employment and remuneration policy

As at 31 December 2018, 2019 and 2020 and 30 June 2021, the total number of employees (including directors) of the Target Company was approximately 1, 5, 6 and 6, respectively. Staff costs (including directors' remuneration) for FY2018, FY2019, FY2020 and 6M2021 were approximately RMB66,000, RMB1,269,000, RMB1,607,000 and RMB895,000, respectively. The Target Company determines the remuneration of its employees with references to market rates and individual's qualifications, experience, skills, performance and contributions. The Target Company regularly reviews compensation and benefits policies as well as the individual performance of employees to ensure that the employees are fairly rewarded.

Future plan for material investments or capital assets

As at 31 December 2018, 2019 and 2020 and 30 June 2021, the Target Company did not have any future plans for material investments or capital assets.

REPORTING ACCOUNTANTS' REPORT ON PRO FORMA FINANCIAL INFORMATION

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this circular.

A. Independent Reporting Accountants' Assurance Report on the Compilation of Unaudited Pro Forma Financial Information

To the Directors of Zhengye International Holdings Company Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Zhengye International Holdings Company Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 30 June 2021 and related notes as set out on pages IV-4 to IV-7 of the circular issued by the Company dated 23 December 2021 (the "**Circular**"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages IV-4 to IV-7 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of Zhongshan City Zheng Ye Lease Company Limited on the Group's financial position as at 30 June 2021 as if the transaction had taken place at 30 June 2021. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the six months ended 30 June 2021, on which no auditor's report or review report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "**Code of Ethics for Professional Accountants**" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2021 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the

Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 23 December 2021

B. Basis of Preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group

In connection with the proposed major and connected transaction in relation to the proposed acquisition of 100% equity interest in Zhongshan City Zheng Ye Lease Company Limited (the "**Target Company**") (the "**Acquisition**") by Zhengye International Holdings Company Limited (the "**Company**") and its subsidiaries (the "**Group**") (together with the Target Company hereinafter referred to as the "**Enlarged Group**"), the unaudited pro forma financial information is prepared to provide information on the Enlarged Group as a result of the completion of the Acquisition on the basis of notes set out below for illustrating the effect of the Acquisition, as if the Acquisition had taken place on 30 June 2021 for the preparation of the unaudited pro forma consolidated statement of assets and liabilities.

The unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group is prepared based on (i) the information on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2021 which has been extracted from the published interim report of the Group for the six months ended 30 June 2021 and (ii) the audited statement of financial position of the Target Company as at 30 June 2021 as extracted from the Accountants' s Report set out in Appendix II to this Circular, after making pro forma adjustments to the Acquisition, as if the Acquisition had completed on 30 June 2021.

The unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group has been prepared by the Directors of the Company in accordance with paragraph 4.29 of the Listing Rules and is solely for the purpose to illustrate the financial position of the Enlarged Group as if the Acquisition had taken place on 30 June 2021.

The unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group is prepared based on the aforesaid historical data after giving effect to the pro forma adjustments described below in the accompanying notes that are (i) directly attributable to the Acquisition; and (ii) factually supportable.

The information is prepared for illustrative purposes only and because of its hypothetical nature, it does not purport to represent what the financial position of the Enlarged Group would have been upon completion of the Acquisition in any future periods or on any future dates.

Accordingly, it does not purport to describe the financial position of the Enlarged Group that would have been attained had the Acquisition been completed on 30 June 2021, nor to predict the future financial position of the Enlarged Group.

C. Unaudited Pro Forma Financial Information

1. Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group

			Pro forma adjustments			
	The Group as at 30 June 2021	**The Target Company as at 30 June 2021**	**Profit distribution before the Acquisition**	**Acquisition of the Target Company**	**Elimination of intra-group balances and transactions, and reclassifications**	**Unaudited pro forma for the Enlarged Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note (1)	*Note (2) Note (4)*	*Note (3)*	*Note (4)*	*Note (5)*	
Non-current Assets						
Property, plant and equipment	1,080,239	14			187,611	1,267,864
Investment property	—	12,333		175,278	(187,611)	—
Right of use assets	190,305	—			(9,150)	181,155
Other intangible assets	6,018	—				6,018
Deferred tax assets	7,764	—			(108)	7,656
Deposits paid for acquisition of property, plant and equipment	40,043	—				40,043
	1,324,369	12,347				1,502,736
Current Assets						
Inventories	215,270	—				215,270
Trade and other receivables	961,836	1			(450)	961,387
Amounts due from equity owners	—	4,450	(4,450)			—
Amount due from a related party	—	68			(68)	—
Contract assets	21,272	—				21,272
Pledged bank deposits	191,244	—				191,244
Bank balances and cash	338,745	532		(186,000)		153,277
	1,728,367	5,051				1,542,450
Current Liabilities						
Trade and other payables	399,699	1,698	150		(450)	401,097
Consideration payable	5,672	—				5,672
Tax liabilities	5,673	378				6,051
Bank borrowings	953,067	—				953,067
Other borrowings	180,938	—				180,938
Lease liabilities	13,647	—			(6,462)	7,185
Contract liabilities	2,797	—				2,797
Amounts due to directors	293	—				293
	1,561,786	2,076				1,557,100
Net Current Assets (Liabilities)	166,581	2,975				(14,650)
Total Assets Less Current Liabilities	1,490,950	15,322				1,488,086

			Pro forma adjustments			
	The Group as at 30 June 2021 *RMB'000* *Note (1)*	**The Target Company as at 30 June 2021** *RMB'000* *Note (2)* *Note (4)*	**Profit distribution before the Acquisition** *RMB'000* *Note (3)*	**Acquisition of the Target Company** *RMB'000* *Note (4)*	**Elimination of intra-group balances and transactions, and reclassifications** *RMB'000* *Note (5)*	**Unaudited pro forma for the Enlarged Group** *RMB'000*
Capital and Reserves						
Share capital	41,655	1,000		(1,000)		41,655
Reserves	975,659	14,322	(4,600)	(9,722)	547	976,206
Equity attributable to owners of the Company	1,017,314	15,322				1,017,861
Non-controlling interests	239,883	—				239,883
Total Equity	1,257,197	15,322				1,257,744
Non-current Liabilities						
Deferred tax liabilities	7,924	—				7,924
Consideration payable	5,534	—				5,534
Bank borrowings	56,626	—				56,626
Other borrowings	98,560	—				98,560
Lease liabilities	26,082	—			(3,411)	22,671
Deferred income	39,027	—				39,027
	233,753	—				230,342
	1,490,950	15,322				1,488,086

Notes:

(1) The amounts are extracted from the published interim report of the Group for the six months ended 30 June 2021.

(2) The amounts are extracted from the Accountants' Report on the Target Company as set out in Appendix II to this Circular.

(3) On 30 September 2021, a dividend amounted to RMB4,600,000 was declared by the Target Company and set off part of the balance of amount due from equity owners. In the point of view of the management of the Group, the profit distribution by the Target Company before the Acquisition is directly attributable to the transaction. In the pricing negotiation, the transaction price is determined on the basis that the amounts due from equity owners on the book of the Target Company had been settled before the Acquisition via dividend distribution and it does not form part of the net assets to be acquired. Thus, this pro forma adjustment will be necessary for adjusting the net assets of the Target Company on the date of acquisition. The adjustment represents the impact of the dividend declared as if the dividend declaration had taken place on 30 June 2021.

(4) On 22 October 2021, an indirect wholly-owned subsidiary of the Company (the "**Purchaser**") and the Vendors entered into the Sale and Purchase Agreement in relation to the Acquisition, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the entire equity interest in the Target Company at an aggregate consideration of RMB186,000,000.

The adjustment represents the impact of acquisition of the Target Company by the Group at the pro forma purchase consideration of RMB186,000,000, as if the acquisition had taken place on 30 June 2021 and all consideration are paid in cash.

The fair value adjustment to the investment property is derived as below:

	RMB'000
Allocated fair value of the investment property at the date of acquisition	187,611
Less: Net book value of the investment property of the Target Company as at 30 June 2021	(12,333)
Fair value adjustment to the investment property at the date of acquisition	175,278

Assets and liabilities recognised at the date of acquisition	*RMB'000*
Property, plant and equipment	14
Investment property	187,611
Other receivables	1
Amount due from a related party	68
Bank balances and cash	532
Other payables	(1,848)
Tax liabilities	(378)
	186,000

The consolidation adjustment for acquisition of the Target Company (including fair value adjustment to the investment property) is as below:

	RMB'000
Dr. Investment property	175,278
Dr. Share capital	1,000
Dr. Reserves	9,722
Cr. Bank balances and cash	186,000

(5) The adjustment represents the impact of elimination of intra-group balances and transactions, and reclassifications, as if the acquisition had taken place on 30 June 2021. Details as below:

(a) Reclassification of the investment property to property, plant and equipment upon acquisition:

	RMB'000
Dr. Property, plant and equipment	187,611
Cr. Investment property	187,611

(b) Elimination of the rental deposit receivable and rental deposit payable in relation to the lease between the Group and the Target Company:

	RMB'000
Dr. Trade and other payables	450
Cr. Trade and other receivables	450

(c) Elimination of right of use assets, lease liabilities, lease receivables and related deferred tax assets in relation to the lease between the Group and the Target Company:

	RMB'000
Dr. Lease liabilities	9,873
Cr. Right of use assets	9,150
Cr. Amount due from a related party	68
Cr. Deferred tax assets	108
Cr. Reserves	547

The following is the text of a valuation report, prepared for the purpose of incorporation in this circular received from Valor Appraisal & Advisory Limited, an independent valuer, in connection with its valuation as at 30 September 2021 of the property interests intended to be acquired by the Group.

VALOR
VALUE WITH VIRTUES
VALOR APPRAISAL & ADVISORY LIMITED

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Date: 23 December 2021

The Board of Directors
Zhengye International Holdings Company Limited
Suite 2502, 25/F., Chinaweal Centre
18 Fenwick Street
Wanchai, Hong Kong

Dear Sirs,

INSTRUCTIONS

In accordance with your instructions for us to value various properties which Zhengye International Holdings Company Limited (the "**Company**") and its subsidiaries (hereinafter together referred to as the "**Group**") intend to acquire in the People's Republic of China (the "**PRC**"), we confirm that we have carried out property inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the property interests as at 30 September 2021 (the "**Valuation Date**").

This letter which forms part of our valuation report explains the basis and methodologies of valuation, clarifying assumptions, valuation considerations, title investigation and limiting conditions of this valuation.

BASIS OF VALUATION

Our valuation of the property interests represents the market value which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

VALUATION METHODOLOGY

In valuing the property interests, we have adopted depreciated replacement cost approach by a combination of the open market value of land portions and depreciated replacement cost of the buildings and structures standing on the land. Hence, the sum of the two results represents the value of the properties as a whole. In the valuation of the land portions, reference has been made to the comparables sales transactions as available in the subject localities.

As the nature of the buildings and structures cannot be valued on the basis of market value, due to there being no market sale comparable evidence of the same characteristics in the vicinity, they have therefore been valued on the basis of their depreciated replacement cost. The depreciated replacement cost approach considers the cost to reproduce or replace in new condition the property appraised in accordance with current construction costs for similar buildings and structures in the locality, with allowance for accrued depreciation as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes. For the current construction cost, reference of relevant construction cost data as available in the market has been made. The depreciated replacement cost approach generally furnished the most reliable indication of value for the property in the absence of a known market based on comparable sales. The approach is subject to adequate potential profitability of the business.

VALUATION CONSIDERATIONS

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards published by The Hong Kong Institute of Surveyors.

VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the seller sells the property interests on the open market in their existing states without the benefit of a deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements, which could serve to affect the values of the property interests.

In undertaking our valuation, we have assumed that, unless otherwise stated, transferable land use rights in respect of the property interests for specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid. We have also assumed that the owners of the properties have enforceable titles to the properties and have free and uninterrupted rights to use, occupy or assign the properties for the whole of the respective unexpired terms as granted.

No allowance has been made in our valuation for any outstanding or additional land premium, charges, mortgages or amounts owing on the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

TITLE INVESTIGATION

We have been, in some instances, shown copies of various title documents and other documents relating to the property interests and have made relevant enquiries. We have not examined the original documents to verify the existing title to the property interests and any material encumbrances that might be attached to the property interests or any lease amendments. However, we have relied considerably on the information given by the Company's PRC legal adviser, Beijing Jingtian & Gongcheng Law Firm (北京市競天公誠律師事務所), concerning the validity of the Target Company's title to the property interests located in the PRC.

All legal documents provided by the Company have been used for reference only. No responsibility regarding legal title to the property interests is assumed in this valuation report.

LIMITING CONDITIONS

We have inspected the exterior, and wherever possible, the interior of the properties but no structural survey had been made. In the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. Further, no test has been carried out on any of the building services. All dimensions, measurements and areas are only approximates. We have not been able to carry out detailed on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the copies of documents handed to us are correct.

The site inspection of the property was carried out on 6 September 2021 by Mr. Wang Kuanghong (BA Real Estate), who has over 6 years' experience in valuation of real estate including industrial properties located in the PRC.

We have relied to a considerable extent on information provided by the Target Company and have accepted advice given to us on such matters, in particular, but not limited to, the sales records, tenure, planning approvals, statutory notices, easements, particulars of occupancy, site and floor areas and all other relevant matters in the identification of the property interests.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Target Company. We have also been advised by the Target Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Liability in connection with this valuation is limited to the client to whom this valuation is addressed and for the purpose for which it is carried out only. We will accept no liability to any other parties or any other purposes.

This valuation is to be used only for the purpose stated herein, any use or reliance for any other purpose, by you or third parties, is invalid. No reference to our name or our valuation report in whole or in part, in any document you prepare and/or distribute to third parties may be made without written consent.

The Novel Coronavirus Disease (COVID-19) has impacted on the global financial markets and the real estate market is being impacted by prevailing uncertainty. Many countries have implemented travel restrictions. Our valuation is reported on the basis of material valuation uncertainty. We cannot predict the progress of COVID-19 and its impact on the real estate market. The market condition may change significantly over a relatively short period of time. There may be material difference between our estimation of market value based on the current market and actual transaction price of the property. Given the uncertain impact of COVID-19 on the market, the valuation of the property is recommended to have under frequent review.

EXCHANGE RATE

Unless otherwise stated, all monetary amounts stated in this valuation are in Renminbi (RMB).

Our summary of values and "Property Particulars and Opinion of Value" are herewith attached.

Yours faithfully,
For and on behalf of
Valor Appraisal & Advisory Limited

Ian K. F. Ng
MHKIS
Associate Director

Mr. Ian K. F. Ng is a professional surveyor with over 10 years' experience in valuation of properties in HKSAR, Macau SAR and mainland China. Mr. Ng is a Professional Member of The Hong Kong Institute of Surveyors.

SUMMARY OF VALUES

Property		Market Value in Existing State as at 30 September 2021 *RMB*
Property interests intended to be acquired and occupied by the Group in the PRC		
1	A parcel of land and an industrial building located at No.119 Dong Cheng Road, Dong Sheng Town, Zhongshan City, Guangdong Province, the PRC	21,500,000
2	A parcel of land and four industrial buildings located at No.126 Dong Cheng Road, Dong Sheng Town, Zhongshan City, Guangdong Province, the PRC	165,000,000
	Total:	186,500,000

PROPERTY PARTICULARS AND OPINION OF VALUE

Property interests intended to be acquired and occupied by the Group in the PRC

	Property	Description and Tenure	Particular of Occupancy	Market Value in Existing State as at 30 September 2021
1	A parcel of land and an industrial building located at No.119 Dong Cheng Road, Dong Sheng Town, Zhongshan City, Guangdong Province, the PRC (位於中華人民共和國廣東省中山市東升鎮東成路119號之土地和1幢工業房屋)	The property comprises a parcel of land with an area of approximately 12,799.80 sq.m. together with erected thereon a 3-storey industrial building completed in 1995. The gross floor area of the building is approximately 4,612.14 sq.m. The property is situated on Dong Seng Road in Dong Sheng Town. Developments in the vicinity are mainly industrial and residential buildings. The land use rights of the property were contracted to be acquired for a term of 50 years expiring on 16 February 2043 for industrial use.	The building with a gross floor area of approximately 4,612.14 sq.m. of the property together with the four buildings with a total gross floor area of approximately 39,708.40 sq.m. of property no. 2 are currently leased to the Group for workshop and ancillary office purposes for a term expiring on 31 December 2022 at a total monthly rental of RMB487,525 exclusive of management fee and utility charges. The lease will not be affected by the Acquisition and will continue to operate after the Completion Date. It is expected that intra-group transactions will occur after the Completion Date.	RMB21,500,000 (Renminbi Twenty One Million Five Hundred Thousand)

Notes:

(1) Pursuant to a State-owned Land Use Rights Certificate — Zhong Fu Guo Yong (2013) Di No. 0900487 (中府國用(2013)第0900487號) issued by Zhongshan City Bureau of Land Resources (中山市國土資源局) dated 26 December 2013, the land use rights of a parcel of land with a site area of approximately 12,799.80 sq.m. were granted to Zhongshan City Zheng Ye Lease Company Limited (中山市正業租賃有限公司), which is controlled by the controlling shareholders of the Company, for a term expiring on 16 February 2043 for industrial use.

(2) Pursuant to a Certificate of Real Estate Ownership — Yu Fang Di Quan Zheng Zhong Fu Zi Di No. 0113026092 (粵房地權證中府字第0113026092號) issued by Zhongshan City Bureau of Land Resources registered on 26 December 2013, the land use rights and the building ownership rights of a 3-storey building with a gross floor area of approximately 4,612.14 sq.m. were granted to Zhongshan City Zheng Ye Lease Company Limited for industrial use.

(3) We are instructed by the Company to also value the property as at 30 June 2021 for management reference to serve accounting disclosure purpose. The market value of the property, as at 30 June 2021, was RMB21,500,000.

(4) The major certificates and permits of the property are summarized as follows:

(i)	State-owned Land Use Rights Certificate	Yes
(ii)	Certificate of Real Estate Ownership	Yes

(5) We have been provided with a legal opinion as at the date of the report regarding the property interests by the Company's PRC legal adviser, Beijing Jingtian & Gongcheng Law Firm, which contains, inter alia, the following:

(i) Zhongshan City Zheng Ye Lease Company Limited legally owns the property and is entitled to lease, use, transfer, mortgage and dispose of the property in accordance with the PRC laws; and

(ii) The property is not subject to mortgage and other encumbrances.

(6) To arrive at the value of the land portion of the property, we have collected and considered three sales comparable evidences in the locality based on the criteria that they are in similar size and industrial usage; and located in the same city as the subject property. The comparables should be transacted within 2021. We noted that the unit price of sales transaction reference of comparables is in the range between RMB1,200/sq.m. and RMB1,500/sq.m. The unit rate adopted to arrive at the value of the subject land is approximately RMB1,220/sq.m., which is in line with the comparables collected. Various factors such as location, size and length of term of the land use rights have been considered in comparing the comparables and the subject property. The basis of adjustment is that if the comparable property is superior to the property, a downward adjustment is made. However, if the comparable property is inferior to the property, an upward adjustment is made. We consider the factors of size and location between the comparables and the property are similar. The term of the land use rights of the three comparables is superior to the property, and hence downward adjustment is made to arrive at the average unit rate of the land of approximately RMB1,220/sq.m. The comparables are exhaustive based on the above-mentioned selection criteria. Details of the comparables are listed as follows:

	Comparable 1	**Comparable 2**	**Comparable 3**
Location	Huang Pu Town Zhongshan City	Heng Lan Town Zhongshan City	Dong Sheng Town Zhongshan City
Usage	Industrial	Industrial	Industrial
Site Area (sq.m.)	16,299.0	20,130.3	20,303.3
Unit Rate (RMB/sq.m.)	1,350	1,200	1,500

Based on our valuation analysis, the value of the land is RMB15,600,000. By adding the depreciated replacement cost of the building (excluding the land) of the property of RMB5,900,000, the market value of the property is RMB21,500,000.

Regarding the construction cost of replacement of the improvements of the property, we have made reference to the cost data for 2020 from Guangzhou Municipal Housing and Urban-Rural Development Bureau.

PROPERTY PARTICULARS AND OPINION OF VALUE

Property interests intended to be acquired and occupied by the Group in the PRC

	Property	Description and Tenure	Particular of Occupancy	Market Value in Existing State as at 30 September 2021
2	A parcel of land and four industrial buildings located at No.126 Dong Cheng Road, Dong Sheng Town, Zhongshan City, Guangdong Province, the PRC (位於中華人民共和國廣東省中山市東升鎮東成路126號之土地和4幢工業房屋)	The property comprises a parcel of land with an area of approximately 76,873.30 sq.m. together with erected thereon four single to 4-storey industrial buildings completed in between 2003 and 2011. The total gross floor area of the buildings is approximately 39,708.40 sq.m. The property is situated on Dong Seng Road in Dong Sheng Town. Developments in the vicinity are mainly industrial and residential buildings. The land use rights of the property were contracted to be acquired for a term of 50 years expiring on 4 June 2043 for industrial use.	The four buildings with a total gross floor area of approximately 39,708.40 sq.m. of the property together with the building with a gross floor area of approximately 4,612.14 sq.m. of property no.1 are currently leased to the Group for workshop and ancillary office purposes for a term expiring on 31 December 2022 at a total monthly rental of RMB487,525 exclusive of management fee and utility charges. The lease will not be affected by the Acquisition and will continue to operate after the Completion Date. It is expected that intra-group transactions will occur after the Completion Date.	RMB165,000,000 (Renminbi One Hundred Sixty Five Million)

Notes:

(1) Pursuant to a State-owned Land Use Rights Certificate — Zhong Fu Guo Yong (2013) Di No. 0900488 issued by Zhongshan City Bureau of Land Resources dated 27 December 2013, the land use rights of a parcel of land with a site area of approximately 76,873.30 sq.m. were granted to Zhongshan City Zheng Ye Lease Company Limited for a term of expiring on 4 June 2043 for industrial use.

(2) Pursuant to four Certificates of Real Estate Ownership issued by Zhongshan City Bureau of Land Resources all registered on 27 December 2013, the land use rights and building ownership rights of four buildings with a total gross floor area of approximately 39,708.40 sq.m. were granted to Zhongshan City Zheng Ye Lease Company Limited for industrial use with details as follows:

Certificate No.	No. of Storey	Gross Floor Area *(sq.m.) (Approx.)*
Yu Fang Di Quan Zheng Zhong Fu Zi Di No.0113026155	4	3,368.78
Yu Fang Di Quan Zheng Zhong Fu Zi Di No.0113026142	1	8,481.04
Yu Fang Di Quan Zheng Zhong Fu Zi Di No.0113026136	1	20,014.62
Yu Fang Di Quan Zheng Zhong Fu Zi Di No.0113026153	1	7,843.96
	Total:	39,708.40

(3) We are instructed by the Company to also value the property as at 30 June 2021 for management reference to serve accounting disclosure purpose. The market value of the property, as at 30 June 2021, was RMB165,000,000.

(4) The major certificates and permits of the property are summarized as follows:

(i)	State-owned Land Use Rights Certificate	Yes
(ii)	Certificate of Real Estate Ownership	Yes

(5) We have been provided with a legal opinion as at the date of the report regarding the property interests by the Company's PRC legal adviser, Beijing Jingtian & Gongcheng Law Firm, which contains, inter alia, the following:

(i) Zhongshan City Zheng Ye Lease Company Limited legally owns the property and is entitled to lease, use, transfer, mortgage and dispose of the property in accordance with the PRC laws; and

(ii) The property is not subject to mortgage and other encumbrances.

(6) To arrive at the value of the land portion of the property, we have collected and considered three sales comparable evidences in the locality based on the criteria that they are in similar size and industrial usage; and located in the same city as the subject property. The comparables should be transacted within 2021. We noted that the unit price of sales transaction reference of comparables is in the range between RMB1,200/sq.m. and RMB1,500/sq.m. The unit rate adopted to arrive at the value of the subject land is approximately RMB1,220/sq.m., which is in line with the comparables collected. Various factors such as location, size and length of term of the land use rights have been considered in comparing the comparables and the subject property. The basis of adjustment is that if the comparable property is superior to the property, a downward adjustment is made. However, if the comparable property is inferior to the property, an upward adjustment is made. We consider the factors of size and location between the comparables and the property are similar. The term of the land use rights of the three comparables is superior to the property, and hence downward adjustment is made to arrive at the average unit rate of the land of approximately RMB1,220/sq.m.. The comparables are exhaustive based on the above-mentioned selection criteria. Details of the comparables are listed as follows:

	Comparable 1	**Comparable 2**	**Comparable 3**
Location	Huang Pu Town Zhongshan City	Heng Lan Town Zhongshan City	Dong Sheng Town Zhongshan City
Usage	Industrial	Industrial	Industrial
Site Area (sq.m.)	16,299.0	20,130.3	20,303.3
Unit Rate (RMB/sq.m.)	1,350	1,200	1,500

Based on our valuation analysis, the value of the land is RMB94,000,000. By adding the depreciated replacement cost of the buildings (excluding the land) of the property of RMB71,000,000, the market value of the property is RMB165,00,000.

Regarding the construction cost of replacement of the improvements of the property, we have made reference to the cost data for 2020 from Guangzhou Municipal Housing and Urban-Rural Development Bureau.

The following is the text of a valuation report prepared for the purpose of incorporation in this circular received from Valor Appraisal & Advisory Limited, an independent valuer, in connection with their valuation of 100% equity interest in 中山市正業租賃有限公司 as at 30 September 2021.

VALOR
VALUE WITH VIRTUES
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Date: 23 December 2021

The Board of Directors
Zhengye International Holdings Company Limited
Suite 2502, 25th Floor,
Chinaweal Centre,
414–424 Jaffe Road,
Wan Chai, Hong Kong

Dear Sir/Madam,

RE: Valuation Report of 中山市正業租賃有限公司 for Circular Reference for Zhengye International Holdings Company Limited

In accordance with the instruction of Zhengye International Holdings Company Limited (the "**Company**"), we have made an appraisal of the equitable value of 100% equity interest in 中山市正業租賃有限公司 for circular reference as at the valuation date (30 September 2021).

The details and conclusion of the valuation are presented in the attached valuation report, which outlines the factors considered, valuation methodology, basis and assumptions employed in formulating our opinion of value.

Valor Appraisal & Advisory Limited ("**Valor**") is an independent firm providing full range of valuation and advisory services. This report has been prepared independently. Neither Valor nor any authors of this report hold any interest in the Company or its related parties. The fee for providing this report is based on Valor's normal professional rates, whilst expenses (if incurred) are being reimbursed at cost. Payment of fees and reimbursements are not contingent upon the conclusions drawn in the report.

Yours faithfully,
For and on behalf of
Valor Appraisal & Advisory Limited
Haydn Y.C. Lee
CFA CPA (Aust.) MAusIMM RBV
Director

1. INTRODUCTION & PURPOSE OF VALUATION

In accordance with the instruction of Zhengye International Holdings Company Limited (the "**Company**"), Valor Appraisal & Advisory Limited ("**Valor**" or the "**Valuer**") is required to provide an independent valuation report (the "**Valuation Report**") to assess the equitable value (the "**Equitable Value**") of 100% equity interest (the "**Equity Interest**") in 中山市正業租賃有限公司 (translated as Zhongshan City Zheng Ye Lease Company Limited and hereinafter referred to as the "**Target Company**") as at 30 September 2021 (the "**Valuation Date**").

Relevant enquiries have been made and required information have been obtained that Valor considers to be necessary in forming an independent opinion of the Equitable Value of the Equity Interest, as at the Valuation Date.

This Valuation Report states valuation methodology and approach adopted in assessing the Equitable Value of the Equity Interest, as well as outlines Valor's latest findings and valuation conclusion, which is prepared solely for the purpose of circular reference for the Company and its subsidiaries (collectively referred to as the "**Group**").

In this Valuation Report, words in the singular number include the plural and vice versa; the words asset or assets are deemed to include liability or liabilities, except where it is expressly stated otherwise, or is clear from the context that liabilities are excluded; headings are inserted for convenient reference only and have no effect in limiting or extending the language to which they refer.

2. BACKGROUND INFORMATION OF THE TARGET COMPANY

The following background information of the Target Company has been complied with reference to the documents received from and representation by the management of the Group and the Target Company (the "**Management**"), which are assumed to be accurate and relied upon when conducting this valuation exercise.

The Target Company is principally engaged in real estate leasing and property management. As at the Valuation Date, it has a registered capital of RMB1,000,000. The assets of the Target Company include, among others, a parcel of land and an industrial building located at No.119 Dong Cheng Road, Dong Sheng Town, Zhongshan City, Guangdong Province, the People's Republic of China (the "**PRC**") and a parcel of land and four industrial buildings located at No. 126 Dong Cheng Road, Dong Sheng Town, Zhongshan City, Guangdong Province, the PRC (collectively referred to as the "**Properties**").

Zheng Ye Packaging (Zhongshan) Company Limited, an indirect wholly-owned subsidiary of the Company, has been leasing the premises for its business operations from the Target Company.

3. SCOPE OF WORK

In conducting this valuation exercise, Valor's appraisers have:

- gathered all relevant information;
- discussed with the Management;
- collected market data from reliable sources;
- investigated into the information, and considered the basis and assumptions of the opinion of value;
- analysed the financial information of companies in a similar industry; and
- designed an appropriate valuation model to derive the Equitable Value of the Equity Interest.

4. BASIS OF VALUATION

The valuation was carried out on an Equitable Value basis. According to International Valuation Standards 2020 ("**IVS 2020**") issued by International Valuation Standards Council ("**IVSC**"), Equitable Value is defined as "*the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties*". In particular, the Equitable Value of the Equity Interest in this valuation exercise refer to the equity value, which is defined as "*the value of a business to all of its equity shareholders*" in accordance with International Valuation Standard 200 *Businesses and Business Interests* in IVS 2020.

5. BASIS OF OPINION

The valuation was conducted in accordance with IVS 2020 issued by IVSC. The valuation procedure includes review of the financial and economic conditions of the subject business interest, an assessment of key assumptions, estimates, and representations made by the Management. All matters essential to the proper understanding of the valuation are disclosed in the valuation report. Opinion of value included in the valuation report is impartial, independent and unbiased.

The following factors also form a considerable part of the basis of opinion:

- assumptions on the market and on the subject business interest that are considered to be fair and reasonable;
- financial performance that shows a consistent trend of the operation of the subject business interest;
- consideration and analysis on the micro and macro economic factors; and
- analytical review of the subject business interest.

In the course of conducting the valuation, all the information and explanations considered necessary have been obtained so that there are sufficient evidences and reasonable basis in forming the opinion of value on the subject business interest.

6. SOURCES OF INFORMATION

In conducting the valuation of the subject business interest, the following key information, including but not limited to those provided by the Management and derived from the public have been considered, reviewed, and relied upon:

- Management accounts of the Target Company as at 30 September 2021;
- Fixed asset list of the Target Company as at 30 September 2021;
- Annual report 2020 of the Company;
- IVS 2020 issued by IVSC;
- Overview of the nature of the subject business interest;
- Discussions with the Management; and
- Hong Kong Exchanges and Clearing Limited, Google and other reliable sources of market data.

In arriving at the opinion of the Equitable Value of the Equity Interest, the accuracy and completeness of the information reviewed for the purpose of this valuation have been assumed and relied on. In addition, the statements, information, opinion and representations provided by the Company and the Target Company have been relied upon.

Research was conducted using various sources including government statistical releases and other publications to assess the reasonableness and fairness of information provided.

The opinion is based upon economic, market, financial and other conditions as exist and can be evaluated on the date of this report and no responsibility is assumed to update or revise the opinion based on events or circumstances occurring after the date of this report. In reaching the opinion, assumptions have been made with respect to such economic, market, financial and other conditions and other matters, many of which are beyond the control of Valor or any party involved in this valuation exercise.

7. VALUATION APPROACH AND METHODOLOGY

In carrying out this valuation exercise, the following approaches and methodologies have been considered:

Cost Approach — The cost approach provides an indication of value using the economic principal that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction. This approach is based on the principle that the price that a buyer in the market would pay for the asset being valued would, unless undue time, inconvenience, risk or other factors are involved, be not more than the cost to purchase or construct an equivalent asset. Often the asset being valued will be less attractive than the alternative that could be purchased or constructed because of age or obsolescence. Where this is the case, adjustments may need to be made to the cost of the alternative asset depending on the required basis of value.

Market Approach — The market approach provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available. Under this approach the first step is to consider the prices for transactions of identical or similar assets that have occurred recently in the market. If few recent transactions have occurred, it may also be appropriate to consider the prices of identical or similar assets that are listed or offered for sale provided the relevance of this information is clearly established and critically analysed. It may be necessary to adjust the price information from other transactions to reflect any differences in the terms of the actual transaction and the basis of value and any assumptions to be adopted in the valuation being undertaken. There may also be differences in the legal, economic or physical characteristics of the assets in other transactions and the asset being valued.

Income Approach — The income approach provides an indication of value by converting future cash flows to a single current capital value. This approach considers the income that an asset will generate over its useful life and indicates value through a capitalisation process. Capitalisation involves the conversion of income into a capital sum through the application of an appropriate discount rate. The income stream may be derived under a contract or contracts, or be non-contractual, for example the anticipated profit generated from either the use of or holding of the asset.

In this valuation exercise, the values of the assets and liabilities of the Target Company were developed through the application of the following valuation approaches and methodologies:

Assets and Liabilities	**Valuation Approaches and Methodologies**
Bank balances and cash	Based on book value as at 30 September 2021 which is assumed to be equitable value as at the Valuation Date.
Amount due from a related party	Based on book value as at 30 September 2021 which is assumed to be equitable value as at the Valuation Date.
Other receivables	Based on book value as at 30 September 2021 which is assumed to be equitable value as at the Valuation Date.
The Properties	Based on depreciated replacement cost approach by a combination of the open market value of land portions and depreciated replacement cost of the buildings and structures standing on the land. Details please refer to the property valuation report dated 23 December 2021 issued by Valor.

Motor vehicle

Based on guideline transactions method under market approach. The guideline transaction method utilizes information on transactions involving assets that are the same or similar to the subject asset to arrive at an indication of value. Selection criteria of comparable transactions are recent public available prices for the period from 1 January 2021 to 30 September 2021 of second-hand motor vehicles which possess the same brand and model, carrying capacity and similar ex-factory date with the subject motor vehicle, and with mileage information available. The subject motor vehicle is a black Volkswagen sedan with model number SVW72010UJ and a mileage of approximately 55,000 km. The comparables are exhaustive based on the above-mentioned selection criteria. Details of the comparables are listed as follows:

	Comparable 1	**Comparable 2**
Brand	Volkswagen	Volkswagen
Model	SVW72010UJ	SVW72010UJ
Color	Black	Black
Mileage (km)	39,739	110,000
Price (RMB)	120,861	109,800

We note that public available prices of comparables is in the range between RMB109,800 and RMB120,861. The subject motor vehicle has a higher mileage than comparable 1 and is considered to be inferior to comparable 1. The subject motor vehicle has a lower mileage than comparable 2 and is considered to be superior to comparable 2. Based on the factor of mileage, we consider the subject motor vehicle is at the lower end of the price range of the comparables and a value of RMB110,000 was arrived at.

Current liabilities

Based on book value as at 30 September 2021 which is assumed to be equitable value as at the Valuation Date.

8. KEY ASSUMPTIONS

Key Assumptions

The assumptions considered having significant sensitivity effects in this valuation have been evaluated in arriving at the assessed value with key assumptions listed as follows:

- there will be no material change in the existing political, legal, technological, fiscal or economic conditions which might adversely affect the economy in general and the operation of the subject business interest;
- there will be no major changes in the current taxation laws in the PRC, and no allowance has been made in our valuation for any expenses or taxation which may be incurred in effecting a sale or transfer of assets or liabilities;
- there will be no material fluctuation of the finance costs and availability of finance in the PRC;
- the Target Company will fulfil all legal and regulatory requirements for the principal business;
- the development of the Target Company will not be constrained by the availability of finance and there will be no material fluctuation of the finance costs;
- there will not be any adverse events beyond the control of the management of the Target Company, including natural disasters, catastrophes, fire, explosion, flooding, acts of terrorism and terrorism, pandemics and epidemics that may adversely affect the operation of the subject business interest;
- the future movement of exchange rates and interest rates will not differ materially from prevailing market rates; and
- the Target Company will retain competent management, key personnel and technical staff for its operations and the relevant shareholders will support its ongoing operations.

9. BOOK VALUES OF ASSETS AND LIABILITIES OF THE TARGET COMPANY

The table below list out the book values of assets and liabilities belonging to the Target Company as at 30 September 2021, based on the management accounts of the Target Company as at 30 September 2021:

Assets and Liabilities of Zheng Ye Leasing	**Book Values** *(RMB)*
Bank balances and cash	174,717
Amount due from a related party	1,485,796
Other receivables	820
The Properties	11,936,628
Motor vehicle	13,693
Current liabilities	(1,861,753)
Net assets	10,749,901

10. VALUATION COMMENTS

As part of the analysis, the information and documents provided by the Management, the financial and business information from public sources with such available financial information, client representation, project documentation and other pertinent data concerning the Equity Interest have been reviewed. The accuracy of such information have been assumed and relied on to a considerable extent in arriving at the opinion of value.

Relevant searches and enquiries have been made and such further information as considered necessary has been obtained for the purpose of this valuation exercise.

The opinion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and consideration of such matters are regarded to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company, the Target Company and Valor. No assurance is provided on the achievability of any financial results estimated by the Company and/or the Target Company because events and circumstances frequently do not occur as expected; differences between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans and assumptions of the management. In addition, the other limiting and general service conditions are attached in Appendix I.

11. RISK FACTORS

The recent outbreak of coronavirus disease worldwide may result in the slowdown of economy

The recent outbreak of coronavirus disease 2019 ("**COVID-19**") since December 2019 has increased uncertainties to the global economy. If the development of COVID-19 persists or intensifies, the global economy may be adversely affected. In such event, the resultant unfavourable global economic conditions, dampened market sentiment and decreased purchasing power of the global economy could adversely impact business operations and financial performances of the Target Company.

Economic, political and social considerations

Any unfavourable global and regional economic condition such as the trade war between the United States and its key trading partners like China and the decision by the United Kingdom to exit the European Union, may have a detrimental impact on the business of the Target Company. Due to the uncertainties in economic situation, there is no guarantee that the expected financial performance will materialize. Any changes in global political, economic and social conditions, laws, regulations and policies may have significant impacts on the projections of the future income of the Target Company. In view of the current situation, the possibility of trade protectionism cannot be ruled out. None of these changes can be foreseen with certainty.

Technological changes

Any change in the technological developments and advancements may have significant impacts on the operating and financial performance of the Target Company. To remain competitive in the industry, the Target Company may be required to make substantial capital expenditures to keep up with technological changes.

Company specific risk

The operation of the Target Company may perform better or worse than the expectation, and the resulting operating and financial performance will be very different from the estimates. The possibility of severe operational incidence, whether it is exogenous or endogenous, cannot be precluded.

12. OPINION OF VALUE

Based on the investigation and analysis outlined in the subsections "SCOPE OF WORK" and "VALUATION APPROACH AND METHODOLOGY" above, we are of the opinion that as at the Valuation Date, which is **30 September 2021**, the Equitable Values of the assets and liabilities of the Target Company are as follows:

Assets and Liabilities of Zheng Ye Leasing	**Equitable Values** *(RMB)*
Bank balances and cash	174,717
Amount due from a related party	1,485,796
Other receivables	820
The Properties	186,500,000
Motor vehicle	110,000
Current liabilities	(1,861,753)
Net assets	186,409,580

We are of the opinion that the Equitable Value of 100% equity interest in the Target Company as at the Valuation Date is equal to the Equitable Value of net assets of the Target Company, which is **RMB186,409,580** (RENMINBI ONE HUNDRED EIGHTY SIX MILLION FOUR HUNDRED NINE THOUSAND FIVE HUNDRED AND EIGHTY).

Yours faithfully,
For and on behalf of
Valor Appraisal & Advisory Limited
Haydn Y.C. Lee
CFA CPA (Aust.) MAusIMM RBV
Director

Mr. Haydn Y.C. Lee is a Chartered Financial Analyst charterholder, member of CPA Australia, member of the Australasian Institute of Mining & Metallurgy and Registered Business Valuer. He has 13 years' experience in business valuation. He oversees the business valuation services of Valor and has provided a wide range of valuation services to listed companies and private entities in different industries in the PRC, Hong Kong and Singapore.

APPENDIX I — LIMITING AND GENERAL SERVICE CONDITIONS

1. As part of the analysis, Valor's appraisers have reviewed financial and business information from public sources together with such financial information, client representation, project documentation and other pertinent data concerning the project made available to Valor during the course of the valuation. Valor's appraisers have assumed the accuracy of, and have relied on the information and client representations provided in arriving at the opinion of value. We have not audited, reviewed, or compiled the financial information provided to us and, accordingly, we express no audit opinion or any other form of assurance on this information.

2. Our report was used as part of the analysis of the Group in reaching their conclusion of value and the ultimate responsibility of the determination of value of the subject asset rests solely with the Group.

3. It is assumed that the Management is responsible to ensure proper books of accounts are maintained, and the financial statements give a true and fair view and have been prepared in accordance with the relevant companies' ordinance.

4. Valor shall not be required to give testimony or attendance in court or to any government agency by reason of this valuation and with reference to the project described herein unless prior arrangements have been made.

5. No opinion is intended to be expressed for matters which require legal or other specialised expertise or knowledge, beyond what is customarily employed by Valor's appraisers.

6. The conclusions assume continuation of prudent client policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the asset valued.

7. It is assumed that there are no hidden or unexpected conditions associated with the asset valued that might adversely affect the reported value. Further, it is assumed that no responsibility for changes in market conditions after the date of this report.

8. This valuation report has been prepared solely for the use of the designated parties. The valuation report should not be otherwise referred to, in whole or in part, or quoted in any document, circular or statement in any manner, or distributed in whole or in part or copied to any third party without prior written consent from Valor.

9. This report is confidential to the client for the specific purpose to which it refers. In accordance with Valor's standard practice, it is stated that this report and valuation is for the use only of the party to whom it is addressed and no responsibility is accepted with respect to any third party for the whole or any part of its contents.

10. Valor have made no investigation of and assumed no responsibility for the title to or any liabilities against the asset appraised.

11. In the event that Valor becomes involved in any capacity in any action, proceedings or investigation brought by or against any person, in connection with or as a result of either the Valor's engagement or any matter referred to in the service engagement, the Group will reimburse the Valor for all legal and other expenses incurred in connection therewith. Except where it is determined by final judgement of a court to have resulted from wilful default or gross negligence of Valor or its officers, the Group will fully indemnify and hold Valor harmless against any and all losses, claims, damages or liabilities to any such person in connection with or as a result of either the Valor's engagement or any matter referred to in the service engagement. The reimbursement, indemnity and contributions to each of its associates shall ensure to the benefit of the Valor's successors, assigns, heirs and personal representatives of the Valor, any such affiliate and any such persons. In the event the Valor is subject to any liability in connection with this service engagement, such liability will be limited to the amount of fees received for this engagement.

12. The Group agrees that itself or any of its associates will make no claim against Valor or any of its associates in connection with the engagement of the Valor except as a result of the Valor's wilful default or gross negligence, and that neither Valor nor any of its associates will have any direct or indirect liability to the Group or except where it is determined by final judgement of a court to have resulted from wilful default or gross negligence of Valor or its officers.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF DIRECTORS' INTERESTS

Directors' and chief executive's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 of the Listing Rules, were as follows:

Name of Directors	Name of Group member/associated corporation	Number and class of securities *(Note 1)*	Capacity/Nature of interests	Approximate percentage of shareholding *(%)*
Hu Zheng	The Company	191,250,000	Interest of controlled corporation *(Note 2)*	38.25
	Gorgeous Rich Development Limited ("**Gorgeous Rich**")	1 ordinary share of US$1.00	Beneficial owner	100
Hu Hancheng	The Company	93,750,000	Interest of controlled corporation *(Note 3)*	18.75
	Golden Century Assets Limited ("**Golden Century**")	1 ordinary share of US$1.00	Beneficial owner	100

Name of Directors	Name of Group member/associated corporation	Number and class of securities(Note 1)	Capacity/Nature of interests	Approximate percentage of shareholding (%)
Hu Hanchao	The Company	75,000,000	Interest of controlled corporation(Note 4)	15
	Leading Innovation Worldwide Corporation ("**Leading Innovation**")	1 ordinary share of US$1.00	Beneficial owner	100
Chen Riyue	The Company	15,000,000	Interest of controlled corporation(Note 5)	3
	Fortune View Services Limited ("**Fortune View**")	1 ordinary share of US$1.00	Interest of spouse	100

Notes:

1. All the interests stated above represent long positions. The percentage shown was the number of shares the relevant directors or chief executive was interested in expressed as a percentage of the number of issued shares as at the Latest Practicable Date.

2. These shares were held by Gorgeous Rich, which was wholly-owned by Mr. Hu Zheng. By virtue of the SFO, Mr. Hu Zheng was deemed to be interested in the shares held by Gorgeous Rich.

3. These shares were held by Golden Century, which was wholly owned by Mr. Hu Hancheng. By virtue of the SFO, Mr. Hu Hancheng was deemed to be interested in the shares held by Golden Century.

4. These shares were held by Leading Innovation, which was wholly owned by Mr. Hu Hanchao. By virtue of the SFO, Mr. Hu Hanchao was deemed to be interested in the shares held by Leading Innovation.

5. These shares were held by Fortune View, which was wholly owned by Ms. Hu Jianwen, the spouse of Mr. Chen Riyue. By virtue of the SFO, Mr. Chen Riyue was deemed to be interested in the shares held by Fortune View.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' positions in other companies

As at the Latest Practicable Date, none of the Directors was also a director or employee of a company which had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company pursuant to the provisions of Division 2 and 3 of Part XV of SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

4. DIRECTORS' INTERESTS IN ASSETS, CONTRACTS OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors has, or had, any direct or indirect interest in any assets which had been or are proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2020, the date to which the latest published audited financial statements of the Company were made up.

None of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

5. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinions or advice which are contained in this circular:

Name	Qualification
Rainbow Capital	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountant
Valor Appraisal & Advisory Limited	Independent valuer

As at the Latest Practicable Date, the above experts had given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, advice and opinion and references to its name in the form and context in which it appeared.

As at the Latest Practicable Date, the above experts did not have any shareholding in any member of the Enlarged Group or any rights (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

As at the Latest Practicable Date, the above experts did not have any interest in any assets which have been, since 31 December 2020 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

6. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against the members of the Group.

7. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware of, no Directors or their associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

8. GENERAL

(a) The company secretary of the Company is Li Kin Wai, a chartered secretary and associate of both The Hong Kong Chartered Governance Institute (formerly The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute (formerly The Institute of Chartered Secretaries and Administrators).

(b) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

(c) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

(d) The principal place of business of the Company in Hong Kong is at Suite 2502, 25th Floor, Chinaweal Centre, 414–424 Jaffe Road, Wan Chai, Hong Kong.

(e) The English text of this circular and the accompanying form of proxy shall prevail over the Chinese texts in case of inconsistency.

9. MATERIAL CONTRACTS

Save as the Sale and Purchase Agreement and an agreement dated 3 January 2020 entered into between (i) Zhongshan Yong Fa Paper Industry Company Limited* (中山永發紙業有限公司) ("**Zhangshan Yong Fa**"), an indirect wholly owned subsidiary of the Company, as purchaser and (ii) Jiangxi Shengjing Technology Company Limited* (江西盛璟科技有限公司) ("**Jiangxi Shengjing**"), as vendor, whereby Jiangxi Shengjing conditionally agreed to sell and Zhongshan Yong Fa conditionally agreed to acquire 80% equity interest in Yudu County Zhengyi Paper Products and Paper Industry Company Limited* (于都縣正億紙品紙業有限公司) for an aggregate consideration of RMB60,000,000 subject to adjustment (details are set out in the Company's announcement dated 3 January 2020), as at the Latest Practicable Date, no material contracts (not being contracts entered into in the ordinary course of business) had been entered into by members of the Enlarged Group within the two years immediately preceding the date of this circular and which are, or may be, material to the Enlarged Group.

10. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company's website (http://www.zhengye-cn.com/) from the date of this circular up to and including the date of the SGM:

(a) the memorandum of association and the bye-laws of the Company;

(b) the annual reports of the Company for each of the three financial years ended 31 December 2020;

(c) the interim report of the Company for the six months ended 30 June 2021;

(d) the Sale and Purchase Agreement;

(e) the written consent as referred to under the paragraph headed "Expert and consent" in this appendix;

(f) the valuation report prepared by the Valuer on the Properties, the text of which is set out in Appendix V to this circular;

(g) the valuation report prepared by the Valuer on the Target Company, the text of which is set out in Appendix VI to this circular;

(h) the accountants' report on the Target Company prepared by Deloitte Touche Tohmatsu on the Target Company, the text of which is set out in Appendix II to this circular;

(i) the report from Deloitte Touche Tohmatsu on unaudited pro forma financial information on the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(j) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" of this circular;

(k) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" of this circular;

(l) the material contracts as referred to in the paragraph headed "9. Material Contracts" in this appendix; and

(m) this circular.

ZHENGYE INTERNATIONAL HOLDINGS COMPANY LIMITED
正業國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 3363)

NOTICE OF THE SGM

NOTICE IS HEREBY GIVEN that the Special General Meeting (the "**SGM**") of Zhengye International Holdings Company Limited (the "**Company**") will be held at SOHO 2, 6/F, No. 28 Des Voeux Road West, Sheung Wan, Hong Kong on 11 January 2022, Tuesday at 3:00 p.m. for the purposes of considering and, if thought fit, passing the following resolutions with or without amendments as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

"**THAT**:

1. (a) the Sale and Purchase Agreement (as defined and described in the circular of the Company dated 23 December 2021 (the "**Circular**"), a copy of the Circular marked "**A**" together with a copy of the Sale and Purchase Agreement marked "**B**" are tabled before the SGM and initialed by the chairman of the SGM for identification purpose) and the transactions contemplated thereunder as set out in the Circular be and are hereby approved, ratified and confirmed;

   (b) the execution and delivery of the Sale and Purchase Agreement by the Company be and is hereby approved, confirmed and ratified; and

   (c) any one or more of the directors (the "**Directors**") of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Sale and Purchase Agreement and the transactions contemplated thereunder."

By order of the Board
Zhengye International Holdings Company Limited
Hu Zheng
Chairman

Hong Kong, 23 December 2021

Registered Office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Place of Business in Hong Kong:
Suite 2502, 25th Floor
Chinaweal Centre
414–424 Jaffe Road
Wan Chai
Hong Kong

Notes:

1. Any member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company.

2. The register of members will be closed from Monday, 10 January 2022 to Tuesday, 11 January 2022, both days inclusive, during which period no transfer of shares can be registered. In order to attend the SGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, 7 January 2022.

3. To be valid, the form of proxy and the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority must be deposited at the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

4. Where there are joint holders of a share of the Company, any one of such holders may vote at the meeting either personally or by proxy in respect of such share as if he was solely entitled thereto, but if more than one of such holders be present at the meeting personally or by proxy, that one of such holders so presents whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

5. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the SGM and in such event, the instrument appointing a proxy shall be deemed to be revoked.

6. The resolutions as set out above will be determined by way of a poll.

PRECAUTIONARY MEASURES FOR THE SGM

Please see page ii of this circular for measures being taken to try to prevent and control the spread of the Coronavirus at the SGM, including:

- compulsory temperature check and health declaration
- mandatory wearing of face mask
- prohibit attendance at the SGM if the attendee has a fever. Persons exhibiting flu-like symptoms may also be refused admittance
- prohibit attendance at the SGM if the attendee is subject to any prescribed quarantine by the Hong Kong Government or has close contact with any person under quarantine
- no distribution of corporate gift and/or refreshments served at the SGM

Any person who does not comply with these precautionary measures may be denied entry into the SGM venue. The Company encourages attendees (even without flu-like symptoms) to wear surgical masks and reminds Shareholders that they may vote by proxy or appoint the Chairman of the meeting as their proxy to vote on the relevant resolutions at the SGM as an alternative to attending the SGM in person.

As at the date of this notice, the Board comprised Mr. Hu Zheng (Mr. Hu Jianpeng as his alternate), Mr. Hu Hancheng (Mr. Hu Jianjun as his alternate) and Mr. Hu Hanchao (Mr. Tan Xijian as his alternate) as executive Directors, Mr. Chen Riyue as non-executive Director and Mr. Chung Kwok Mo John, Mr. Liew Fui Kiang and Mr. Shin Yick Fabian as independent non-executive Directors.