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ZHENGYE INTERNATIONAL HOLDINGS COMPANY LIMITED

正業國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 3363)

**DISCLOSEABLE TRANSACTION
PROPOSED ACQUISITION OF 80% EQUITY INTEREST IN ZHENGYI**

The Board is pleased to announce that on 3 January 2020 (after trading hours of the Stock Exchange), the Purchaser, an indirect wholly owned subsidiary of the Company, entered into the Agreement with the Vendor, whereby the Purchaser would acquire 80% equity interest in Zhengyi. Pursuant to the Agreement, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the aforesaid interests for an aggregate consideration of RMB60,000,000 (subject to adjustment). The Company intends to satisfy the consideration with cash generated internally and raised from bank financing.

As one or more of the applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Proposed Acquisition exceeds 5% but none of the ratios exceeds 25%, the Proposed Acquisition constitutes a discloseable transaction for the Company pursuant to Rule 14.06(2) of the Listing Rules and is therefore subject to reporting and announcement requirements but exempt from Shareholders' approval requirement under Chapter 14 of the Listing Rules.

Shareholders and potential investors of the Company should note that Completion is subject to the satisfaction of certain conditions precedent in the Agreement. Therefore, the Proposed Acquisition may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

INTRODUCTION

The Board is pleased to announce that on 3 January 2020 (after trading hours of the Stock Exchange), the Purchaser, an indirect wholly owned subsidiary of the Company, entered into the Agreement with the Vendor, whereby the Purchaser would acquire 80% equity interest in Zhengyi. Pursuant to the Agreement, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the aforesaid interests for an aggregate consideration of RMB60,000,000 (subject to adjustment). The Company intends to satisfy the consideration with cash generated internally and raised from bank financing.

The principal terms of the Agreement are set out as follows:

Agreement Date

3 January 2020

Parties

Purchaser	:	Yongfa;
Vendor	:	Shengjing;
Shareholders of the Vendor	:	the Founder Shareholders;
Target Company	:	Zhengyi

Proposed Acquisition

Pursuant to the Agreement, the Purchaser has conditionally agreed to purchase, and the Vendor has conditionally agreed to sell 80% equity interest in Zhengyi (the “**Sale Interest**”).

Upon completion of the Proposed Acquisition, the Sale Interest will be held by the Purchaser, an indirect wholly-owned subsidiary of the Company. Accordingly, Zhengyi will become an indirect non-wholly owned subsidiary of the Company and its financial results will be consolidated into the Group’s consolidated financial statements.

CONSIDERATION AND PAYMENT TERMS

Pursuant to the Agreement, the consideration of RMB60,000,000 will be paid by the Purchaser to the Vendor in the following ways:

- (i) The deposit of RMB16,000,000, less the previously paid earnest money of RMB5,000,000, representing approximately 26.67% of the Consideration, shall be paid to the Vendor in cash to the designated bank account within five working days after the Agreement is signed;

- (ii) the first installment of RMB13,800,000, representing approximately 23.00% of the Consideration, shall be paid by the Purchaser in cash to the bank account designated by the Vendor on 2 March 2020 subject to Completion;
- (iii) the second installment of RMB6,200,000, representing approximately 10.33% of the Consideration, shall be paid by the Purchaser in cash to the bank account designated by the Vendor within five days after 180 days of Completion;
- (iv) the third installment of RMB6,200,000, representing approximately 10.33% of the Consideration, shall be paid by the Purchaser in cash to the bank account designated by the Vendor within five days after one year of Completion; and
- (v) Guarantee payment, upon Completion:
 - RMB1,660,000, representing approximately 2.77% of the Consideration, shall be paid by the Purchaser to the bank account designated by the Vendor within five days after one year of Completion;
 - RMB1,670,000, representing approximately 2.78% of the Consideration, shall be paid by the Purchaser to the bank account designated by the Vendor within five days after two years of Completion; and
 - RMB1,670,000, representing approximately 2.78% of the Consideration, shall be paid by the Purchaser to the bank account designated by the Vendor within five days after three years of Completion.
- (vi) The Purchaser agrees to the payment of performance compensation to the Vendor if the Target Company fulfils the following performance targets regarding audited profits after taxation in accordance with China accounting standards:
 - Year 2020: if the target of RMB3,000,000 is fulfilled, the Purchaser shall pay the Vendor a performance compensation of RMB4,270,000 before 30 June 2021, representing approximately 7.12% of the Consideration;
 - Year 2021: if the target of RMB4,000,000 is fulfilled, the Purchaser shall pay the Vendor a performance compensation of RMB4,270,000 before 30 June 2022, representing approximately 7.12% of the Consideration; and
 - Year 2022: the target of RMB5,000,000 is fulfilled, the Purchaser shall pay the Vendor a performance compensation of RMB4,260,000 before 30 June 2023, representing approximately 7.10% of the Consideration.

In the event that the net assets value of the Company (as agreed by all the parties to the Agreement) as at the end of 29 February 2020 (the “**Completion NAV**”) is less than RMB58,500,000 or more than RMB59,500,000, the Consideration (less any performance compensation) shall be adjusted to 80% of the Completion NAV. The difference after such adjustment shall be made up by the Purchaser or refunded by the Vendor (as the case may be) within 10 days of Completion.

The Consideration was determined after arm's length negotiations between the Company and the Vendor after considering various factors, including without limitation the unaudited net assets value of the Target Company as at 30 September 2019, the applicable laws and regulations and the prospects of the Target Company.

The Directors (including the independent non-executive Directors) consider that the Consideration is fair and reasonable.

CONDITIONS PRECEDENT

Completion is subject to (among other things) the fulfilment (or where applicable, waiver thereof by the Purchaser) of the following conditions:

- the Purchaser have been satisfied with the results of the completed due diligence in the business, financial and legal aspects of the Target Company;
- no Governmental agencies has enacted, promulgated, implemented or passed any law or government order that would make the transactions contemplated under the transaction documents illegal or otherwise restrict or prohibit the transactions contemplated under the transaction documents;
- the relevant parties have signed all transaction documents properly and delivered an original copy of each transaction document to the Purchaser;
- the articles of association have been amended in a manner satisfactory to the Purchaser in accordance with the transaction documents and signed by all shareholders of the Target Company, including the Purchaser;
- being a shareholder with 80% equity interest in the Target Company, the Purchaser have appointed two of the three directors, the legal representative, supervisor, general manager and financial in-charge of the Target Company, all necessary commercial registration or filing to the regulatory bodies having been completed;
- no existing or potential litigations have been filed by or against any Governmental agencies by or against the Target Company and the Vendor, the Founder Shareholders, or the Purchaser, which could limit or cause a material adverse effect on the transactions contemplated under the transaction documents, based on the Purchaser's reasonable judgment in good faith, and may render the completion of such transactions impossible or illegal, or may have a material adverse effect thereon; and
- the Target Company has completed its performance of the boiler island project termination agreement of the heat supply contract with the relevant counterparty.

If one or more of the conditions precedent are not fulfilled before the Completion Date, the transaction shall be terminated immediately unless the Purchaser agrees to waive such conditions in writing.

INFORMATION ABOUT THE TARGET COMPANY

The Target Company is principally engaged in the manufacture and sale of corrugated papers and paper recycling in the PRC. Primary raw materials used in the production of corrugated papers include waste papers. The Target Company has one production line with a designed production capacity of 100,000 tons per annum and its products are mainly sold to packaging and printing companies within the PRC.

INFORMATION ABOUT THE GROUP

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

INFORMATION OF THE VENDOR

Shengjing is a limited liability company established in the PRC. To the best of the directors' knowledge, information and belief having made all reasonable enquiry, each of Shengjing and its ultimate beneficial owners is an Independent Third Party.

FINANCIAL INFORMATION OF THE TARGET COMPANY

The unaudited total assets and net assets value of the Target Company as at 30 September 2019 were RMB113,168,723 and RMB58,991,390 respectively.

Set out below is the unaudited net loss (before and after tax) of the Target Company for the financial years ended 31 December 2017 and 2018:

	For the year ended 31 December 2017 (Unaudited) RMB	For the year ended 31 December 2018 (Unaudited) RMB
Net loss (before tax)	1,121,075	18,435,344
Net loss (after tax)	1,121,075	18,435,344

REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITION

The Group, including Yongfa, is a manufacturer of paper-based packaging products in the PRC capable of offering paper-based packaging services coupled with its own corrugated medium paper manufacturing capability. The Group is a production enterprise in manufacturing of corrugated medium paper, and production of corrugated paper carton and honey-comb paper products, which are used to substitute traditional packaging materials such as foam and plastic materials that are generally considered to cause unfavourable effects on the environment.

The Directors are optimistic about the high-end corrugated medium paper industry and believe that there is a large demand for high-end corrugated medium paper in the market. The Directors are of the view that the paper mill of the Target Company will provide additional production capacity to boost the market share of the Group in high end corrugated medium paper. The Target Company's paper mill located in Ganzhou, Jiangxi Province, has one corrugated medium paper production line, with a designed production capacity of 100,000 tons per annum. Although the Target Group has been making loss in recent years, the Company believes that the Proposed Acquisition will generate synergistic effects with its current paper production and, with the Group's proprietary know-how, will be able to turn the Target Company into a profitable business. The Company considers that upon completion of the Proposed Acquisition, the Company will enlarge the corrugated medium paper business through the market.

In view of the potential synergy to be generated by integrating the Group and the Target Company, the Directors are of the view that the Proposed Acquisition is in line with the Group's long term strategy and the terms of the Agreement are fair and reasonable and in the interests of the Company and Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Proposed Acquisition exceeds 5% but none of the ratios exceeds 25%, the Proposed Acquisition constitutes a discloseable transaction for the Company pursuant to Rule 14.06(2) of the Listing Rules and is therefore subject to reporting and announcement requirements but exempt from Shareholders' approval requirement under Chapter 14 of the Listing Rules.

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APPROVAL OF THE BOARD

None of the Directors has interests in the Proposed Acquisition or was required to abstain from voting in the resolutions of the Board for approving the Acquisition.

DEFINITIONS

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

“Agreement”	the conditional sale and purchase agreement for the Proposed Acquisition dated 3 January 2020 entered into between the Purchaser, the Vendor, the Founder Shareholders and the Target Company
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“Board”	board of directors of the Company
“Company”	Zhengye International Holdings Company Limited, a company incorporated in Bermuda and the issued shares of which are listed on the Stock Exchange
“Completion”	completion of the Proposed Acquisition pursuant to the terms and conditions of the Agreement
“Completion Date”	1 March 2020
“Connected Person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration for the Proposed Acquisition in the sum of RMB60,000,000
“Director(s)”	the director(s) of the Company
“Founder Shareholder(s)”	Yang Wenrui, and Lai Huimin, holder of 95% and 5% equity interest in Shengjing respectively as at the date of the Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	independent third parties who are not Connected Person(s) of the Company and are independent of and not connected with the Company or Directors, chief executive, or substantial Shareholders of the Company or any of its subsidiaries or their respective associates
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“PRC” or “China”	the People’s Republic of China
“Proposed Acquisition”	the proposed acquisition of 80% equity interest in Zhengyi by the Purchaser from the Vendor pursuant to the Agreement

“Purchaser” or “Yongfa”	Zhongshan Yong Fa Paper Industry Company Limited*（中山永發紙業有限公司），a company established in the PRC with limited liability and an indirect, wholly-owned subsidiary of the Company
“RMB”	Renminbi Yuan, the lawful currency of the PRC
“Shareholder(s)”	shareholders of the Company
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Target Company” or “Zhengyi”	Yudu County Zhengyi Paper Products and Paper Industry Company Limited*（于都縣正億紙品紙業有限公司），a limited liability company established in the PRC
“Vendor” or “Shengjing”	Jiangxi Shengjing Technology Company Limited*（江西盛璟科技有限公司），a limited liability company established in the PRC
“Working days”	a day other than statutory public holidays, Saturdays or Sundays in the PRC
“%”	per cent.

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

Hong Kong, 3 January 2020

As at the date of this announcement, 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.

** For identification purposes only*