# ZONQING Environmental Limited
# 中庆环境股份有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1855)**

**Board of Directors:**

*Executive Directors*
Mr. Liu Haitao
Ms. Wang Yan

*Non-executive Directors*
Mr. Sun Juqing
Ms. Lyu Hongyan
Mr. Shao Zhanguang

*Independent Non-executive Directors*
Mr. Gao Xiangnong
Mr. Yin Jun
Mr. Lee Kwok Tung Louis

**Registered Office:**
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**Head Office and Principal Place of Business in the PRC:**
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Changchun City
Jilin Province,
PRC

9 June 2023

*To the Shareholders*

Dear Sir or Madam,

## (1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF 87.50% INTEREST IN JILIN MODERN ZHONGQING AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

### INTRODUCTION

Reference is made to the announcement of the Company dated 11 April 2023 whereby the Board announced that the Company has entered into the Equity Transfer Agreement as more particularly set out therein.

The purpose of this circular is to provide you with information in relation to (i) further details of the Acquisition; (ii) a letter of recommendation from the Independent Board Committee on the Acquisition and its recommendation on voting; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of Acquisition; and (iv) a notice of the EGM to be convened for the purpose of considering and, if think fit, approving, by way of poll, the Equity Transfer Agreement and the Acquisition.

## THE ACQUISITION

On 11 April 2023 (after trading hours), Beijing Ecological (the purchaser), an indirect non-wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with, among other parties, ZIHG, pursuant to which Beijing Ecological has agreed to acquire, and ZIHG has agreed to sell, in each case subject to the Conditions Precedent, the Sale Interests at a cash consideration of RMB305,756,410.

## THE EQUITY TRANSFER AGREEMENT

The principal terms of the Equity Transfer Agreement are summarised as follows:

**Date** : 11 April 2023 (after trading hours)

**Parties** :

(1) Beijing Ecological (the purchaser);

(2) ZIHG (the vendor);

(3) the Target;

(4) Changchun Chengwei (a subsidiary of the Target);

(5) Zhonghuan Weilan (a subsidiary of the Target); and

(6) the Company.

(each a "**Party**" and collectively, the "**Parties**")

**Subject matter** : Beijing Ecological has conditionally agreed to acquire, and ZIHG has conditionally agreed to sell, the Sale Interests.

**Consideration** : RMB305,756,410, which shall be payable by the purchaser to an account so designated by the vendor within two months of completion of the necessary registration and filing procedures with the Market Supervision and Administration Bureau (市場監督管理局) in connection with the Acquisition ("**PRC Registration Procedures**"), which PRC Registration Procedures shall occur following the satisfaction (or waiver) of the Conditions Precedent.

The consideration for the Acquisition shall be funded by internal resources and/or borrowings of the Group.

Internal resources of the Group that may be utilised to fund the consideration for the Acquisition include without limitation the following:

(a) the cash received and expected to be received by the Group from business operations and debtors' settlement of trade and other receivables from 1 January 2023 and up to the date of payment of consideration (as at 31 December 2022, the Group had contract assets (less of provision) of approximately RMB710.4 million, trade and bills receivables (less of provision) of approximately RMB1,107.3 million, and prepayments, deposits and other receivables (less of provision) of approximately RMB77.3 million); and

(b) as disclosed in the Announcement, the consideration for the Acquisition shall only be payable by the Group after the Completion (i.e. upon which the Target Group would form part of the Group), accordingly, the following financial resources of the Target Group may be utilised to fund the consideration for the Acquisition:

- the cash and cash equivalents of the Target Group as at 31 December 2022 of approximately RMB90.3 million; and

- the cash received or to be received by the Target Group from business operations and debtors' settlement of trade and other receivables from 1 January 2023 and up to the date of payment of consideration. In such connection, as at 31 December 2022, the Target Group had contract assets (less of provision) of approximately RMB345.3 million, trade and bills receivables (less of provision) of approximately RMB472.6 million, and prepayments, deposits and other receivables (less of provision) of approximately RMB719.6 million).

As for the borrowings available for the Group, the Group will continue to explore the possibility of obtaining new credit facility for its operation from time to time, and it does not preclude the possibility of obtaining external financing for the purpose of the Acquisition. In such connection, the Group will consider factors such as the terms and conditions of the loan, finance costs, repayment schedule, security and other commercial terms. As at the Latest Practicable Date, no binding agreement had been reached by the Group with respect to any new credit facility.

**Conditions Precedent** : Completion is conditional upon:

(a) the due execution of the Equity Transfer Agreement by ZIHG and the Target Group;

(b) the due approval of the transfer of Sale Interests by the Target's shareholders in general meeting, and the other shareholders of the Target having waived their pre-emptive rights;

(c) (i) all undertakings and commitments of ZIHG and the Target Group under the Equity Transfer Agreement having been performed or complied with in material aspects; and

(ii) all representations and warranties given by ZIHG and the Target Group in the Equity Transfer Agreement remaining true, complete and correct as at the date of execution of the Equity Transfer Agreement and the date of Completion, and if any of such representations and warranties were made on a specified date, they shall remain to be true and correct as at such specified date;

(d) there having been no event which would have a material adverse effect on the Target Group prior to the Completion or at Completion;

(e) the Board having approved (i) the Acquisition; and (ii) the signing, delivery and performance of the Equity Transfer Agreement and other related transaction documents;

(f) the Independent Shareholders having approved (i) the Acquisition; and (ii) the signing, delivery and performance of the Equity Transfer Agreement and other related transaction documents;

(g) the Stock Exchange and, where applicable, other relevant regulatory institutions having confirmed that they have no further comments on the circular relating to the Acquisition, and no additional conditions precedent to the implementation and completion of the Acquisition having been imposed by them; and

(h) the release or termination of all guarantee(s) provided by the Target Group for the loans of ZIHG and its subsidiaries (excluding the Target Group).

If the above Conditions Precedent are not satisfied or otherwise waived (except conditions (a), (b), (e) to (h) set out above cannot be waived) on or before 31 July 2023, Beijing Ecological shall be entitled to unilaterally:

(a) postpone the date of Completion to any date no later than 31 December 2023;

(b) waive the unsatisfied Condition(s) Precedent and proceed to Completion so far as practicable; or

(c) if Completion was not taken place as at 31 December 2023 due to any Condition(s) Precedent not being satisfied and such unsatisfied Condition(s) Precedent not being waived by Beijing Ecological, Beijing Ecological may terminate the Equity Transfer Agreement or postpone the Completion to another date as agreed in writing by the Parties.

As at the Latest Practicable Date, only conditions (a), (b), (e) and (h) of the Conditions Precedent had been satisfied, and no Conditions Precedent had been waived. The Group also does not expect to waive any of the Conditions Precedent.

**Completion** : Upon the satisfaction (or waiver) of the Conditions Precedent, ZIHG shall procure and assist the Target to complete the PRC Registration Procedures.

Upon Completion, Beijing Ecological will assume the rights and obligations as the equity owner of the Sales Interests, and the financial results of the Target Group will be consolidated to the consolidated financial statements of the Group.

**Further undertakings by the vendor** : – ZIHG shall indemnify Beijing Ecological, the Company, and/or the Target Group in respect of, among others, any liabilities, breaches, acts or infringements of the Target Group which occurred on or before Completion, and any penalties inflicted on the Target Group as a result of non-compliance issues that occurred on or before Completion.

– ZIHG shall procure its subsidiary, Zhongqing Construction Limited Liability Company* (中慶建設有限責任公司), to fully settle their amounts due to Changchun Chengwei in the amount of RMB627,640,389, which is interest-free, unsecured and repayable on demand, within one month after completion of the PRC Registration Procedures, and provide to Beijing Ecological the relevant proof of settlement. Any delay in payment will result in an accrual of additional outstanding amount of 0.03% per day of the said amounts due to Changchun Chengwei.

– ZIHG and its associates shall not, directly or indirectly, engage in business activity that competes with the Target Group's existing business, or any other business that it may potentially competes with, except where (i) ZIHG has already recommended relevant business opportunity to the Group but was rejected by the Group; or (ii) the Group has notified ZIHG of its intention not to engage in the relevant business opportunity or agreed to undertake the relevant business opportunity jointly with ZIHG. For details of such non-competition undertaking, see subsection headed "Competition with the ZIHG Group – Deed of Non-competition and the Non-competition Undertakings" in this circular.

**Termination** : The Equity Transfer Agreement may be terminated in accordance with the following provisions:

(a) prior to Completion, by mutual agreement of all Parties in writing;

(b) if any of the following events occur from the date of the Equity Transfer Agreement to the date of Completion, either Party may notify the other Parties in writing at least ten (10) business days prior to the intended effective date of termination, namely:

(i) the representations or warranties of any Party being untrue, inaccurate, misleading or with omissions in a material aspect which directly cause the purposes of the Equity Transfer Agreement to be unattainable (i.e. Beijing Ecological is unable to obtain the Sale Interests or ZIHG is unable to obtain the consideration paid. For the avoidance of doubt, the Target and ZIHG have no right to terminate the Equity Transfer Agreement by relying on their own default); or

(ii) if any Party fails to perform its agreements, undertakings, obligations and commitments under the Equity Transfer Agreement in a material aspect, the abiding Party may notify the defaulting Party in writing that the breach shall be rectified within thirty (30) days from the date of receipt of such notice. If such breach is not rectified within the thirty (30) day period or the defaulting Party fails to propose a rectification or compensation plan acceptable to the abiding Party (not to be unreasonably refused), such that the purposes of the Equity Transfer Agreement would become unattainable (i.e. Beijing Ecological is unable to obtain the Sale Interests or ZIHG is unable to obtain the consideration paid), the abiding Party shall have the right to terminate the Equity Transfer Agreement by notifying the defaulting Party in writing. For the avoidance of doubt, the Target and ZIHG have no right to terminate the Equity Transfer Agreement by relying on their own default;

(iii) any member of the Target Group makes an overall assignment for the benefit of its creditors, or declares itself to criminal proceedings, bankruptcy or insolvency proceedings brought by or against such member of the Target Group, or the liquidation or dissolution of any member of the Target Group resulting from bankruptcy, insolvency or reorganisation. If the legal proceedings relating to reorganisation or debt restructuring are brought by or against of any member of the Target Group, Beijing Ecological may terminate the Equity Transfer Agreement; and

(iv) either Party may terminate the Equity Transfer Agreement if there are any orders, rulings or decisions being issued, or any other actions are being undertaken by any government departments, to restrict, ban or otherwise prohibit the transactions contemplated under the Equity Transfer Agreement, and that such orders, rulings, decisions or other actions being final and not subject to reconsideration, petition or appeal.

Upon termination of the Equity Transfer Agreement, no Party shall continue to be liable to any other Party save for antecedent breaches.

**BASIS OF DETERMINATION OF CONSIDERATION**

The consideration of the Acquisition was arrived at by the Parties with reference to and taking into account, among others, (i) the historical financial performance and financial position of the Target Group; (ii) the track record and development prospects of the Target Group; and (iii) the business valuation report in respect of the Sale Interests prepared by an independent valuer pursuant to which the fair value of the Sale Interests as at 31 March 2023 was approximately RMB523.4 million (the "**Valuation**").

The difference between the fair value of the Sale Interest of approximately RMB523.4 million and the consideration of approximately RMB305.8 million is a result of the Parties' commercial negotiations with reference to, among others, the following:

(a) the combined net assets value of the Target Group as at 31 December 2022 of approximately RMB431.1 million, and the total equity attributable to the Sale Interests of approximately RMB342.5 million;

(b) the financial position of the Group;

(c) the Acquisition, being a connected transaction under Chapter 14A of the Listing Rules, should be on normal commercial terms or better for the Group; and

(d) the potential enhancement in Shareholder value as a result of the Acquisition, which in turn would benefit the controlling shareholders of the Company, who are at the same time the controlling shareholders of ZIHG, the vendor.

**Details of the Valuation**

The Valuation in relation to 87.50% equity interest in the Target Group as at 31 March 2023 (the "**Valuation Date**") has been carried out by AVISTA Valuation Advisory Limited ("**AVISTA**" or the "**Valuer**"), an independent professional valuer.

Given that the Target Group is an investment holding company and its major asset as at the Valuation Date is 90.65% of the equity investment in Changchun Chengwei, the Valuer adopted the adjusted net asset method in valuing the Target Group. In particular, the Valuer calculates the adjusted net assets value of the Target Group by adjusting the fair value of 90.65% equity interest in Changchun Chengwei.

The Valuer adopted the market approach in valuing the fair value of 90.65% equity interest in Changchun Chengwei. Under the market approach, namely the comparable company method, the Valuer computes a price multiple for publicly listed companies that are considered to be comparable to the subject company and then applies the result to a base of the subject company. The key assumptions adopted in this valuation including, (i) there will be no material changes in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target; and (ii) the Valuer has assumed that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported values. Further, the Valuer assumes no responsibility for changes in market conditions after the Valuation Date.

The key parameters had been adopted in the course of valuation including value multiple, lack of marketability discount and control premium.

The Valuer considered that enterprise value/earnings before interests, taxes, depreciation and amortization ("**EV/EBITDA**") multiple is the most appropriate indicator of the fair value of Changchun Chengwei, as this multiple eliminates the differences in capital structure, taxation and depreciation and amortization methods across different comparable companies, it is hence adopted in the market approach. In addition, the Valuer adopted median point of EV/EBITDA multiple of comparable companies since the multiples of comparable companies could fully reflect the fundamentals of the related industry, and median value could avoid bias on the select of value multiple.

As Changchun Chengwei is a privately held company, the Valuer applied lack of marketability discount (the "**DLOM**") in valuing the fair value of the equity interest in Changchun Chengwei. DLOM reflects the fact that there is no ready market for shares in a closely held company. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in publicly listed companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly listed company. The DLOM was determined at 20.5% with reference to "Stout Restricted Stock Study Companion Guide (2022 Edition)".

Control premium is the amount that a buyer is willing to pay over the minority equity value of the company in order to acquire a controlling interest in that company. The EV/EBITDA multiple adopted in the valuation was calculated from public listed companies, which represents minority ownership interest. Market value calculated using such EV/EBITDA multiple, therefore, represents the minority interest. Thus, control premium was adopted to adjust such minority interest market value to controlling interest market value. Adjustment for control is made by the application of a control premium to the value of the Changchun Chengwei's shares. The report "Control Premium Study: 4th Quarter 2022" by FactSet Mergerstat, LLC, a reputable research company, suggested a median control premium is 28.0%. As a result, a control premium of 28.0% is considered appropriate and suitable for the Valuation.

## INFORMATION ABOUT THE PARTIES TO THE ACQUISITION

### Information of Beijing Ecological and the Group

The Company is a company incorporated in the Cayman Islands and registered as an exempted company with limited liability under the Companies Act of the Cayman Islands on 8 March 2019. The Company is an investment holding company. The Group is an established service provider for landscaping and ecological restoration projects in the Three Northeast Provinces of the PRC and it is principally engaged in landscaping, ecological restoration and other related projects. Beijing Ecological is an indirect non-wholly-owned subsidiary of the Company and is primarily engaged in the business of technical consultancy for landscaping, ecological restoration and other projects.

### Information of ZIHG

ZIHG is a company established in the PRC with limited liability on 16 May 2014. As at the Latest Practicable Date, ZIHG was owned as to approximately 35.00% by Ms. Zhao Hongyu, 27.00% by Mr. Sun, 10.00% by Ms. Li Ping, 5.00% by Mr. Hou Baoshan, 5.00% by Mr. Liu Haitao, 5.00% by Mr. Shao Zhanguang, 5.00% by Mr. Sun Juzhi, 4.00% by Mr. Shan Dejiang, 1.00% by Mr. Li Peng, 1.00% by Mr. Liu Changli, 1.00% by Mr. Wei Xiaoguang and 1.00% by Mr. Weng Hongzhao. Together with other members of the ZIHG Group (excluding the Target Group), it mainly engages in the infrastructure and municipal construction works business and other businesses.

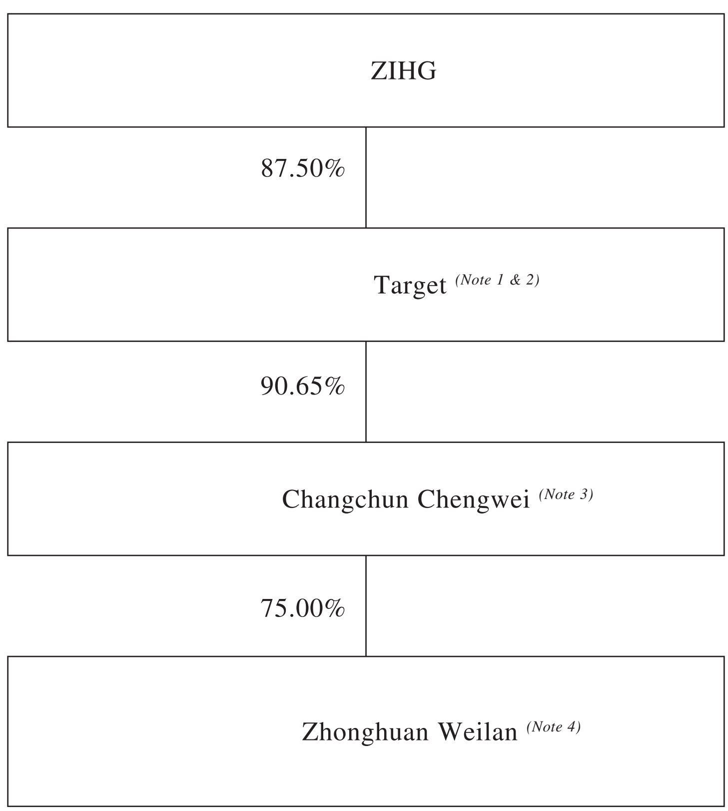
**Information of the Target Group**

The Target is a company established in the PRC with limited liability and is an investment holding company without any substantive business. As at the Latest Practicable Date, the Target was owned as to approximately 87.50%, 5.00%, 5.00% and 2.50% by ZIHG, Mr. Sun Yangang (孫艷剛), Mr. Li Peng (李鵬) and Kai Ming Investment Holding Limited ("**Kai Ming Investment**"), respectively. As at the Latest Practicable Date, Mr. Li Peng held approximately 1.0% of the equity interests in Zonqing International and he is one of the controlling shareholders of the Company, hence a connected person of the Company. Both Mr. Sun Yangang and Kai Ming Investment are Independent Third Parties.

As at the Latest Practicable Date, the Target held approximately 90.65% of the total issued shares of Changchun Chengwei, which, together with Zhonghuan Weilan (its 75.00% owned subsidiary), are the principal operating subsidiaries of the Target Group. The Target Group is principally engaged in the provision of environmental hygiene services and construction and maintenance services for public work projects.

**The Shareholding Structure of the Target Group**

***(a) Immediately before Completion***




*Notes:*

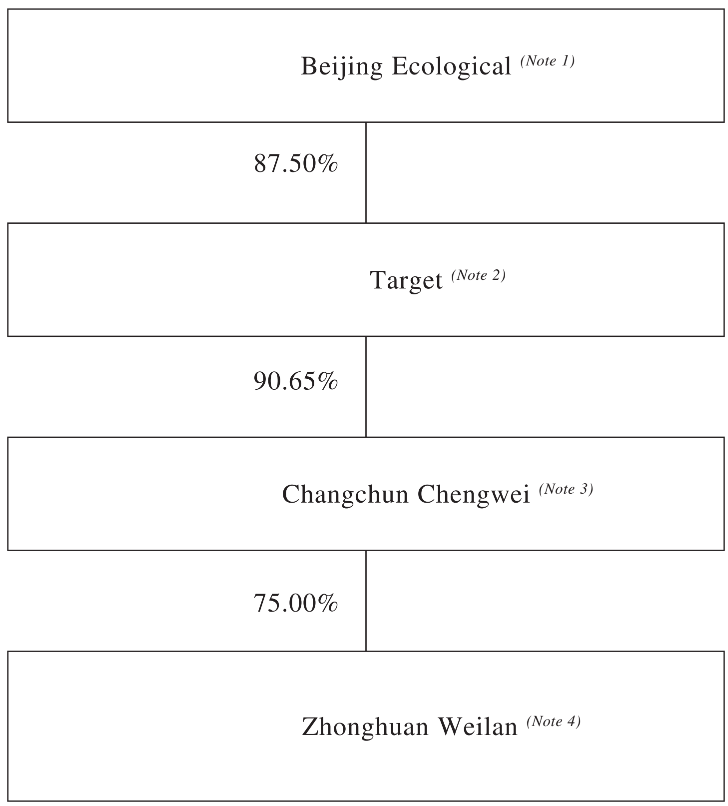
1. The remaining approximately 12.50% equity interest in the Target is owned by Mr. Sun Yangang, Mr. Li Peng and Kai Ming Investment as to 5.00%, 5.00% and 2.50% , respectively.

2. Pursuant to an internal restructuring of the ZIHG Group in the first quarter of 2023, ZIHG transferred all its shareholding in Changchun Chengwei (representing approximately 90.65% of the total issued shares of Changchun Chengwei) to the Target, and the Target thereby became a shareholder of Changchun Chengwei.

3. The remaining approximately 9.35% issued shares of Changchun Chengwei are owned by 30 individual shareholders. Save as Ms. Zhao Hongyu (the spouse of Mr. Sun) who owns approximately 0.16% of the total issued shares of Changchun Chengwei, the remaining 29 individual shareholders are Independent Third Parties.

4. The remaining 25.00% equity interests in Zhonghuan Weilan are held by Ms. Yin Qi (尹琪), an Independent Third Party.

### *(b) Upon Completion*




*Notes:*

1. Beijing Ecological is an indirect non-wholly-owned subsidiary of the Company. It is owned as to approximately 99.00% by Jilin Zonbong Ecological Environmental Limited* (吉林中邦生態環境有限公司), a wholly-owned subsidiary of the Company, and approximately 1.00% by Jilin Shengyi Engineering Consulting Limited* (吉林晟藝工程諮詢有限公司), an associate of the controlling shareholders of the Company.

2. The remaining approximately 12.50% equity interest in the Target is owned by Mr. Sun Yangang, Mr. Li Peng and Kai Ming Investment as to 5.00%, 5.00% and 2.50% , respectively.

3. The remaining approximately 9.35% issued shares of Changchun Chengwei are owned by 30 individual shareholders. Save as Ms. Zhao Hongyu (the spouse of Mr. Sun) who owns approximately 0.16% of the total issued shares of Changchun Chengwei, the remaining 29 individual shareholders are Independent Third Parties.

4. The remaining 25.00% equity interests in Zhonghuan Weilan are held by Ms. Yin Qi, an Independent Third Party.

**Financial information of the Target Group**

Set out below are the summary of the combined financial information of the Target Group for the years ended 31 December 2021 and 2022 set out in the accountants' report on the Target Group in Appendix II to this circular:

| | For the year ended 31 December | |
|---|---|---|
| | **2021** | **2022** |
| | *RMB$'000* | *RMB$'000* |
| Revenue | 665,598 | 463,001 |
| Net profit before taxation | 352 | 9,806 |
| Net profit after taxation | 1,013[1] | 9,311 |

*Note (1):* The higher amount of net profit after taxation as compared to the net profit before taxation of the same year was primarily due to qualified R&D expenses are allowed for additional tax deduction.

The combined net assets value of the Target Group as at 31 December 2022 was approximately RMB431.1 million. For further details of the financial information of the Target Group, please refer to Appendices II and III to this circular.

The Target was established by ZIHG and the Target only acquired 90.65% of the total issued shares of Changchun Chengwei from ZIHG as a result of the internal restructuring of the ZIHG Group. The original acquisition cost of Changchun Chengwei by ZIHG prior to such restructuring was RMB314.5 million, being the corresponding issued and paid-in capital of ZIHG's then shareholding in Changchun Chengwai.

## FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Group will hold 87.50% equity interests of the Target and, and the financial information of the Target Group will be consolidated into the financial information of the Group.

**Possible effect on Assets and Liabilities**

The consolidated total assets and total liabilities of the Group as at 31 December 2022 were approximately RMB2,450.3 million and RMB1,963.4 million, respectively, as set out in the annual report of the Company for the year ended 31 December 2022. According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, had the Completion been taken place on 31 December 2022, the pro forma total assets and total liabilities of the Enlarged Group would have been increased to approximately RMB3,882.7 million and RMB3,265.0 million, respectively.

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 unaudited pro forma financial information of the Enlarged Group has been prepared based on the judgments and assumptions of the Directors for illustrative purposes only.

**Possible effect on Earnings**

After the Acquisition, the Group will consolidate the financial results of the Target Group into its consolidated statement of profit or loss and it is expected that the revenue of the Enlarged Group will be increased and the earnings of the Enlarged Group will be basically affected by the results of the Target Group in the same level. After considering the factors set out in the subsection headed "Reasons and Benefits of the Acquisition" in this circular, the Directors expect that the Acquisition will have a positive impact on the Group's earnings in the long run. However, the financial impact will depend on the future operating performance of the Target Group after the Acquisition.

**REASONS AND BENEFITS OF THE ACQUISITION**

**Diversification of income stream and business portfolio**

Catalysed by the downturn of the Group's businesses during the outbreak of the COVID-19 pandemic, the Company has recognised the need to diversify its business and income stream to gain resilience to cyclical development of the economy. Therefore, the Company has been exploring opportunities to expand and diversify on its business portfolios.

The Group has been engaging in various aspects of the green construction and management industry, including environmental and landscape designing, the construction, engineering and operation management for ecological restoration projects, and provision of operation and maintenance services for public work projects, etc. With the Acquisition, the Group could expand vertically along the industry value chain to the environmental hygiene, sanitation services and city maintenance sector via the Target Group, and in particular Changchun Changwei and its subsidiaries, thereby enrich the service offerings of the Group and facilitate the Group's market penetration in green construction and management industry. In such connection, Changchun Chengwei possesses, among others, the First-Grade Qualification of Main Contractor for Municipal Public Works (市政公用工程施工總承包壹級資質) (the "**First Grade Qualification**") and various other permits including Municipal Solid Waste Cleaning, Collection and Transportation Permit (城市生活垃圾清掃、收集、運輸服務許可證) and Road Transportation Permit (道路運輸許可證), with the support of a pool of talented employees experienced in municipal level services. Accordingly, the Acquisition would strengthen the Group's capabilities and expertise in undertaking municipal projects, particularly in relation to the provision of environmental hygiene services and public work maintenance and construction services, and thereby enhance the overall competitiveness of the Group and facilitate the growth and development of the Group in the long run.

In addition, the Company believes that the environmental hygiene and sanitation and public infrastructure maintenance sectors, which the Target Group is engaging in, generally have a relatively more stable and consistent demand with more rapid cash in-flow as compared to the Group's other service offerings in the landscaping and ecological restoration sectors, hence it is expected to be comparatively less prone to economic changes and fluctuations and be able to generate more stable operating cash flow. The Company therefore considers that the Acquisition would allow the Group as a whole to be more resilient to cyclical development of the economy, which in turn is in the interest of the Group and the Shareholders as a whole.

**Industry norm and the requirement for higher qualification**

Subsequent to the Company's listing in 2021, the Group started to note certain instances where landscaping and ecological restoration project tenders which the Group was interested in would require the tender applicant to possess the First Grade Qualification, even though First Grade Qualification is not a mandatory requirement for the bidding of landscaping and ecological restoration projects under the applicable laws and regulations. So far as the Group is aware, such requirement of First Grade Qualification has become more popular since 2022. For instance, (i) during 2022, there were in total six tenders for landscaping and ecological projects which the Group was interested in requiring the tender applicant to possess First Grade Qualification, with an aggregate contract sum of approximately RMB6.2 billion; and (ii) since January 2023 and up to the Latest Practicable Date, there were at least 10 tenders for landscaping and ecological restoration projects in the Three Northeast Provinces requiring the tender applicant to possess the First Grade Qualification, with an aggregate contract sum of approximately RMB10.6 billion. Among the said 16 tenders, seven of them pertain to landscaping and ecological restoration works only. For the remaining nine tenders, their respective scope of work includes both landscaping and ecological restoration works and other infrastructure and municipal construction works. Such tenders may also require the First- or Second-Grade Landscape Engineering Design Speciality Qualification Certificate, on top of the First-Grade Qualification.

As the Group only possesses the Second-Grade Qualification of Main Contractor for Municipal Public Works (the "**Second Grade Qualification**"), it was unable to submit tender application itself for landscaping and ecological projects that require the First Grade Qualification, and the only way for the Group to participate in such projects would be to co-operate with entities that possess the First Grade Qualification yet do not carry out landscaping and ecological restoration works, either to jointly bid for such projects, or to carry out the landscaping and ecological restoration works as a sub-contractor, which might result in a lower profit margin for the Group as compared to the Group being the sole tender applicant itself. For joint bidding, whilst the Group would indeed gain the opportunity to participate in such projects, extra costs may also be incurred by the Group as a result. Depending on the scale and nature of the project and the commercial negotiations between the parties, a co-operation fee may need to be paid by the Group to the joint bidder. This is particularly so for projects that involve landscaping and ecological restoration works only but require the First Grade Qualification, where the Group would essentially be undertaking all the works but still be required to pay the co-operation fee to the joint bidder for its possessing of the First Grade Qualification. The Company therefore considers that the lack of the First Grade Qualification would hinder the business development of the Group as it could only participate in such project tenders through collaboration with entities with the First Grade Qualification, even if the Group is equipped with the necessary machinery and talents to carry out the project on its own.

In addition, the First Grade Qualification is not transferrable and the Group is unable to obtain the First Grade Qualification by itself within a short period of time, which the Group considers to be undesirable due to the prolonged exposure to the risks of losing its market position.

As Changchun Chengwei possesses the First Grade Qualification, the Company considers that the Acquisition would allow the Group to swiftly accommodate the changing market trend as described above and enhance its operational capability and overall competitiveness, such that the Group would be able to further consolidate its position in the landscaping and ecological restoration industry.

**Synergetic effect expected to be brought along by fusing the Group and the Target Group's network and experience**

The Group prides itself as a prominent market player in the landscaping and ecological restoration sector in the Three Northeast Provinces of the PRC. The Group considers that leveraging on its existing reputation and track record, developing itself through the collaboration with the Target Group will diversify the Group's business and income stream in the pan-municipal public works and green construction and management industry. Since the Company's listing in 2021, the Group has been endeavouring to maintain its leading position in the landscaping and ecological restoration sector in the Three Northeast Provinces of the PRC, while at the same time seeking strategical expansion to other regions in the PRC. As at the Latest Practicable Date, on top of the Three Northeast Provinces, the Group had also established presence in other regions in the PRC including the Huadong region (including Shandong Province, Zhejiang Province and Jiangsu Province) and the Southwest region (including Chongqing City, Sichuan Province and Guizhou Province), and the business of the Group had expanded to cover a total of 16 provinces and three municipalities in the PRC. Such lateral expansion has allowed the Group to extend the geographic coverage of its business, and thereby broadened the customer base and project portfolio of the Group. Upon Completion, the Group intends to continue implementing this lateral expansion strategy to achieve growth of its landscaping and ecological restoration business.

On the other hand, as part of the organic growth strategy of the Group's businesses, the Company also recognises the need of vertical expansion along the pan-municipal public works and green construction and management industry value chain, which would allow the Group to (i) utilise the resources, experience, expertise and business network developed along the industry value chain to enhance the product and service offerings of the Group in terms of both quality and quantity, and seek new business opportunities in light of the closer proximity with other market players along the industry value chain. With such synergetic effect and more in-depth market penetration, the Group would be able to consolidate its market position in the landscaping and ecological restoration sector, which is also in line with the Group's core business strategy of maintaining and enhancing its competitiveness in the landscaping and ecological restoration industry; and (ii) develop new growth drivers for the Group through leveraging its leading market position in the landscaping and ecological restoration sector, so as to achieve continuous or even accelerated growth of the Group's businesses, and create value to Shareholders, and pave way for the Group's long-term strategic plan of developing into a more comprehensive service provider with a focus on landscaping and ecological restoration, being capable of providing a wider range of services to satisfy the needs of customers in the in the pan-municipal public works and green construction and management industry.

With the Acquisition, the Group could utilise the First Grade Qualification to participate in the bidding of landscaping and ecological restoration projects and enhance its capability to undertake landscaping and ecological restoration projects on its own, as opposed to joint-bidding or participation as a sub-contractor, which in turn is expected to enhance the profit and competitiveness of the Group. The Group could also pull together the resources and expertises of the Target Group in the public work maintenance and construction sector and environmental hygiene sector to improve its offerings in the landscaping and ecological restoration sector through the provision of additional value-added services together with more in-depth industry knowledge. Accordingly, the Group would continue to further its existing principal businesses of landscaping and ecological restoration. On the other hand, the Group also intends to further develop the environmental hygiene business and public work maintenance and construction business of the Target Group within its existing scope as a means to diversify its business and income stream through vertical expansion along the industry value chain, and achieve synergetic effect with the Group's landscaping and ecological restoration businesses. The Target Group's environmental and hygiene business and public work maintenance and construction business are expected to contribute to the future growth of the Group's in parallel with the Group's existing core principal businesses of landscaping and ecological restoration. The Company wishes to emphasise the Group has no intention to downsize its existing principal businesses of landscaping and ecological restoration.

Through the Acquisition, the Group aims to pro-actively adapt to the recent industry changes as mentioned above, better equip itself to the needs of the market, to maintain its competitiveness in the landscaping and ecological restoration industry while achieving vertical expansion along the industry value chain and strategic development into a more comprehensive service provider in the long run, and in turn create value for Shareholders.

Taking into consideration, among others, the above factors, the Directors (excluding (i) Mr. Sun, Mr. Liu and Mr. Shao Zhanguang who had abstained from voting on the relevant resolutions of the Board; and (ii) members of the Independent Board Committee, whose view on the Equity Transfer Agreement and the Acquisition are set out in the letter from the Independent Board Committee in this circular) namely, Ms. Wang Yan and Ms. Lyu Hong Yan, are of the view that the terms of the Equity Transfer Agreement and the Acquisition contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## POTENTIAL COMPETITION BETWEEN THE ENLARGED GROUP AND THE REMAINING ZIHG GROUP AFTER COMPLETION

### Deed of Non-competition and the Non-competition Undertaking

According to the Deed of Non-competition, the scope of the Restricted Activity (as defined therein) does not include the existing businesses of the Target Group ("**Target Group Businesses**"). In such connection, pursuant to the Deed of Non-competition, the Restricted Activity pertains to technical consultancy, design and work implementation of landscaping projects; surveying, technical consultancy, design and work implementation of ecological restoration projects; and surveying, investigation, technical consultancy and design of municipal public work projects, which collectively were the then existing principal businesses of the Group at the time the Deed of Non-competition was entered into.

In order to address any potential competition issue relating to the Target Group Businesses that may arise after completion of the Acquisition, ZIHG has provided a non-competition undertaking (the "**Non-competition Undertaking**") in favor of the Group in the Equity Transfer Agreement. The Non-competition Undertaking has substantially the same terms as the Deed of Non-competition. Pursuant to the Non-competition Undertaking, ZIHG has undertaken, among others, that:

(i) ZIHG shall not, and shall procure its associates (excluding the Group and the Target Group) not to, directly or indirectly, engage in business activity that competes with the Target Group Businesses, or any other business of the Target Group that it may potentially compete with ("**New Restricted Activities**"), except where (a) ZIHG has already recommended the relevant business opportunity to the Group but was rejected by the Group; or (b) the Group has notified ZIHG of its intention not to engage in the relevant business opportunity or agreed to undertake the relevant business opportunity jointly with ZIHG;

(ii) the undertaking as set out in (i) shall not apply where ZIHG and its associates (a) collectively hold less than 5% of the total issued share capital of a company (whose shares are listed on any stock exchange) that engages in the New Restricted Activities, and (b) do not control 10% of more of the board of directors of such company;

(iii) ZIHG shall, and shall procure its associates (excluding the Group and the Target Group) to, provide all information necessary for the (a) enforcement of the Non-competition Undertaking; and (b) annual review by the independent non-executive Directors on the compliance with the Non-competition Undertaking;

(iv) ZIHG will make an annual declaration on the compliance with the Non-competition Undertaking in the annual report of the Company in accordance with the principle of voluntary disclosure in the corporate governance report; and

(v) ZIHG shall indemnify and keep indemnified the Group for any breach of the Non-competition Undertaking by ZIHG or its associates (excluding the Group and the Target Group).

The Non-competition Undertaking will be effective upon completion of the Acquisition, and shall cease to be effective on the earlier of the date on which (i) the shareholders of ZIHG and their close associates, whether individually or taken as a whole, cease to own 30% or more of the total issued capital of the Company; (ii) ZIHG ceases to be an associate of the controlling shareholders of the Company; (iii) the Shares cease to be listed on the Stock Exchange; and (iv) the Group no longer engages in, owns, carries out, participates or invests in the New Restricted Activities.

Accordingly, after Completion, it is expected that the Deed of Non-competition and the Non-competition Undertaking shall operate in parallel to address any potential competition (if any) between the Enlarged Group and the Remaining ZIHG Group. The Restricted Activity under the Deed of Non-competition primarily includes (i) technical consultancy, design and work implementation of landscaping projects; (ii) surveying, technical consultancy, design and work implementation of ecological restoration projects; and (iii) surveying, investigation, technical consultancy and design of municipal public work projects. On the other hand, the New Restricted Activities under the Non-competition Undertaking primarily include (a) construction of city roads in Changchun city, construction of water supply and sewage pipes and ducts in Changchun city, and construction of flyovers and bridges with span of less than 100 metres in Changchun city; (b) provision of inspection and maintenance services to public work projects and public infrastructures including city roads, bridges, city parks, tunnels, rail transportation systems, underground water supply and sewage network; and (c) provision of environmental hygiene services including cleaning and hygiene services to public infrastructures such as city and rural roads and bridges. Such compliance of the Deed of Non-competition and the Non-competition Undertaking shall be subject to annual review of the independent non-executive Directors and disclosures in the annual report of the Company.

**Target Group's and the ZIHG Group's Principal Businesses**

The Target Group's businesses can be categorised into three business segments, namely:

(i) provision of construction services for public work projects, which primarily pertain to construction of city roads, small-scale flyovers and bridges, water supply and sewage pipes and ducts;

(ii) provision of maintenance services for public work projects, which mainly include inspection and maintenance services to public infrastructures including city roads, bridges, city parks, tunnels, rail transportation systems, underground water supply and sewage network; and

(iii) provision of environmental hygiene services, which primarily include cleaning and hygiene services to public infrastructures such as city and rural roads and bridges.

The breakdown of the Target Group's revenue by business segments for the year ended 31 December 2021 and 2022 are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2021** | **2022** |
| | *RMB'000* | *RMB'000* |
| Revenue from construction services | 518,895 | 316,493 |
| Revenue from maintenance services | 92,731 | 100,554 |
| Revenue from environmental hygiene services | 53,972 | 45,954 |
| **Total:** | **665,598** | **463,001** |

The ZIHG Group, on the other hand, principally engaged in infrastructure and municipal constructions works with a focus on construction of buildings and railways.

Based on the unaudited management accounts of the ZIHG Group and the accountants' report on the Target Group as set out in Appendix II to this circular, the respective revenue and total assets of the Target Group and the ZIHG Group (including the Target Group) for the year ended/as at 31 December 2021 and 2022 are as follows:

| | For the year ended/as at 31 December | |
|---|---|---|
| | **2021** | **2022** |
| | *RMB'000* | *RMB'000* |
| **Revenue** | | |
| Target Group | 665,598 | 463,001 |
| ZIHG Group (including the Target Group) | 5,537,202 | 5,725,078 |
| **Total Assets** | | |
| Target Group | 1,447,790 | 1,735,785 |
| ZIHG Group (including the Target Group) | 13,184,361 | 15,155,090 |

Accordingly, (i) the Target Group's revenue accounted for approximately 12.02% and 8.09% of the revenue of the ZIHG Group (including the Target Group) for the year ended 31 December 2021 and 2022, respectively, and (ii) the Target Group's total assets accounted for approximately 10.98% and 11.45% of the total assets of the ZIHG Group (including the Target Group) as at 31 December 2021 and 2022, respectively.

**Delineation of businesses of the Target Group and the ZIHG Group**

As disclosed in the Prospectus, the existing landscaping business and ecological restoration business of the Group can be delineated from the infrastructure and municipal construction works business of the ZIHG Group.

With respect to the Target Group Businesses, the table below sets forth a brief comparison of the respective businesses of the Target Group and Remaining ZIHG Group, based on revenue contribution for the year ended 31 December 2022 (information relating to the Remaining ZIHG Group is based on its unaudited management accounts):

| **Description** | **Engaged by the Target Group** *(Yes/No)* | **Engaged by the Remaining ZIHG Group** *(Yes/No)* |
|---|---|---|
| **Construction services** | | |
| Housing and buildings | No | Yes |
| Railway systems | No | Yes |
| Flyovers and bridges | | |
| – Changchun city | | |
| • with span of more than 100 metres | No | Yes |
| • with span of less than 100 metres | Yes | No |
| – other cities | No | Yes |
| City roads (i.e. roads within the city) | | |
| – Changchun city | Yes | Yes |
| – other cities | No | Yes |
| Water supply and sewage pipes and ducts | | |
| – Changchun city | Yes | Yes |
| – other cities | Yes | Yes |
| Inter-city roads (i.e. roads bridging cities) | No | Yes |
| **Maintenance services** | Yes | No |
| **Environmental hygiene services** | Yes | No |

***Construction of flyovers and bridges in Changchun city***

Whilst both the Target Group and the Remaining ZIHG Group engage in the construction of flyovers and bridges in Changchun city, the Target Group primarily engages in the construction of small- and medium- scale flyovers and bridges with span of less than 100 metres, average contract sum of which amounted to approximately RMB21.1 million per project for 2020 - 2022, and the construction period is typically within one year. In contrast, based on the information provided by ZIHG, the flyover and bridge construction works engaged by the Remaining ZIHG Group primarily pertain to the construction of large- and extra-large- scale flyovers and bridges with span of more than 100 metres, the average contract sum of which amounted to approximately RMB370.3 million per project for 2020 - 2022, and the construction period is typically more than one year.

Notwithstanding that the holding of the same qualification is a prerequisite to the tender and construction of both small- and medium-scale flyovers and bridges on one hand and large- and extra-large-scale flyovers and bridges on the other hand, the Company considers that the respective flyovers and bridges of the Target Group and the Remaining ZIHG Group can be delineated, and any potential competition in such regard is limited and can be sufficiently addressed through the Non-competition Undertaking:

(i) according to the Technical Specifications for Construction of Highway Bridges and Culverts (《公路橋涵施工技術規範》) issued by the Ministry of Transport of the PRC, flyovers and bridges are categorised into different categories based on their span, and those with span of less than 100 metres are categorised as small- or medium-scale, whereas those with span of more than 100 metres are categorised as large- or extra-large-scale. As compared to small- and medium-scale flyovers and bridges, construction of large- and extra-large-scale flyovers and bridges typically requires more heavy duty construction machinery and equipment such as bridge girder erection machine and tower crane, and more extensive capital and human resources, hence often results in a much higher contract sum as illustrated above. In addition, the construction period of large- and extra-large-scale flyovers and bridges is often longer and generally takes at least more than one year. In practice, the construction of small- and medium-scale flyovers and bridges is considered to be of different nature from that of large- and extra-large-scale flyovers and bridges with different major market players, hence the two belong to separate markets; and

(ii) the construction of flyovers and bridges in Changchun city is not the business focus of both the Target Group and the Remaining ZIHG Group. The Target Group's revenue attributable to construction of flyovers and bridges for the year ended 31 December 2021 and 2022 only accounted for approximately 3.68% and 4.70% of its total revenue for the same years, respectively. On the other hand, based on the unaudited management accounts of the Remaining ZIHG Group, approximately 15.74% and 16.09% of its consolidated revenue for the year ended 31 December 2021 and 2022, respectively, was attributable to the construction of flyovers and bridges in Changchun city. That said, as confirmed by ZIHG, the core business strategy of the Remaining ZIHG Group is to focus on the construction of housing, buildings and railway systems, which accounted for approximately 71.00% of the total contract sum of new projects secured by the Remaining ZIHG Group during the year ended 31 December 2022. Accordingly, both the Target Group and the Remaining ZIHG Group do not focus their businesses on the construction of flyovers and bridges in Changchun city, and in light of the industry practice that construction of small- and medium-scale flyovers and bridges is considered to be of different nature and separate market from the construction of large- and extra-large-scale flyovers and bridges, any potential competition between the Target Group and the Remaining ZIHG Group in such regard, if any at all, is limited.

***Construction of city roads in Changchun city***

The revenue attributable to the construction of city roads in Changchun city accounted for approximately 46.73% and 35.81% of the total revenue of the Target Group for the year ended 31 December 2021 and 2022, respectively. In contrast, the revenue attributable to the construction of city roads in Changchun city only accounted for approximately 2.63% and 2.97% of the consolidated revenue of the Remaining ZIHG Group for the same years, respectively, based on the unaudited management accounts of the Remaining ZIHG Group. As mentioned above, the core business strategy of the Remaining ZIHG Group is to focus on the construction of housing, buildings and railway systems, and the construction of city roads in Changchun city does not form part of its core business of the Remaining ZIHG Group, nor in-line with its core business strategy. According to the information provided by ZIHG, in 2022, the construction of city roads in Changchun city only accounted for as low as 0.40% of the total contract sum of new projects secured by the Remaining ZIHG Group during the year, and it is expected that the Remaining ZIHG Group will further diminish and minimise its presence in the city road construction industry in Changchun city, particularly in light of the Non-competition Undertaking. Accordingly, any potential competition between the Target Group and the Remaining ZIHG Group with respect to the construction of city roads in Changchun city is limited, and the Company considers such limited potential competition can be sufficiently addressed through the Non-competition Undertaking.

***Construction of water supply and sewage pipes and ducts***

The water supply and sewage pipes and ducts construction business of the Target Group primarily focuses on projects within the Changchun city, which accounted for approximately 25.41% and 19.92% of the Target Group's total revenue for the year ended 31 December 2021 and 2022, respectively. In contrast, non-Changchun city pipes and ducts construction projects only accounted for approximately 2.14% and 0.31% of the Target Group's total revenue for the year ended 31 December 2021 and 2022, respectively, based on the unaudited management accounts of the Target Group. In terms of newly engaged projects, non-Changchun city pipes and ducts construction projects only accounted for approximately 2.62% of total contract sum of new projects secured by the Target Group during the year ended 31 December 2022, as compared to the high percentage of 37.08% attributable to Changchun city pipes and ducts construction projects. The aforesaid demonstrates that Changchun city is indeed the prime focus of the Target Group's water supply and sewage pipes and ducts construction business, which is expected to remain unchanged after Completion.

As to the Remaining ZIHG Group, its water supply and sewage pipes and ducts construction business primarily pertains to non-Changchun cities, and only minimal revenue is attributable to projects within Changchun city. To put into perspective, based on the unaudited management accounts of the Remaining ZIHG Group, non-Changchun city pipes and ducts construction projects accounted for approximately 6.90% and 12.42% of its consolidated revenue for the year ended 31 December 2021 and 2022, respectively, whereas projects locating within Changchun city only accounted for approximately 0.01% and 0.31% of its consolidated revenue for the same years, respectively, which were all attributable to existing projects previously engaged. As confirmed by ZIHG, the Remaining ZIHG Group has already ceased undertaking any new pipes and ducts construction projects in Changchun city since 2021 and such practice is expected to remain unchanged after completion of the Acquisition in light of the Non-competition Undertaking.

In light of the above, the Company considers that the respective water supply and sewage pipes and ducts construction business of the Target Group and the Remaining ZIHG Group can be delineated and any potential competition in this regard, if any at all, can be sufficiently addressed through the Non-competition Undertaking. Therefore, the Directors considers that the business of the Enlarged Group as a whole after Completion can be delineated from the infrastructure and municipal construction works business of the Remaining ZIHG Group.

**Potential conflict of interest between the Enlarged Group and the Remaining ZIHG Group**

The business of the Target Group is primarily managed by the board of directors and members of senior management of Changchun Chengwei under the leadership of Mr. Sun Yangang (孫艷剛), the chairperson of Changchun Chengwei, who has no position or role in the Remaining ZIHG Group. In addition, other than two directors of Changchun Chengwei, who do not participate in the day-to-day operation and management of the business of the Target Group, are holding positions in a subsidiary of the Remaining ZIHG Group, the remaining three members of the board (including Mr. Sun Yangang) and the members of senior management of Changchun Chengwei do not hold any position or role in the Remaining ZIHG Group. In light of the above, there is no material overlapping of the management of the Target Group and the Remaining ZIHG Group, nor is there any material conflict of interests.

In addition, the Group also expects to implement further corporate governance and internal control measures on the Target Group level to address any potential conflict of interests, including but not limited to requiring the management of the Target Group to declare his/her interests in the transactions of the Target Group and, where applicable, abstain from voting and/or participating in such transactions should there be any potential conflict of interests.

Furthermore, the Company is able to operate independently from the ZIHG Group for reasons disclosed in the section headed "Relationship with our Controlling Shareholders" in the Prospectus, and the Company does not foresee there to be any material conflict of interests between the Enlarged Group on one hand, and the Remaining ZIHG Group on the other hand.

## IMPLICATIONS OF THE LISTING RULES

As at the Latest Practicable Date, ZIHG is owned as to approximately 27.00% by Mr. Sun, 35.00% by Ms. Zhao Hongyu (the spouse of Mr. Sun; hence an associate of Mr. Sun), 5.00% by Mr. Liu, 5.00% by Mr. Shao Zhanguang (a non-executive Director), and 5.00% by Mr. Sun Juzhi (the brother of Mr. Sun; hence an associate of Mr. Sun). Mr. Sun, Ms. Zhao Hongyu, Mr. Liu, Mr. Shao Zhanguang and Mr. Sun Juzhi are controlling shareholders of the Company via their respective interests in Zonqing International and/or Zonbong International. Therefore, ZIHG is a connected person of the Company under the Listing Rules. As a result, the Acquisition constitutes a connected transaction of the Company under the Listing Rules. The Acquisition and the February Transaction constitute a series of transactions made within a 12-month period and will be aggregated pursuant to Rule 14.22 and Rule 14A.81 of the Listing Rules. As one or more of the applicable percentage ratios in respect of the Acquisition (both on a standalone basis and when aggregated with the February Transaction) exceeds 25% but are all less than 100%, the Acquisition constitutes a major transaction and a connected transaction of the Company subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules. For information of the February Transaction, please refer to the Company's announcements dated 18 February 2022 and 10 March 2022, respectively.

Mr. Sun, Mr. Liu and Mr. Shao Zhanguang, in view of their shareholding in ZIHG, have abstained from voting on the board resolutions for approving the Acquisition. Save as disclosed above, none of the Directors has abstained from voting on such board resolutions.

## INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Company has established an Independent Board Committee comprising Mr. Gao Xiangnong, Mr. Yin Jun and Mr. Lee Kwok Tung Louis (all of whom are independent non-executive Directors) to advise the Independent Shareholders as to (i) whether the terms of the Equity Transfer Agreement are fair and reasonable; (ii) whether the Acquisition is on normal commercial terms or better and in the ordinary and usual course of business of the Group; (iii) whether the Acquisition is in the interests of the Company and the Shareholders as a whole; and (iv) how to vote on the Acquisition. Rainbow Capital (HK) Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 27 June 2023 to Friday, 30 June 2023 (both days inclusive), for the purpose of ascertaining shareholders' entitlement to attend and vote at the EGM. In order to be entitled to attend and vote at the EGM, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong no later than 4:30 p.m. (Hong Kong time) on Monday, 26 June 2023.

## EGM

A notice convening the EGM of the Company to be held at 11/F, Zhongqing Building, No. 5888, Fuzhi Road, Jingyue High-tech Industrial Development Zone, Changchun City, Jilin Province, the PRC on Friday, 30 June 2023 at 10 a.m. is set out on pages EGM-1 to EGM-2 of this circular, at which the resolutions will be proposed for the purpose of considering and, if thought fit, approving, among others, the Equity Transfer Agreement and the Acquisition.

A form of proxy for use in connection with the EGM is enclosed with this circular and can also be downloaded from the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.zonbong.com). If you are not able or do not intend to attend the EGM and wish to exercise your right as a Shareholder, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return the completed form of proxy to the branch share registrar of the Company in Hong Kong, Boardroom Share Registrars (HK) Limited at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong as soon as possible but in any event, not later than 48 hours before the time appointed for holding the EGM or its adjournment (as the case may be). Completion and return of the form of proxy will not preclude any Shareholder from attending and voting in person at the EGM or its adjournment should he/she/it so wishes. If the Shareholder attends and votes at the EGM, the instrument appointing the proxy will be deemed to have been revoked.

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, to approve the Acquisition. As at the Latest Practicable Date, Zonqing International held 181,202,166 Shares, representing approximately 65.89% interests of the Company, which in turn was owned as to approximately (i) 27.00% by Mr. Sun; (ii) 35.00% by Ms. Zhao Hongyu (the spouse of Mr. Sun); (iii) 5.00% by Mr. Liu; and Zonbong International held 14,054,104 Shares, representing approximately 5.11% interest of the Company, which in turn was owned as to approximately (i) 60.11% by Mr. Liu Haitao; and (ii) 22.41% by Mr. Sun. In this connection, Zonqing International and Zonbong International will abstain from voting on the resolutions in relation to the Acquisition at the EGM, in view of the interests of Ms. Zhao Hongyu, Mr. Sun and Mr. Liu in ZIHG. To the best of knowledge, information and belief of the Directors, having made all reasonable enquiries, save as Zonqing International and Zonbong International, no Shareholder has a material interest in the ordinary resolution to be proposed at the EGM to approve the Equity Transfer Agreement and the Acquisition contemplated thereunder.

## VOTING BY POLL AT THE EGM

Pursuant to the Listing Rules, any vote of the Shareholders at a general meeting must be taken by poll except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Therefore, all resolutions to be proposed at the EGM and contained in the notice of the EGM will be voted by way of a poll by the Shareholders.

## RECOMMENDATION

The Directors (including the independent non-executive Directors whose view is set out in the letter from the Independent Board Committee in this circular) believe that the terms of the Equity Transfer Agreement and the Acquisition contemplated thereunder are on or normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that the Independent Shareholders should vote in favour of the relevant resolutions to be proposed at the EGM.

## ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendix to this circular and the notice of the EGM.

## MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

By order of the Board
**ZONQING Environmental Limited**

**Sun Juqing**
*Chairman and non-executive Director*

Hong Kong, 9 June 2023