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 you should take, you should consult your licensed securities dealer or registered institution 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 the circular and the accompanying form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

This circular appears for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

ZHI SHENG GROUP HOLDINGS LIMITED
智昇集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8370)

MAJOR TRANSACTION
IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN POLYQUEUE LIMITED
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial Adviser

Euto 裕韜 Capital Partners

Capitalised terms used in this cover shall have the same meanings as defined in this circular.

A notice convening the EGM to be convened at Room 1804A, 18/F., Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong at 11:00 a.m. on Friday, 10 January 2020 (Hong Kong time). is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Whether or not you plan to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM (i.e. at or before 11:00 a.m. on Wednesday, 8 January 2020 (Hong Kong time)) (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

This circular will remain on the GEM website at http://www.hkgem.com, on the "Latest Company Announcement" page for at least 7 days from the date of this posting and on the website of the Company at www.qtbgjj.com.

13 December 2019

CONTENTS

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of small and mid-sized companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

"Acquisition"	the acquisition of the entire share capital of the Target Company by the Company pursuant to the terms and conditions of the Sale and Purchase Agreement
"acting in concert"	has the meaning ascribed in the Takeovers Code
"associate"	has the same meaning ascribed to it under the GEM Listing Rules
"Board"	the board of Directors
"Business Day(s)"	a day (other than a Saturday, a Sunday or a public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
"BVI"	the British Virgin Islands
"China" or "PRC"	the People's Republic of China, which for the sole purpose of this circular excludes Hong Kong, the Macau Special Administration Region of the PRC and Taiwan
"Company"	Zhi Sheng Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on GEM (stock code: 8370)
"Completion"	completion of the Acquisition in accordance with the terms and conditions of the Sale and Purchase Agreement
"Completion Date"	the date falling the third Business Day after all the conditions specified in Sale and Purchase Agreement have been fulfilled (or waived as the case may be)
"connected person(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Consideration"	a sum of HK$37,200,000 being the amount of consideration to be paid by the Company to the Vendors for the sale and purchase of the entire share capital of the Target Company which shall be paid by allotting and issuing the Consideration Shares and issuing the Convertible Bonds
"Consideration Share(s)"	103,333,333 Share(s) to be allotted and issued at the Issue Price of HK$0.24 to the Vendors at Completion to satisfy part of the Consideration

"Contractual Arrangement"	the arrangement to obtain the rights to have effective control over the operation of the OPCO and the right to enjoy the economic benefits in the business and/or asset of the OPCO, and that the OPCO will be accounted for as a wholly-owned subsidiary of the Target Group in which their financial results be consolidated with that of the Target Group through the entering into of the Structured Contracts
"Conversion Price"	the conversion price of the Convertible Bonds of HK$0.24 per Conversion Share, subject to adjustments
"Conversion Share(s)"	the new Shares fall to be allotted and issued upon the conversion rights attaching to the Convertible Bond(s) being exercised, which amount to approximately 51,666,667 new Shares based on the initial Conversion Price
"Convertible Bonds"	convertible bonds in the aggregate principal amount of HK$12,400,000 carrying rights to convert into Conversion Share(s) at an initial Conversion Price of HK$0.24 (subject to adjustment) for each Conversion Share, to be issued to the Vendors by the Company to satisfy part of the Consideration
"Data Centre Business"	the business of provision of data centre, facilities management and value-added services, installation and maintenance services, which is regulated as type 1 value-added telecommunication services under the laws and regulations of the PRC
"Director(s)"	director(s) of the Company
"Due Diligence Review"	the review of the assets, liabilities, operations and affairs of the Target Group by the Company as detailed in the section headed "Due Diligence Review" in this circular
"EGM"	the extraordinary general meeting to be convened by the Company for the Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder, including the Specific Mandate
"Enlarged Group"	the Group as enlarged by the Target Group following the Completion
"Equity Pledge Agreement"	股權質押協議 (Equity Pledge Agreement#) to be entered into between the WFOE, the OPCO and the Registered Owner, being one of the Structured Contracts

"Euto"	Euto Capital Partners Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the financial adviser to the Company
"Exclusive Call Option Agreement"	獨家購買權協議 (Exclusive Call Option Agreement#) to be entered into between the WFOE, the OPCO and the HK Company, being one of the Structured Contracts
"Exclusive Consultation and Services Agreement"	獨家諮詢及服務協議 (Exclusive Consultation and Services Agreement#) to be entered into between the WFOE and the OPCO, being one of the Structured Contracts
"Extension Letter"	the extension letter dated 12 December 2019 entered into by the Company, the Vendors and the Guarantors to amend certain terms and conditions to the Sale and Purchase Agreement
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM of the Stock Exchange
"Group"	the Company and its subsidiaries
"Guarantor A"	Ms. Grace Wahyuni Sardjono, being the sole shareholder of Vendor A
"Guarantor B"	Mr. Fang Shin, being the sole shareholder of Vendor B
"Guarantors"	collectively, Guarantor A and Guarantor B
"HK Company"	ITO Express Limited (萬路通科技有限公司), a company incorporated in Hong Kong and a wholly-owned subsidiary of the Target Company
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	individual(s) or company(ies) which is/are not connected with any Directors, chief executive or substantial shareholders of the Company, its subsidiaries or any of their respective associates and is/are independent of the Company
"Issue Price"	HK$0.24, being the issue price per Consideration Share
"Latest Practicable Date"	12 December 2019, being the latest practicable date for ascertaining certain information referred to in this circular prior to its printing

"Long Stop Date"	17 January 2020, being the latest time to fulfill or waive (as the case may be) the conditions precedent to the Sale and Purchase Agreement and the completion of the Due Diligence Review
"Mr. Ma"	Mr. Gary Ma Ming Fai, the controlling shareholder of the Company
"OPCO"	北京萬諾通科技有限公司 (Beijing Wannuotong Technology Company Limited#), a sino-foreign joint venture enterprise established in the PRC which is owned as to 50% by the HK Company and as to 50% by the Registered Owner and is holding the Permit
"Permit"	增值電信業務經營許可證 (Value-added Telecommunications Business Operation Permit#) issued by the Ministry of Industry and Information of the PRC (中華人民共和國工業和信息化部) and held by the OPCO
"Registered Owner"	廣州萬聖易網絡科技有限公司 (Guangzhou Wanshengyi Internet Technology Company Limited#), a company established in the PRC which is the 50% legal owner of the OPCO and an Independent Third Party
"Reorganisation"	the corporate reorganisation to be undergone by the Target Group (including but not limited to the OPCO) upon completion of which (i) the Target Company shall have indirect control over the management and operation of the OPCO and that the Target Company shall be entitled to the entire economic benefits of the OPCO through the Contractual Arrangement; and (ii) all the rights and obligations of the OPCO regarding its business operations (other than those under foreign-ownership restriction under the laws and regulations of the PRC) will be assigned and novated to the WFOE by entering into novation agreement(s) and/or new business agreement(s) in the form and substance substantially the same as the existing business agreement(s) signed by the OPCO currently valid and subsisting
"Sale and Purchase Agreement"	the conditional sale and purchase agreement dated 21 October 2019 (as amended and supplemented by the Extension Letter) and entered into by the Company, the Vendors and the Guarantors in respect of the Acquisition
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong

"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Shareholders' Voting Right Entrustment Agreement"	股東表決權委託協議 (Shareholders' Voting Right Entrustment Agreement#) to be entered into between the WFOE, the OPCO and the Registered Owner, being one of the Structured Contracts
"Specific Mandate"	the specific mandate to be obtained by the Director from the Shareholders at the EGM for the allotment and issue of the Consideration Shares and the Conversion Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Structured Contracts"	collectively, the Exclusive Consultation and Services Agreement, the Exclusive Call Option Agreement, the Equity Pledge Agreement, the Shareholders' Voting Right Entrustment Agreement and the WFOE's Undertaking to be entered into pursuant to the Reorganisation and which forms part of the Contractual Arrangement
"Takeovers Code"	the Code on Takeovers and Mergers issued by the SFC
"Target Company"	Polyqueue Limited, a company incorporated in the BVI with limited liabilities
"Target Group"	the Target Company and its subsidiaries
"Vendor A"	Billion Eggs Limited, a company incorporated in the BVI with limited liability, which is holding 80% of the entire issued share capital of the Target Company before Completion
"Vendor B"	Rock Link Limited, a company incorporated in the BVI with limited liability, which is holding 20% of the entire issued share capital of the Target Company before Completion
"Vendors"	collectively, Vendor A and Vendor B
"WFOE"	北京萬諾馳科技有限公司 (Beijing Wannuochi Technology Company Limited#), a wholly foreign owned enterprise established in the PRC which is an indirect wholly-owned subsidiary of the Target Company
"WFOE's Undertaking"	the undertaking to be executed by the WFOE, being one of the Structured Contracts

"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent.

For the purpose of this circular, unless otherwise indicated, conversion of RMB into HK$ is calculated at the approximate exchange rate of RMB1.00 to HK$1.11. This exchange rate is adopted for illustration purpose only and does not constitute a representation that any amounts have been, could have been, or may be, exchanged at this rate or any other rate at all.

\# *The English translation of the Chinese names in this circular, where indicated, are included for information purpose only, and should not be regarded as the official English names of such Chinese names.*

ZHI SHENG GROUP HOLDINGS LIMITED
智昇集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8370)

Executive Directors:
Mr. Yi Cong
Mr. Liang Xing Jun

Non-executive Director:
Mr. Luo Guoqiang

Independent Non-executive Directors:
Mr. Chan Wing Kit
Mr. Cao Shao Mu
Mr. Kwok Sui Hung

Registered office:
Clifton House
75 Fort Street P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

Headquarters and principal place of business in the PRC:
3/F, 222 Tianren Road
Gaoxin District
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The People's Republic of China

Principal place of business in Hong Kong:
Room 747, 7/F, Star House
3 Salisbury Road
Tsim Sha Tsui
Kowloon
Hong Kong

13 December 2019

To the Shareholders

Dear Sir/Madam,

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN POLYQUEUE LIMITED AND NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 21 October 2019 in relation to the Sale and Purchase Agreement dated 21 October 2019 entered into between the Company, the Vendors and the Guarantors pursuant to which the Company has agreed to acquire and the Vendors have agreed to sell the entire issued share capital in the Target Company, for an aggregate Consideration of HK$37,200,000.

Reference is also made to the announcement of the Company dated 12 December 2019 in relation to the Extension Letter entered into between the parties to the Sale and Purchase Agreement pursuant to which the parties thereto agreed to extend the Long Stop Date for fulfillment of the conditions precedent to the Sale and Purchase Agreement and also the completion of the Due Diligence Review to 17 January 2020.

The purpose of this circular is to provide you with, among other things, information of the Acquisition and to give you a notice of the EGM at which a resolution will be proposed to consider and, if thought fit, to approve (i) the Sale and Purchase Agreement (as amended and supplemented by the Extension Letter) and the transactions contemplated thereunder; and (ii) the Specific Mandate for the allotment and/or issue of the Consideration Shares and the Conversion Shares.

THE SALE AND PURCHASE AGREEMENT (AS AMENDED AND SUPPLEMENTED BY THE EXTENSION LETTER)

The principal terms of the Sale and Purchase Agreement (as amended and supplemented by the Extension Letter) are summarised as follows:

Date

21 October 2019

Parties

(i) the Company;

(ii) the Vendors; and

(iii) the Guarantors

Assets to be acquired

Pursuant to the Sale and Purchase Agreement, the Company has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the entire issued share capital in the Target Company.

As at the date of the Sale and Purchase Agreement, the Target Company was beneficially owned as to 80% by Vendor A and 20% by Vendor B.

Consideration

The Consideration of HK$37,200,000 shall be satisfied in the following manner:

(1) a sum of HK$24,800,000 shall be satisfied by the Company to the Vendors upon Completion by allotting and issuing an aggregate number of 103,333,333 Consideration Shares to the Vendors (as to 82,666,667 Consideration Shares to Vendor A and as to 20,666,666 Consideration Shares to Vendor B), credited as fully paid, at the Issue Price of HK$0.24 per Consideration Share; and

(2) the balance of HK$12,400,000 shall be paid by the Company to the Vendors upon Completion by issuing to the Vendors the Convertible Bonds (as to HK$9,920,000 to Vendor A and as to HK$2,480,000 to Vendor B), convertible into Conversion Shares at the initial Conversion Price of HK$0.24 (subject to adjustment) for each Conversion Share.

Further details of the Consideration Shares and the Convertible Bonds are set out in the sub-sections headed "Consideration Shares" and "Convertible Bonds" in this circular respectively.

Basis for determination of the Consideration

The Consideration was primarily determined based on arm's length negotiations between the Company and the Vendors with reference to, among others, (i) the preliminary valuation conducted by Graval Consulting Limited ("**Graval Consulting**"), an independent professional valuer engaged by the Company, regarding the Target Group of approximately HK$40,000,000 as at 31 August 2019; and (ii) the benefits of the Acquisition as disclosed in the section headed "Reasons for and benefits of the Acquisition" in this circular.

In determining the Consideration, the Directors have specifically considered that (i) the net liabilities recorded by the Target Group of approximately RMB9.16 million as at 31 July 2019 were resulted from the accumulated losses over several years and did not reflect the current profitability of the Target Group; and (ii) the Target Group has already turned around the loss position and recorded a net profit of approximately RMB2.41 million for the year ended 31 July 2019. The Directors believed that it is common for an information technology company to record loss at the initial investment stage, before experiencing a rapid growth once gained the momentum after passing its break-even point.

In assessing the preliminary valuation of the Target Group, the Board has performed due diligence including but not limited to (i) reviewing the statutory records of the Target Group; (ii) reviewing, cognising and evaluating the business model and operational flow of the Target Group; (iii) reviewing and considering the market research in relation to the data centre business in the PRC; (iv) obtaining and sample reviewing the sales agreements and invoices entered into between the OPCO and its customers in 2018 with a population coverage of over 50% in terms of invoice value; (v) engaging the independent reporting accountants to perform audit on the financial statements of Target Group for the three years ended 31 July 2019; (vi) reviewing, cognising, considering and evaluating the financial valuation model on the Target Group; (vii) engaging the PRC lawyers to perform legal due diligence on the OPCO and the WFOE and reviewing the permits and licences for their operation in the PRC; (viii) engaging Graval Consulting to prepare the preliminary valuation based on the aforesaid financial valuation model; (ix) engaging Euto to review the assumptions of the preliminary valuation; (x) attending site visits by a Director at the operation of the Target Group in Shanghai where contracts and/or agreements relating to the Target Group and operation status (including financial and licensing status) of the OPCO were reviewed, one of the major customers of the Target Group was interviewed, and meetings were held with the management team of the

OPCO; and (xi) attending a site visit by a Director with Graval and Euto at the operation of the Target Group in Beijing where one of the major customers of the Target Group was interviewed.

According to the valuation report (the "**Valuation Report**") prepared by Graval Consulting, the fair market value of 100% equity interests in the Target Company as at 31 August 2019 was in the sum of HK$40,004,000. The fair value under the Valuation Report was determined using the discounted cash flow method under the income approach. Accordingly, such valuation constitutes a profit forecast under Rule 19.61 of the GEM Listing Rules (the "**Profit Forecast**"). Details of the Valuation Report are set out in Appendix V to this circular.

Pursuant to Rule 19.62 of the GEM Listing Rules, the principal assumptions, including commercial assumptions, upon which the Profit Forecast is based, are set out on pages V-22 to V-23 of this circular.

Euto, the financial adviser to the Company, has discussed with the management of the Company and Graval Consulting regarding the bases and assumptions upon which the Profit Forecast to arrive at the Valuation and Euto is of the opinion that the Profit Forecast underlying the Valuation, for which the Directors are solely responsible, has been made after due and careful enquiry. BDO Limited, acting as the Company's reporting accountants, have examined the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation Report prepared by Graval Consulting is based on. A letter from Euto and a letter from BDO Limited are set out in Appendix VI to this circular.

Having considered the above and taken regard to the guidance note named "Guidance note on directors duties in the context of valuations in corporate transactions" issued by the SFC on 15 May 2017, the Board considered that the valuation of the Target Group is fair and reasonable to be relied upon.

Completion is subject to a condition precedent that a valuation report showing the valuation of the entire issued share capital of the Target Company being not less than HK$40,000,000. As the Consideration represents a discount to the valuation of the Target Company and the Consideration is to be settled by allotment and issue of Consideration Shares and issue of Convertible Bonds where no immediate significant cash outlay of the Group will be involved, the Board considers that the Consideration is fair and reasonable and in the interests of the Group and the Shareholders as a whole.

Consideration Shares

The Consideration Shares will be allotted and issued under the Specific Mandate to be sought from the Shareholders at the EGM. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

The Consideration Shares, when allotted and issued, shall rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the Consideration Shares including the right to all dividends, distributions and other payments made or to be made, the record date for which falls on or after the date of such allotment and issue.

The Issue Price of HK$0.24 per Consideration Share represents:

(i) a premium of approximately 9.09% over the closing price of approximately HK$0.220 per Share as quoted on the Stock Exchange on the date of the Sale and Purchase Agreement;

(ii) a discount of approximately 17.24% to the closing price of HK$0.290 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(iii) a discount of approximately 13.36% to the average closing price of approximately HK$0.277 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the Latest Practicable Date;

(iv) a discount of approximately 13.98% to the average closing price of approximately HK$0.279 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the Latest Practicable Date;

(v) a premium of approximately 10.09% over the audited consolidated total equity attributable to the owners of the Company per Share of approximately RMB0.196 (equivalent to approximately HK$0.218) as at 31 December 2018, calculated based on 804,000,000 Share in issue as at the Latest Practicable Date; and

(vi) a discount of approximately 4.76% to the unaudited consolidated total equity attributable to the owners of the Company per Share of approximately RMB0.227 (equivalent to approximately HK$0.252) as at 30 June 2019, calculated based on 804,000,000 Shares in issue as at the Latest Practicable Date.

The Issue Price was determined after arm's length negotiation between the Company and the Vendors with reference to, among others, the prevailing market price of the Shares. The Directors consider the Issue Price is fair and reasonable.

The Consideration Shares represent approximately 12.85% of the existing issued share capital of the Company as at the Latest Practicable Date and represent approximately 11.39% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming that there is no other change in the issued share capital of the Company).

The aggregate nominal value of the Consideration Shares is HK$1,033,333.33 and the allotment and issue of the Consideration Shares will not result in a change in control of the Company.

Convertible Bonds

The principal terms of the Convertible Bonds are summarised as follows:

Issuer:	The Company
Principal amount:	HK$12,400,000

Maturity date:	The date falling the fourth anniversary of the issue of the Convertible Bonds, provided that if such date is not a Business Day, the Business Day immediately after such date (the "**Maturity Date**")
Interest rate:	The Convertible Bonds shall not bear any interest.
Conversion period:	Subject to the terms and conditions of conversion, the period commencing from the date of issue of the Convertible Bonds up to and including the date which is 3 days prior to the Maturity Date (the "**Conversion Period**").
Conversion rights:	Provided that:

(i) any conversion of the Convertible Bonds does not result in the holders of the Convertible Bonds and/or the parties acting in concert with any of them and/or their respective associates being interested in 20% or more of the issued share capital of the Company as enlarged by the allotment and issued of the Conversion Shares (or such lower percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer obligation under Rule 26 of the Takeovers Code on the part of the holder of the Convertible Bonds which exercised the Conversion Rights), whether or not such mandatory offer obligation is triggered off by the fact that the number of Conversion Shares to be allotted and issued upon the exercise of the Conversion Rights attaching to the Convertible Bonds (if applicable, including any Shares acquired by the parties acting in concert with any of the holders of the Convertible Bonds) or otherwise pursuant to other provisions of the Takeovers Code; and

(ii) any conversion of the Convertible Bonds does not result in the public float of the Shares being less than 25% (or any given percentage as required by the GEM Listing Rules) of the issued Shares of the Company,

the holders of the Convertible Bonds shall have the right at any time during the Conversion Period to convert the whole or part of the outstanding principal amount of the Convertible Bonds registered in their names into Shares.

Conversion Price: The initial Conversion Price for the Convertible Bonds shall be HK$0.24 per Conversion Share, subject to adjustments as set out and in accordance with the terms and conditions of the Convertible Bonds, and represents:

(i) a premium of approximately 9.09% over the closing price of approximately HK$0.220 per Share as quoted on the Stock Exchange on the date of the Sale and Purchase Agreement;

(ii) a discount of approximately 17.24% to the closing price of HK$0.290 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(iii) a discount of approximately 13.36% to the average closing price of approximately HK$0.277 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the Latest Practicable Date;

(iv) a discount of approximately 13.98% to the average closing price of approximately HK$0.279 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the Latest Practicable Date;

(v) a premium of approximately 10.09% over the audited consolidated total equity attributable to the owners of the Company per Share of approximately RMB0.196 (equivalent to approximately HK$0.218) as at 31 December 2018, calculated based on 804,000,000 Share in issue as at the Latest Practicable Date; and

(vi) a discount of approximately 4.76% to the unaudited consolidated total equity attributable to the owners of the Company per Share of approximately RMB0.227 (equivalent to approximately HK$0.252) as at 30 June 2019, calculated based on 804,000,000 Shares in issue as at the Latest Practicable Date.

	The initial Conversion Price was determined after arm's length negotiation between the Company and the Vendors with reference to, among others, (i) the prevailing market price of the Shares; and (ii) the conversion rights of the holder(s) of the Convertible Bonds, i.e. the holder(s) of the Convertible Bonds will have the right, during the Conversion Period, to convert the Convertible Bonds into Conversion Shares, or otherwise, the Convertible Bonds will be redeemed by the Company by repaying the holder(s) of the Convertible Bonds all outstanding principal amount upon the Maturity Date. The Directors consider that the initial Conversion Price is fair and reasonable.
Adjustment to Conversion Price:	The Conversion Price shall from time to time be adjusted by reason of any consolidation or sub-division of Shares. If and whenever the Shares by reason of any consolidation or sub-division become of a different nominal amount, the Conversion Price in force immediately prior thereto shall be adjusted by multiplying it by the revised nominal amount and dividing the result by the former nominal amount.
Conversion Shares:	Based on the initial Conversion Price of HK$0.24 per Conversion Share, a maximum of 51,666,667 Conversion Shares will be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds in full. The Conversion Shares represent approximately (i) approximately 6.43% of the existing issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 6.04% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares only; and (iii) approximately 5.39% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and the Conversion Shares. The aggregate nominal value of the Conversion Shares (with a par value of HK$0.01 each) will be approximately HK$516,666.67. The issue of the Convertible Bonds and allotment and issue of the Conversion Shares are subject to the Specific Mandate to be sought at the EGM.
Redemption:	The Company shall be entitled, on the Maturity Date, to redeem the then outstanding Convertible Bonds, at 100% of the principal of those Convertible Bonds or any part thereof.

Transferability:	The holders of the Convertible Bonds may only assign or transfer the Convertible Bonds to the transferee subject to the prior notification to the Company. The Convertible Bonds may not be assigned or transferred, in whole or in part, to any connected person of the Company (as defined under the GEM Listing Rules).
Voting rights:	Holders of the Convertible Bonds shall not be entitled to attend or vote at any meetings of the Company by reason only of it being a holder of the Convertible Bonds.
Listing:	No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange. The Company will apply to the Stock Exchange for the listing of and permission to deal in the Conversion Shares to be allotted and issued upon exercise of the conversion rights attached to the Convertible Bonds.
Ranking:	The Conversion Shares will, when allotted and issued, rank *pari passu* in all respects among themselves and with all other fully paid Shares in issue including the right to all dividends, distributions and other payments made or to be made, the record date for which falls on or after the date of such allotment and issue.

The allotment and issue of the Conversion Shares will not result in a change in control of the Company.

Conditions precedent

Completion of the Acquisition is subject to and conditional upon the satisfaction or waiver (as applicable) of the following conditions:

(a) the Stock Exchange granting listing of and permission to deal in the Consideration Shares and the Conversion Shares;

(b) the Company being reasonably satisfied with the results of the Due Diligence Review;

(c) all necessary consents, licences and approvals required to be obtained on the part of the Vendors and the Target Group in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder having been obtained and remain in full force and effect;

(d) all necessary consents, licences and approvals required to be obtained on the part of the Company in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder having been obtained and remain in full force and effect;

(e) if required, the passing by the Shareholders at an extraordinary general meeting of the Company to be convened and held of all necessary resolutions to approve the Sale and Purchase Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds, the allotment and issue of the Consideration Shares, the allotment and issue of the Conversion Shares upon exercise of the conversion rights attached to the Convertible Bonds in accordance with the terms therein (if necessary), and all other consents and acts required under the GEM Listing Rules having been obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules having been obtained from the Stock Exchange;

(f) the obtaining of a PRC legal opinion (in form and substance satisfactory to the Company) from a firm of PRC legal advisers nominated by the Company in relation to, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder, the Reorganisation and the Permit;

(g) completion of the Reorganisation, conducted in such manner which is compliance with the GEM Listing Rules, relevant laws and regulations and to the satisfaction of the Company;

(h) the obtaining of a valuation report (in form and substance satisfactory to the Purchaser) from a valuer nominated by the Company showing the valuation of the entire issued share capital of the Target Company being not less than HK$40,000,000; and

(i) the representations, undertakings and warranties provided by the Vendors under the Sale and Purchase Agreement remaining true and accurate in all respects.

The Company may at any time waive in writing the conditions (b), (f), (g), (h) and (i). If any of the conditions above has not been satisfied (or, as the case may be, waived by the Company) at or before 12:00 noon on 17 January 2020, being the Long Stop Date, or such later date as the Company may agree, the Sale and Purchase Agreement shall cease and determine (save and except terms relating to warranties and undertakings, guarantee, confidentiality and announcements, notices, costs and stamp duty and governing law, process agent and jurisdiction which shall continue to have full force and effect) in which event neither party hereto shall have any obligations and liabilities hereunder save for any antecedent breaches of the terms hereof.

The Directors are of the view that the absolute discretion vest with the Company to waive the conditions precedent (g) and (h) which would allow the Company to enjoy more flexibility in proceeding with the Acquisition.

In particular, in relation to condition precedent (g), this is to cater for the occasions, where minor deficiencies and insignificant flaws are found during the course of the Reorganisation without affecting the substance of the Acquisition. Such waiver would allow the Board to have the right to consider and exercise judgment whether to proceed with the Acquisition after taking into account all other factors as a whole. The Company will only exercise its discretion to waive condition precedent (g) subject to strict compliance under HKEX-GL77-14 for the Structured Contracts or such other compliance as required under the GEM Listing Rules and other relevant laws and regulations.

As to condition precedent (h), the Company will exercise its discretion only if there is an insignificant shortfall to the expected valuation of HK$40,000,000 which, having considered the Acquisition as a whole, is considered immaterial and acceptable to the Company.

All in all, the Board will only waive the relevant conditions precedent where it is satisfied that such waiver would not have any material adverse effect on the Enlarged Group taken as a whole, and such waiver would be in the interests of the Company and its Shareholders as a whole. In any event, the waivers vest on the Company who has the sole and absolute decision on the form and substance, as well as the level of waiver to be exercised. The Board confirms that the Directors have no current intention to waive any of the conditions precedent.

As at the Latest Practicable Date, none of the above conditions have been fulfilled.

Due Diligence Review

Upon signing of the Sale and Purchase Agreement, Purchaser shall and shall procure that its agents shall forthwith conduct such review of the assets, liabilities, operations and affairs of the Target Group as it may reasonably consider appropriate and the Vendors shall provide and procure the Target Group and its agents to provide such assistance as the Company or its agents may reasonably require in connection with such review so as to enable the review to be completed at or before 12:00 noon on the Long Stop Date or such later date as the Company may agree (the "**Due Diligence Review**").

Reorganisation

The Target Group will undergo the Reorganisation upon completion of which (i) the Target Company shall have indirect control over the management and operation of the OPCO and that the Target Company shall be entitled to the entire economic benefits of the OPCO through the Contractual Arrangement; and (ii) all the rights and obligations of the OPCO regarding its business operations (other than those under foreign-ownership restriction under the laws and regulations of the PRC) will be assigned and novated to the WFOE by entering into novation agreement(s) and/or new business agreement(s) in the form and substance substantially the same as the existing business agreement(s) signed by the OPCO currently valid and subsisting.

Guarantee by the Guarantors

Guarantor A and Guarantor B have irrevocably and unconditionally guaranteed to the Company the due and punctual performance of the obligations by Vendor A and Vendor B respectively under the Sale and Purchase Agreement.

COMPLETION

Upon satisfaction or waiver (as applicable) of all the conditions in the Sale and Purchase Agreement, Completion shall take place on the Completion Date.

INFORMATION OF THE VENDORS AND THE GUARANTORS

Vendor A is an investment holding company incorporated in the BVI with limited liability and is wholly-owned by Guarantor A. Guarantor A is the spouse of Mr. Man Chin who is interested in 20,059,800 Shares (representing approximately 2.49% of the entire issued share capital of the Company as at the Latest Practicable Date) through its controlled corporation. In addition, the brother of Mr. Man Chin is interested in 31,536,000 Shares (representing approximately 3.92% of the entire issued share capital of the Company as at the Latest Practicable Date).

Vendor B is an investment holding company incorporated in the BVI with limited liability and is wholly-owned by Guarantor B.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, each of the Vendors and their respective ultimate beneficial owner (being the Guarantors) and each of the Guarantors and their respective associates is an Independent Third Party.

The Directors confirm that, save and except the Sale and Purchase Agreement and the transactions contemplated thereunder, the Company has not entered, or contemplated to enter, into any other arrangements, agreements or understanding (whether formal or informal and whether express or implied) with the Vendors.

INFORMATION OF THE TARGET GROUP

The Target Company is an investment holding company incorporated in the BVI with limited liability and is owned as to 80% by Vendor A and as to 20% by Vendor B before Completion. The Target Company is the sole shareholder of the HK Company which in turn wholly-owns WFOE and owns 50% of the registered share capital of the OPCO. The other 50% of the registered share capital of the OPCO is owned by the Registered Owner, an Independent Third Party.

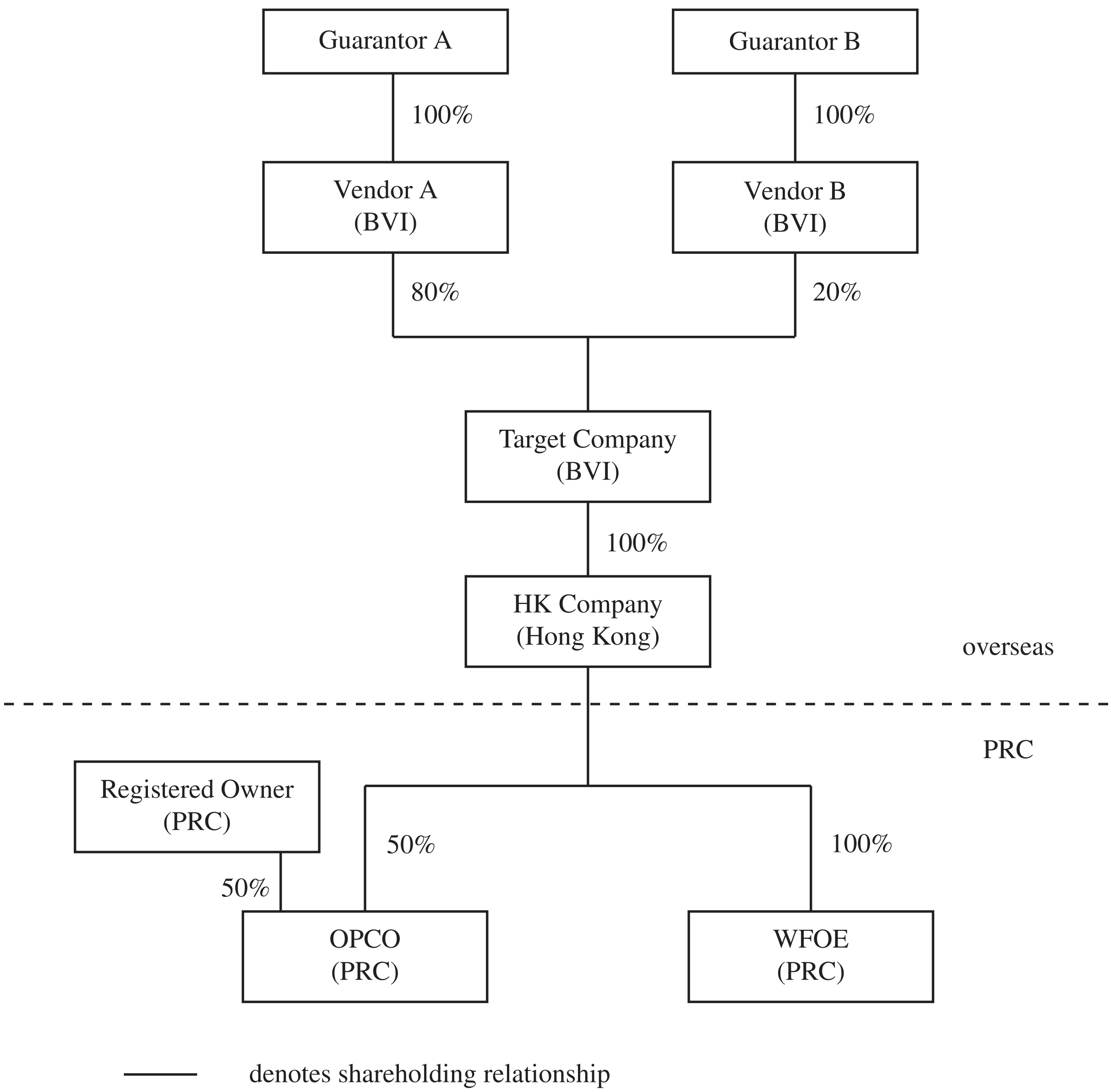
HK Company is an investment holding company incorporated in Hong Kong with limited liability. Each of the OPCO and the WFOE is a company established under the laws of the PRC. WFOE is not engaged in any material business activities as at the Latest Practicable Date. The Target Group, through the OPCO, is principally engaged in the Data Centre Business in Shanghai, the PRC.

As part of the Reorganisation and through the Contractual Arrangement, the Target Company will obtain the rights to have effective control over the operation of the OPCO and the right to enjoy the economic benefits in the business and/or asset of the OPCO, and that the

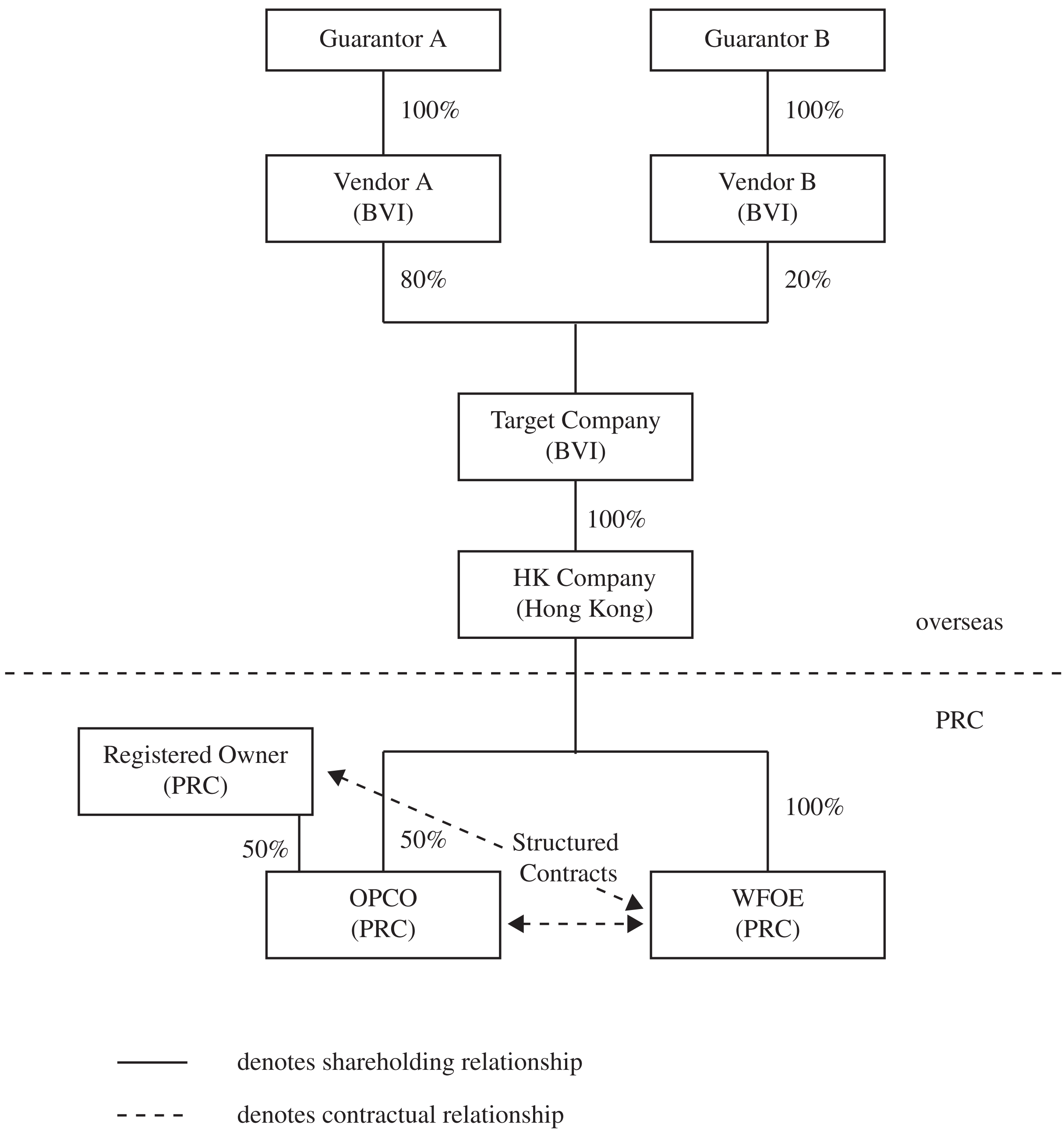
OPCO will be accounted for as a wholly-owned subsidiary of the Target Company in which its financial results be consolidated with that of the Target Group through the entering into of the Structured Contracts with the OPCO and the Registered Owner.

Shareholding structure of the Target Group

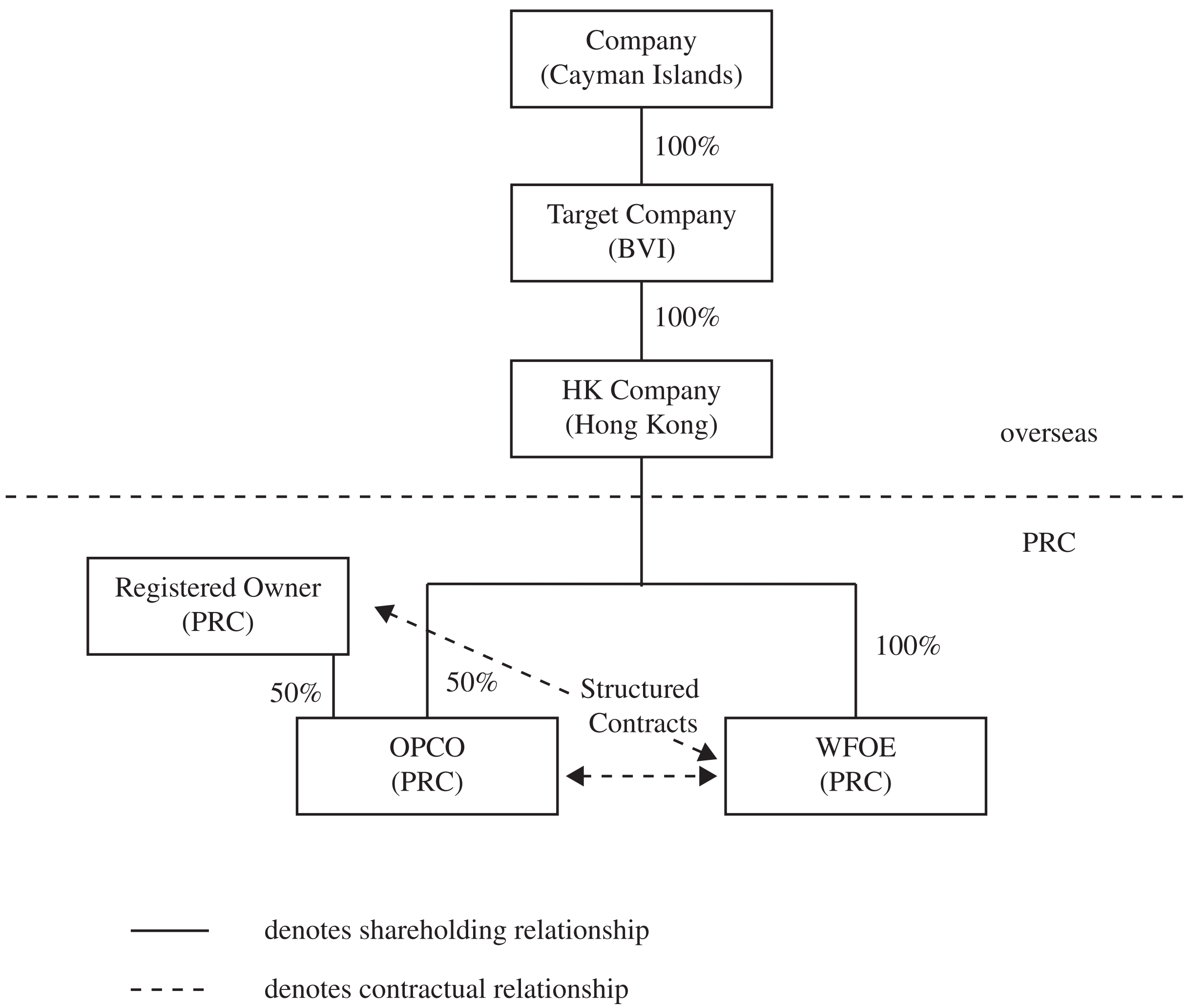
(i) Before completion of the Reorganisation



(ii) After completion of the Reorganisation but before the Completion



(iii) After the Completion



Business and revenue models of the OPCO

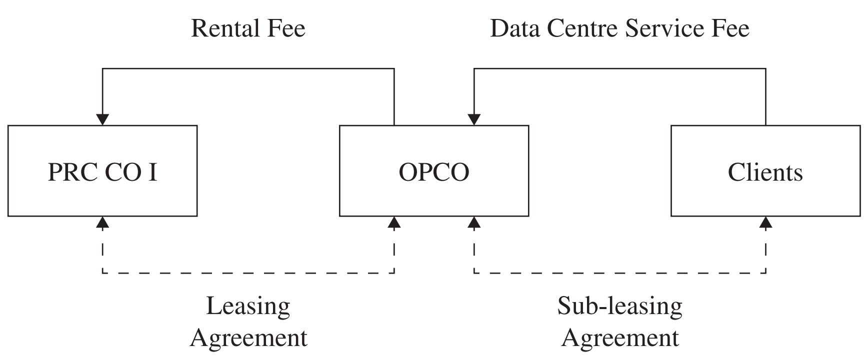
The OPCO is the holder of the Permit and is principally engaged in the Data Centre Business in Shanghai, the PRC, which includes the provision of data centre, facilities management and value-added services, installation and maintenance services, as further disclosed below. Starting from 2019, the OPCO also commenced Data Centre Business related business development in Beijing, the PRC in 2019.

Operation in Shanghai

The OPCO operates a data centre in Shanghai, the PRC, which occupies an area of approximately 660 square metres. The data centre offers a comprehensive range of facilities management services to customers from standard racks to custom-designed facilities, including uninterruptible power supply, monitored 24-hour operating service, data centre security and high-speed internet connections.

Pursuant to the leasing agreements entered into between the OPCO and the landlord which is a PRC technology company (the "**PRC Co I**"), the OPCO leased two storage rack modules of a data centre in Shanghai for a contractual period from 1 July 2019 to 30 June 2024 from the PRC Co I. The OPCO is obligated to pay the rental fee of the leased storage racks and the associated electricity charges to the PRC Co I. The total number of storage racks of two leased modules is 344, of which 302 storage racks have been sub-leased to third-party corporate clients through the execution of the sub-leasing agreements. The contractual tenure with the customers normally range from 12 months to 36 months. On top of leasing storage rack modules from PRC Co I and subleasing to third-party corporate clients, the OPCO also provides value-added telecommunication services to its corporate clients including remote hand IT services, 7x24 monitoring, patrolling, security and custodian services etc..

Below is a diagram showing the relationship and business flow among the OPCO, its clients and the PRC Co I.



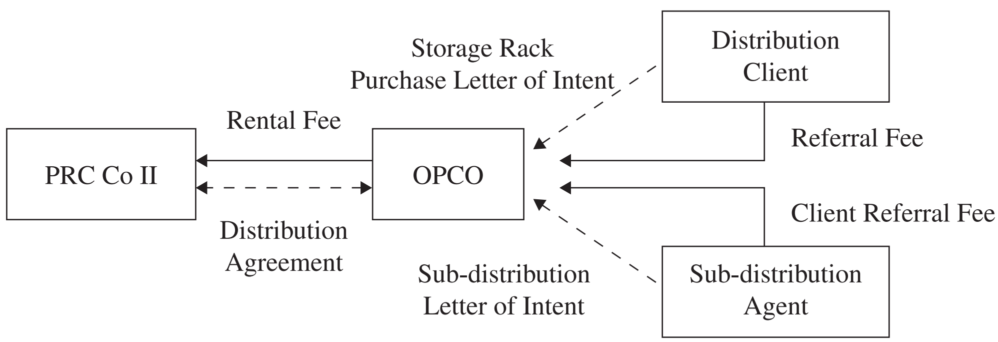
According to the Classification catalogue of telecommunication services (2015 Edition)# (《電信業務分類目錄(2015年版)》) (the "**2015 Catalogue**") promulgated by the Ministry of Industry and Information Technology of the PRC in 2015 and amended on 6 June 2019, the PRC legal advisers of the Company are of the view that the Data Centre Business of the OPCO in Shanghai falls within the definition of "value added telecommunication services".

Operation in Beijing

The OPCO has also commenced developing its business in Beijing in 2019 by entering into a distribution agreement with another PRC technology company (the "**PRC Co II**") pursuant to which the OPCO will act as a non-exclusive agent to perform marketing activities and distribute the storage racks of the PRC Co II located in Beijing for a period commencing on 1 August 2019 and ending on 31 July 2029, subject to renewal upon expiry. Pursuant to the terms of the distribution agreement, the OPCO has agreed to distribute at least 30 storage racks for sales over the contractual period and make referral fee payment, connection fee and associated electricity charges to the PRC Co II in relation to the storage racks. As the Permit has not yet been issued for operation of the Data Centre Business in Beijing, the OPCO only acts as agent between PRC Co II and the corporate clients and does not involve in using corresponding room facilities to provide replacement, agent maintenance, system configuration or management services for the internet or other network-related devices of the user such as server by outsourcing and leasing forms, nor providing the rental of devices such as database systems, servers or their respective storage space, the agent rental of communication lines or export bandwidth, internet resource collaboration service or other application services.

As at the Latest Practicable Date, the OPCO has entered into a letter of intent with a customer for the sale of 90 storage racks and a sub-distribution letter of intent with a sub-distribution agent for the distribution of 50 storage racks.

Below is a diagram showing the relationship and business flow among the OPCO, its clients and the PRC Co II.



According to the 2015 Catalogue, the PRC legal advisers of the Company are of the view that, the abovementioned OPCO's business in Beijing does not falls into the "value-added telecommunication services".

It is the common intention of the Vendors and the Company that they would further develop the data centre-related business in Beijing. As the OPCO is currently not permitted under the Permit to conduct a full-scope Data Centre Business in Beijing, the Target Group is in the process of expanding the scope of the Permit to allow the expansion of its business to full-scope Data Centre Business in Beijing, which, according to the Vendors, is expected to complete by July 2020. In the meantime, it will focus on its current scope of business of marketing and distribution of the storage racks to its clients and sub-distribution agents. If such expansion of scope of the permit is not complete prior to the entering into of the Contractual Arrangement, the existing marketing and distribution business in Beijing will be operated by WFOE instead.

As advised by the Vendors, the following is the latest status of the negotiations between the OPCO and potential corporate clients:

Potential customer	Expected number of storage racks to be distributed	Expected start date of service term	Negotiation status
Distribution Client A[Note]	90	2020 Q1	Entered into letter of intent
Sub-distribution Client A[Note]	24	2020 Q1	Negotiation on pricing in progress
Sub-distribution Client B[Note]	32	2020 Q2	Negotiation on pricing in progress
Sub-distribution Client C[Note]	200	2020 Q2	Negotiation on number of storage racks supply in progress

Note: Each of the Distribution Client, Sub-distribution Client A, Sub-distribution Client B and Sub-distribution Client C is an Independent Third Party.

The Directors confirm that the ultimate beneficial owner(s) of PRC Co I and PRC Co II are individuals not connected to the Target Group nor the Company and both PRC Co I and PRC Co II do not have any relationship, whether past or existing, business or otherwise, with the Company. Both PRC Co I and PRC Co II are introduced to the OPCO through referral by the general manager of the OPCO.

The Board's intention of the Data Centre Business after the Completion

The Company intends to continue the current scale of operation of the Data Centre Business after the Completion. No substantial change or expansion plan will be imposed to the Target Group following the Completion and the Company also has no plan to acquire any further data centre business.

According to Permit, the OPCO is permitted to carry out the Data Centre Business in Shanghai and Shenzhen only and relevant permit has not been issued for Data Centre Business in Beijing. The Target Group is in the process of expanding the scope of the Permit to allow the expansion of its business to full-scope Data Centre Business in Beijing, which, according to the Vendors, is expected to complete by July 2020. In the meantime, it will focus on its current scope of business of marketing and distribution of the storage racks to its clients and sub-distribution agents. If such expansion of scope is not complete prior to the entering into of the Contractual Arrangement, the existing marketing and distribution business in Beijing will be operated by WFOE instead.

The Board has no intention to discontinue the employment of the employees of the Target Group following the Completion, in order to maintain the continuity of operation of the Data Centre Business. The Data Centre Business is expected to be operated by the existing operation team of the Target Group who will remain on board after the Completion and supervised by the Representative from the Board.

Currently, the management team of the Target Group is mainly led by their operations president, Mr. Zhang Jin ("**Mr. Zhang**") and their sales president, Ms. Yu Guangfen ("**Ms. Yu**").

Mr. Zhang has 10 years of experience in communications technology specialising in project and operation management. He is mainly responsible for overseeing the operation, management and maintenance of the entire data centre businesses and actively participates in the build-up of the Shanghai new data centre. He also works with sales team to prepare business proposal for clients and offers insights for the latter in case they have any queries in the data centre business.

Mr. Zhang has over 10 years of experience in project and operation management in telecommunications and data centre industry. He previously worked for famous a MPLS VPN company as well as influential telecommunication players. MPLS VPN is a family of methods for using multi-protocol label switching to create virtual private networks.

Mr. Zhang also obtained Project Management Professional (PMP) certification from the Project Management Institute of the United State as well as the certification as a China's mobile communication engineer.

Ms. Yu has over 15 years of experience in the telecommunication industry and is experienced in managing the sales teams in data centre and MPLS VPN businesses. She is mainly responsible for orchestrating plans, strategies and direction for developing direct and channel businesses and achieving the company's sales goals.

Ms. Yu graduated from Dezhou University in China majoring Mechatronics. She has proven track record to develop large and famous direct enterprises and channel partners with tailor-made enterprise solutions and channel programs and she is well-versed in customer relations and expanding sales network.

Apart from retaining the existing operation team (including Mr. Zhang and Ms. Yu), the Board is also currently identifying suitable personnel and will, after careful examination of their expertise and experience, consider to appoint such candidate(s) as members of the management team of the Target Group to oversee the operation the Data Centre Business following the Completion. Mr. Ma, the controlling shareholder of the Company and who has introduced the opportunity of the Acquisition to the Board, has extensive experience and personal network in the data centre industry and is an early investor in a number of technology projects in the PRC (including internet-focus operating systems, software applications for data centres etc.) for more than 20 years. Mr. Ma was the former executive director and one of the initial management shareholder of China Information Technology Development Limited (formerly known as Xteam Software International Limited, together with its subsidiaries (the "**Xteam Software Group**")) (stock code: 8178) upon its initial listing on the GEM in 2001. He joined the Xteam Software Group in 1999 with a focus on the provision of Linux operating system for various hardware appliances including servers and PCs in the PRC. The management of the Xteam Software Group, consisting of Mr. Ma, is one of the early movers in the development of Linux operating system in the PRC. Owing to his extensive experience and networking in the data centre industry for more than 20 years, Mr. Ma is personally acquaintance with various telecommunication providers, including one of the largest telecommunication providers in China, and several of their customers. If the Board considers necessary, they would also appoint Mr. Ma to the management team of the Target Group to oversee the Data Centre Business. Mr. Ma has indicated to the Board that he is willing to accept such appointment if required.

In addition, the Directors have no intention to change the Board composition and/or the members of the senior management team of the Company as a result of the Acquisition, and they will not invite any existing shareholders, directors or members of the management team of the Target Group as a Director.

Financial information of the Target Group

Set out below is the audited combined financial information of the Target Group for the two years ended 31 July 2018 and 2019:

	For the year ended 31 July	
	2018	**2019**
	(RMB'000)	*(RMB'000)*
	(audited)	(audited)
Revenue	9,183	22,001
Net (loss)/profit before taxation	(4,238)	2,391
Net (loss)/profit after taxation	(3,438)	2,412

The audited combined net liabilities of the Target Group as at 31 July 2019 were approximately RMB9.16 million (equivalent to approximately HK$10.17 million).

Upon Completion, the Group will be interested in the entire issued share capital of the Target Company which will become a direct wholly-owned subsidiary of the Company. The Directors have discussed with the auditors of the Company and it has confirmed that the financial results of the Target Group will be consolidated into the accounts of the Group.

Pursuant to the Structured Contracts, Target Company will be able to control 100% of the management and operation of the OPCO so as to obtain the entire economic interest and benefits from its business activities despite the lack of full registered equity ownership. The Directors have discussed with the auditors of the Company and it has confirmed that under the prevailing accounting principles of the Company, the Target Company has the right to consolidate the financial results of the OPCO in its consolidated accounts as if it were a subsidiary of the Target Company.

EFFECT ON THE SHAREHOLDING STRUCTURE

The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after allotment and issue of the Consideration Shares; and (iii) immediately after the allotment and issue of the Consideration Shares and the full conversion of the Convertible Bonds:

	(i) As at the Latest Practicable Date		**(ii) immediately after allotment and issue of the maximum number of Consideration Shares**		**(iii) immediately after the allotment and issue of the Consideration Shares and full conversion of the Convertible Bonds**	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
Sun Universal Limited *(Note 1)*	245,300,400	30.51	245,300,400	27.04	245,300,400	25.58
Brilliant Talent Global Limited *(Note 2)*	116,580,000	14.50	116,580,000	12.85	116,580,000	12.16
Public Shareholders						
Vendor A and its associates *(Note 3)*	20,059,800	2.49	102,726,467	11.32	144,059,800	15.02
Vendor B	—	—	20,666,666	2.28	31,000,000	3.23
Other Public Shareholders	442,059,800	52.50	442,059,800	46.51	442,059,800	44.01
Total	804,000,000	100.00	907,333,333	100.00	959,000,000	100.00

Notes:

1. The entire issued share capital of Sun Universal Limited is owned by Mr. Ma. Mr. Ma is deemed to be interested in the Shares held by Sun Universal Limited for the purpose of Part XV of the SFO.

2. The entire issued share capital of Brilliant Talent Global Limited is owned by Ms. Zhang Gui Hong who is the spouse of Mr. Yi Cong, an executive Director.

3. The entire issued share capital of Vendor A is owned by Guarantor A. Guarantor A is the spouse of Mr. Man Chin who is interested in 20,059,800 Shares through his controlled corporation.

INFORMATION OF THE CONTRACTUAL ARRANGEMENT

Reasons for use of the Structured Contracts

As at the Latest Practicable Date, the OPCO is principally engaged in the Data Centre Business in Shanghai, the PRC, which includes the provision of data centre, facilities management and value-added services, installation and maintenance services. For details, please refer to the section headed "Information on the Target Group — The Data Centre Business of the Target Group" in this circular.

The Permit

The OPCO was issued the Permit on 28 November 2017 which is valid until 20 June 2022.

Pursuant to the Permit, the OPCO is, subject to the terms and conditions therein, permitted to conduct the following activities:

(i) internet data centre services in type 1 value-added telecommunications services (excluding internet resources collaboration services) in Shanghai and Shenzhen;

(ii) domestic internet virtual network services in type 1 value-added telecommunications services in Beijing, Tianjin, Shanghai, Chongqing, Shenyang, Dalian, Nanjing, Suzhou, Hangzhou, Fuzhou, Xiamen, Nanchang, Qingdao, Guangzhou, Shenzhen, Dongguan, Chengdu and Xi'an;

(iii) internet access services in type 1 value-added telecommunications services in Shanghai and Guangdong Province; and

(iv) domestic call centre business in the PRC.

Regulations on the provision of data centre business in the PRC

As advised by the Company's PRC legal advisers, for the operation of the Data Centre Business in the PRC (i.e. type (i) of the services under the Permit as stated above), the OPCO is subject to the following foreign-ownership restrictions under the laws and regulations of the PRC:

(a) As stipulated by《外商投資准入特別管理措施(負面清單)(2019年版)》(Special Management Measures for Foreign Investment Access (Negative List) (2019 Edition)#) (the "**Negative List**") issued by the National Development and Reform Commission of the PRC and the Ministry of Commerce of the PRC on 30 June 2019 and implemented on 30 July 2019, foreign investment on value-added telecommunications services (excluding e-commerce, domestic multi-party communication, store-and-forward, and call centres) must not exceed 50% of the total equity of the entity operating such business.

(b) According to《工業和信息化部關於港澳服務提供者在內地開展電信業務有關問題的通告》(Notice of the Ministry of Industry and Information Technology on the Issue of Telecommunications Business by Hong Kong and Macau service providers in the Mainland#) issued by the Ministry of Industry and Information Technology on 30 June 2016, Hong Kong and Macau service providers are allowed to set up joint ventures in the Mainland to provide value-added telecommunications services in relation to internet access services (except for internet access services for internet users) provided that the proportion of Hong Kong and Macau equity is not more than 50%. If the internet access services are only available to internet users, Hong Kong and Macau service providers are allowed to set up a joint venture or a wholly-owned enterprise in the Mainland for such purposes and there is no restriction on the proportion of equity.

(c) According to the《外商投資電信企業管理規定》(Regulations on the Administration of Foreign-invested Telecommunications Enterprises#) as amended by the State Council on 6 February 2016, foreign major investors in foreign-invested telecommunications enterprises operating value-added telecommunications services should have good performance and operational experience in operating value-added telecommunications services.

Therefore, as part of the Reorganisation, the Structured Contracts will be entered into prior to the Completion to enable the financial results, the entire economic benefits and the risks of the business of the OPCO to flow into the WFOE and to enable the WFOE to gain 100% effective control over the OPCO.

The Structured Contracts

Principal terms of each of the Structured Contracts are set out as follows:

(i) Exclusive Consultation and Services Agreement

Parties: (i) The WFOE; and

(ii) The OPCO

Subject matter:	The OPCO agreed to engage the WFOE as the exclusive service provider to provide the OPCO with technical support and professional training services, marketing consultancy services and promotional services, design, installation, daily management, maintenance and upgrade of network systems, hardware and databases, using the WFOE's software, trademarks, domain names and other types of intellectual property, licensing and authorization, human resources services, tax and financial management services, information system services, internal control services, technical services, technology research and development, network support, and management consulting services related to OPCO's business operations, and where permitted by PRC laws, other consulting and services related thereto from time to time (the "**Services**"). During the term of the Exclusive Consultation and Services Agreement, without the prior written consent of the WFOE, the OPCO is not allowed to engage or co-operate with any third party (except for the WFOE's designated party or related party) for the provision of the same or similar Services. The OPCO agreed to pay 100% of its net profit to the WFOE as a fee for the Services on a yearly basis.
Term:	The Exclusive Consultation and Services Agreement has an initial term of 10 years from the date of its execution and be renewed at the sole discretion of the WFOE, until any of the following circumstances occur: (i) the OPCO has bankrupted, wound up, terminated or dissolved; (ii) all equity interest and/or assets of the OPCO have been transferred to WFOE or its nominee according to the Exclusive Call Option Agreement; (iii) the laws of the PRC have allowed the WFOE to directly hold the equity interest of the OPCO and that the WFOE, its subsidiary and branch companies are allowed to legally operate the business of OPCO; (iv) the WFOE informed the OPCO with written notice of at least 30 days in advance to terminate the Exclusive Consultation and Services Agreement; or

(v) an event of default has occurred under the Exclusive Consultation and Services Agreement and the non-defaulting party has requested to terminate the agreement.

(ii) Exclusive Call Option Agreement

Parties:

(i) The WFOE;

(ii) The OPCO;

(iii) The HK Company; and

(iv) The Registered Owner

Subject matter:

The OPCO and the Registered Owner irrevocably and unconditionally agree to grant an exclusive call option to the WFOE, pursuant to which the WFOE may, to the extent permitted under applicable PRC laws and regulations, require:

(i) the Registered Owner to transfer entirely or partially its or its nominees' equity interests in the OPCO to the WFOE or its nominee insofar at the consideration of RMB1, or, unless another price is required by the relevant PRC authority. In such event, the Registered Owner shall reimburse the WFOE or its nominees any consideration paid by the WFOE or its nominees to the Registered Owner in surplus of the said consideration of RMB1; and

(ii) the OPCO to transfer entirely or partially their or their nominees' assets in the OPCO to the WFOE or its nominee insofar at the consideration of RMB1, or, unless another price is required by the relevant PRC authority. In such event, the Registered Owner shall reimburse the WFOE or its nominees any consideration paid by the WFOE or its nominees to the Registered Owner in surplus of the said consideration of RMB1.

The HK Company agrees to the granting of the above call option to the WFOE or its nominee and gives up any pre-emptive rights in relation to the transfer of the equity interests in the OPCO.

In addition, without the prior written consent of the WFOE, the OPCO and the Registered Owner, among other things:

(i) shall not alter the registered capital of the OPCO;

(ii) shall not sell, transfer or mortgage or otherwise dispose of the legal rights of any assets, businesses or incomes of the OPCO;

(iii) shall not enter into any merger, acquisition or investment by the OPCO;

(iv) shall not procure the declaration or actual distribution of any profits, bonus or dividend by the OPCO; and

(v) shall not enter into any agreement which will be in conflict with the Exclusive Call Option Agreement or the interests of the WFOE under the Exclusive Call Option Agreement.

Term: The Exclusive Call Option Agreement has an initial term of 10 years from the date of its execution and will be extended automatically, unless otherwise determined by the WFOE or any of the following circumstances occur.

(i) the WFOE informed the OPCO and the Registered Owner in writing to terminate the Exclusive Call Option Agreement;

(ii) under applicable PRC laws and regulations, the WFOE and/or its nominees exercised the call option under the Exclusive Call Option Agreement, pursuant to which it acquired all the equity interests and/or assets of the OPCO and the WFOE, its subsidiary and branch companies are allowed to legally operate the business of the OPCO; or

(iii) an event of default caused by the OPCO or the Registered Owner has occurred under the Exclusive Call Option Agreement and the WFOE has requested to terminate the agreement.

(iii) Shareholders' Voting Right Entrustment Agreement

Parties:

(i) The WFOE;

(ii) The OPCO; and

(iii) The Registered Owner

Subject matter:

The Registered Owner irrevocably and unconditionally agreed to entrust the WFOE all its voting rights in the OPCO, including but not limited to the followings:

(i) as the agent of the Registered Owner, to convene and attend the shareholders' meetings of the OPCO in accordance with the articles of association of the OPCO; and

(ii) to enjoy all rights of the Registered Owner as a shareholder of the OPCO and exercise the voting rights according to the laws of the PRC and the articles of association of the OPCO

In addition, the Registered Owner irrevocably undertakes, among other things, that it will neither, unless the WFOE has agreed in writing, directly or indirectly (either on its own or through any other individual or legal entity), participate or engage in any main business which is or may be in competition with the business of the OPCO or its associated company, or acquire or hold any such business, nor carry on any activities which may lead to any material conflict of interest among itself and the WFOE and the HK Company.

Term:

The Shareholders' Voting Right Entrustment Agreement shall take effect from the date of its execution, until any of the following circumstances occur:

(i) the WFOE has informed the Registered Owner in writing to terminate the Shareholders' Voting Right Entrustment Agreement;

(ii) under applicable PRC laws and regulations, the WFOE or its nominee exercised the call option under the Exclusive Call Option Agreement, pursuant to which it acquired all the equity interests and/or assets of the OPCO and using the OPCO's assets to legally operate the business of the OPCO;

(iii) under applicable PRC laws and regulations, the WFOE or its nominee is allowed to register itself as the sole shareholder of the OPCO and operate the businesses of the OPCO; or

(iv) an event of default caused by the OPCO or the Registered Owner has occurred under the Shareholders' Voting Right Entrustment Agreement and the WFOE has requested to terminate the agreement.

(iv) Equity Pledge Agreement

Parties:

(i) The WFOE;

(ii) The OPCO; and

(iii) The Registered Owner

Subject matter:

The Registered Owner agrees to pledge all of its equity interests in the OPCO to the WFOE to secure the performance of all its obligations and also the obligations of the OPCO under the Exclusive Consultation and Services Agreement, the Equity Pledge Agreement, the Exclusive Call Option Agreement and the Shareholders' Voting Right Entrustment Agreement.

If the Registered Owner and/or the OPCO breach any of the abovementioned obligation, the WFOE shall have the rights to, among others, dispose and transfer the pledged equity interests.

In addition, pursuant to the Equity Pledge Agreement, the Registered Owner undertakes to the WFOE, among others, not to transfer its interests in the OPCO and not to create any pledge thereon without prior written consent of the WFOE.

The Registered Owner shall register the equity pledge with the relevant authorities and provide the documentary proof of successful registration to the WFOE within 20 days from the date of the Equity Pledge Agreement.

Term:	The Equity Pledge Agreement shall become effective upon recordation of the equity pledge on the register of shareholders. The equity pledge under the Equity Pledge Agreement shall take effect from the date of registration with the responsible market supervision and administration department where the OPCO is located and shall remain binding until the Registered Owner discharge all its obligations under the Structured Contracts, or until any of the following circumstances occur: (i) under applicable PRC laws and regulations, the WFOE and/or its nominee exercised its call option under the Exclusive Call Option Agreement, pursuant to which it acquired all the equity interests and/or assets of the OPCO, and the WFOE and/or its nominee can legally operate the business of the OPCO; (ii) the WFOE informs the Registered Owner to terminate the Equity Pledge Agreement; or (iii) the Equity Pledge Agreement is terminated in accordance with the applicable laws and regulations of the PRC.

(v) *WFOE's Undertaking*

Parties:	The WFOE
Subject matter:	The WFOE undertakes that the OPCO's authorisations under the Shareholders' Voting Right Entrustment Agreement will be granted to officers of the Company who are unrelated to the Registered Owner.

Dispute Resolutions

The Structured Contracts contains dispute resolution clauses to the effect that, amongst others, in the event any dispute arises under the relevant Structured Contracts cannot be resolved among the parties through negotiation, such dispute shall provide for arbitration by the Beijing Arbitration Commission in accordance with the then arbitration rules. The place of arbitration shall be in Beijing, the PRC and the language of arbitration shall be Chinese. The decision of the arbitration shall be final, conclusive and binding on the parties.

Further, the Structured Contracts contain provisions to the effect that (i) the arbitrators may award remedies over the shares and/or assets of the OPCO, injunctive reliefs (such as mandatory transfer of assets) and/or winding up of the OPCO; and (ii) the courts in the PRC, Hong Kong, and the Cayman Island are empowered to grant interim remedies in supporting of the arbitration pending the formation of an arbitral tribunal.

Liquidation

Pursuant to the Exclusive Call Option Agreement, in the event of liquidation or winding up of the OPCO pursuant to the applicable PRC laws, the OPCO shall sell all of its residual assets (to the extent permitted by the PRC laws) to the WFOE or another qualifying entity designated by the WFOE at the lowest price permitted by applicable PRC laws.

Any proceeds from such transaction shall be paid to the WFOE or the qualifying entity designated by the WFOE within 10 business days after the Registered Owner receives such proceeds. Accordingly, in a liquidation or winding up of the OPCO, a liquidator may seize the assets of the OPCO through the WFOE based on the Structured Contracts for the benefit of the Company's creditors/shareholders assuming the completion of the Acquisition.

Conflict of interests

The Company confirms that appropriate arrangements have been made to address the potential conflict of interests between the Registered Owner and the Group. In particular, (i) the Shareholders' Voting Right Entrustment Agreement provides that the Registered Owner will neither, directly or indirectly, participate or engage in any business which is or may be in competition with the business of the OPCO or its associated company, or acquire or hold any such business, nor carry on any activities which may lead to any conflict of interest among the Registered Owner and the WFOE and WFOE's shareholders; and (ii) the WFOE's Undertaking provides that the OPCO's authorisations under the Shareholders' Voting Right Entrustment Agreement will be granted to officers of the Company who are unrelated to the Registered Owner to avoid any conflict of interests.

Arrangement with the Registered Owner

The Registered Owner is a company established in the PRC which is the 50% legal owner of the OPCO. Its ultimate beneficial owner is Mr. Wu Yi (吳軼) ("**Mr. Wu**"). To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, each of the Registered Owner and its ultimate beneficial owner is an Independent Third Party.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, Mr. Wu has been a director and the legal representative of the Registered Owner since 2007. He was appointed as a director and the legal representative of the Target Company since 2012.

According to the Vendors, the Registered Owner is a mere nominee shareholder of the Target Company for the sole purpose of compliance with applicable laws and regulations in relation to the foreign-ownership restrictions on the Target Company. In consideration of the Registered Owner agreeing to be the nominee shareholder, Mr. Wu is receiving a monthly director fee of RMB4,000 from the Target Company. The Directors consider the above nominee arrangement to be usual and in line with the normal practice of similar VIE structures adopted by other listed issuers in Hong Kong in compliance with the regulatory requirements.

According to the Vendors, Mr. Wu has indicated that he and Registered Owner are willing to continue the above nominee arrangement following the Completion.

The Company confirms that appropriate arrangements have been made to protect the Company's interests in the event of liquidation or winding up of the Registered Owner. In particular, an undertaking will be given by Mr. Wu which will provide that unless prior written consent is received from the WFOE, Mr. Wu will not change the shareholding structure of the Registered Owner, nor will he take any action which may cause him to lose the control over the Registered Owner. Mr. Wu will further undertake that if the Registered Owner is subject to bankruptcy, liquidation, or the cancellation or revocation of its business license, or any possible or threatened action thereof, he will inform the WFOE immediately and will unconditionally indemnify the WFOE for any losses incurred by it in full. In addition, Mr. Wu will provide written confirmation that he has no spouse as at the date of the confirmation.

INTERNAL CONTROL MEASURES TO BE IMPLEMENTED BY THE GROUP

The Structured Contracts contain certain provisions in order to exercise effective control over and to safeguard the assets of the OPCO.

In addition to the internal control measures as provided in the Structured Contracts, it is the intention of the Company, following the Completion, to implement, through the WFOE, additional internal control measures against the OPCO as appropriate, having regard to the internal control measures adopted by the Group from time to time, which may include but not limited to:

Management controls

(i) The Group will appoint a board representative (the "**Representative**") to the board of the OPCO. The Representative is required to conduct weekly reviews on the operations of the OPCO and shall submit the weekly reviews to the Board. The Representative is also required to check the authenticity of the monthly management accounts of the OPCO;

(ii) The Representative shall establish a team to be funded by the Group who shall station at the OPCO and shall be actively involved in various aspects of the daily managerial and operational activities of the OPCO;

(iii) Upon being aware of any major events of the OPCO, the Representative shall report to the Board;

(iv) The Representative shall conduct regular site visits to the OPCO and conduct personnel interviews quarterly and submit reports to the Board; and

(v) All seals, chops, incorporation documents and all other legal documents of the OPCO must be kept at the office of the WFOE.

Financial controls

(i) The Representative shall collect monthly management accounts, bank statements and cash balances and major operational data of the OPCO for review. Upon discovery of any suspicious matters, the Representative must report to the Board;

(ii) If the payment of the service fees from the OPCO to the WFOE is delayed, the Representative must meet with the Registered Shareholder to investigate and should report any suspicious matters to the Board. In extreme cases, the Registered Shareholder will be removed and replaced;

(iii) The OPCO must submit copies of latest bank statements for every bank accounts of the OPCO within 15 days after each month end; and

(iv) The OPCO must assist and facilitate the Company to conduct quarterly on-site internal audit on the OPCO.

Effect and legality of the Structured Contracts

As stated in the sub-section headed "Information of the Contractual Arrangement — Reasons for use of the Structured Contracts" above, among other things, according to the Negative List, foreign investment on value-added telecommunications services (excluding ecommerce, domestic multi-party communication, store-and-forward, and call centres) must not exceed 50% of the total equity of the entity operating such business. Therefore, as part of the Reorganisation, the Structured Contracts will be entered into prior to Completion to enable the financial results, the entire economic benefits and the risks of the business of the OPCO to flow into the WFOE and to enable the WFOE to gain 100% effective control over the OPCO.

The Company's PRC legal adviser is of the view that, according the current PRC laws and regulations, there is no prohibitive or restrictive requirement with respect to the Structured Contracts.

The Company's PRC legal adviser, after taking reasonable actions and steps to reach its legal conclusions, is of the following legal opinions:

(i) the Structured Contracts are narrowly tailored to minimise the potential for conflict with relevant PRC laws and regulations;

(ii) the OPCO is duly established and validly existing under the PRC laws, and has obtained or completed or will obtain or complete requisite approvals, permits, registrations or filings that are material for carrying out its existing business operations as required by the applicable PRC laws, regulations and rules;

(iii) each of the Structured Contracts, taken individually and collectively, constitutes legal, valid and binding obligations of the parties thereto and will be enforceable under applicable PRC laws and regulations;

(iv) the Structured Contracts do not, individually or collectively, violate the mandatory provisions of《中華人民共和國合同法》(Contract Law of PRC#),《中華人民共和國民法總則》(General Provisions of the Civil Law of the PRC#) and other applicable PRC laws and regulations and are not deemed as "concealing illegal intentions with a lawful form" resulting in the invalidity of the Structured Contracts;

(v) none of the Structured Contracts violates any provisions of the existing articles of association of the OPCO; and

(vi) the execution, effectiveness and enforceability of the Structured Contracts do not require any approvals from any PRC governmental authority, except that the Equity Pledge Agreement is subject to registration requirements with the relevant authorities, and the exercising of the exclusive option by the WFOE according to the Exclusive Call Option Agreement shall be subject to the then effective PRC laws and regulations and relevant approval procedures (if applicable).

Board's view on the Structured Contracts

Based on the above, the Board is of the view that the Structured Contracts are narrowly tailored to achieve the OPCO's business purpose and to minimise the potential conflict with and are enforceable under the relevant PRC laws and regulations. The Structured Contracts enable the WFOE to gain control over the financing and business operations of the OPCO, and is entitled to the economic interest and benefits of the OPCO. The Structured Contracts also provide that the WFOE may unwind the Structured Contracts as soon as relevant PRC rules and regulations governing foreign investment in the operation of data centre business are issued which allow the WFOE to register itself as the sole shareholder of the OPCO.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, as at the Latest Practicable Date, the OPCO has not encountered any interference or encumbrance from any governing bodies in operating its business through the contractual arrangements under the Structured Contracts.

RISK FACTORS IN RELATION TO THE STRUCTURED CONTRACTS

Uncertainties exist with respect to the interpretation and implementation of the PRC Foreign Investment Law and how it may impact the viability of the current corporate structure, corporate governance and business operations of the Target Group

On 15 March 2019, the National People's Congress of the PRC (the "**NPC**") adopted《中華人民共和國外商投資法》(Foreign Investment Law#) (the "**Foreign Investment Law**") at the closing meeting of the second session of the 13th NPC. Upon taking effect on 1 January 2020, the Foreign Investment Law will replace《中華人民共和國中外合資經營企業法》(Sino-Foreign Equity Joint Venture Enterprise Law#),《中華人民共和國中外合作經營企業法》(Sino-Foreign Cooperative Joint Venture Enterprise Law#) and《中華人民共和國外資企業法》(Wholly Foreign-Owned Enterprise Law#). The Foreign Investment Law stipulates three forms of foreign investment, but does not explicitly stipulate the contractual arrangements as a form of foreign investment.

Since contractual arrangements are not specified as foreign investment under the Foreign Investment Law, and if the future laws, regulations and rules do not incorporate the contractual arrangements as a form of foreign investment, the Contractual Arrangement as a whole and each of the Structured Contracts will not be materially affected and will continue to be legal, valid and binding on the parties.

Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes "foreign investors invest in China through any other methods under laws, administrative regulations or provisions prescribed by the State Council". There are possibilities that future laws, administrative regulations or provisions prescribed by the State Council may regard contractual arrangements as a form of foreign investment, at which time it will be uncertain whether the Contractual Arrangement will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned Contractual Arrangement will be handled. Therefore, there is no guarantee that the Contractual Arrangement and the business of the OPCO will not be materially and adversely affected in the future due to changes in PRC laws and regulations.

If future laws, administrative regulations or provisions prescribed by the State Council of the PRC mandate further actions to be completed by companies with existing contractual arrangements, the Target Group may face substantial uncertainties as to the timely completion of such actions. In the extreme case scenario, the Target Group may be required to unwind the Contractual Arrangement and/or dispose of the OPCO, which could have a material and adverse effect on the business, financial conditions and results of operations of the Group.

The Contractual Arrangement may not be as effective in providing the Target Company with control over the OPCO as direct ownership

Upon Completion, the Group will rely on the Contractual Arrangement to operate the Data Centre Business. The Contractual Arrangement may not be as effective in providing the Group with control over the OPCO as equity ownership. If the Group could become the legal owner of 100% of the OPCO with direct ownership, it would be able to exercise its rights as shareholder, rather than the rights under the powers of attorney, to effect changes to its board of directors, which in turn could implement changes at the management and operational level. However, under the current Contractual Arrangement, as a legal matter, if the OPCO or the Registered Owner fail to perform their respective obligations under the Contractual Arrangement, the Group will not be able to direct the corporate action of the OPCO as the direct ownership would otherwise entail, and therefore the Group may be unable to maintain an effective control over the operations of the OPCO. If the Group loses effective control over the OPCO after Completion, the Group would not be able to consolidate the results of operations of the OPCO.

The Registered Owner may have conflicts of interest with the Group, which may materially and adversely affect the Group's business and financial condition

The Registered Owner is a legal owner of the OPCO and its interests may differ from the interests of the Company as a whole. The Company cannot assure you that when conflicts of interest arise, the Registered Owner will act in the best interests of the Company or that such conflicts will be resolved in the favour of the Group. In addition, the Registered Owner may breach, or cause the OPCO to breach, or refuse to renew, the existing Contractual Arrangement. If the Group cannot resolve any conflict of interest or dispute with the Registered Owner, the Group would have to rely on legal proceedings, which could result in disruption of the Group's business and subject the Group to substantial uncertainty as to the outcome of any such legal proceedings. These uncertainties may impede the Group's ability to enforce the Contractual Arrangement. If the Group is unable to resolve any such conflicts, or if the Group experiences significant delays or other obstacles or subject to claims from third parties as a result of such conflicts, its business and operations could be severely disrupted, which could materially and adversely affect its results of operations.

In addition, although the Equity Pledge Agreement to be entered into with the Registered Owner provides that the pledged equity interests constitute continuing security for any and all of the indebtedness, obligations and liabilities under all of the principal service agreements, it is possible that a PRC court could take the position that the amounts listed on the equity pledge registration forms or estimated in the equity pledge agreements represent the full amounts of the collateral that have been registered and perfected. If this were to happen, the obligations that are supposed to be secured in the Equity Pledge Agreement in excess of the amounts listed on the equity pledge registration forms or estimated in the equity pledge agreements could be deemed unsecured debts by the PRC court, which take the last priority among creditors.

The Group's exercise of the option to acquire the equity interest of the OPCO may be subject to certain limitations and the Group may incur substantial costs

The Group may incur substantial cost in the exercise of the option to acquire the equity interests in the OPCO. Pursuant to the Contractual Arrangement, the WFOE has the exclusive right to require the Registered Owner to transfer its equity interests in the OPCO, in whole or in part, to WFOE or a third party designated by the WFOE at any time and from time to time, at the lowest price allowed under PRC laws and regulations at the time of transfer. If the relevant PRC authorities determine that the purchase prices for acquiring the OPCO are below the market value, they may require the WFOE to pay enterprise income tax for ownership transfer income with reference to the market value. The amount of the tax may be substantial, which could materially and adversely affect the Group's business, financial condition and results of operations.

Any failure by the OPCO to perform its obligations under the Contractual Arrangement would potentially lead to the incurrence of additional costs and the expending of substantial resources on the part of the Group to enforce such arrangements, temporary or permanent loss of control over the primary operations or loss of access to the primary sources of revenue of the Group

Under the current Contractual Arrangement, if the OPCO fails to perform its obligations under the Contractual Arrangement, the Group may incur substantial costs and resources to enforce such arrangements and rely on legal remedies under PRC laws, including seeking specific performance or injunctive relief and claiming damages. The Contractual Arrangement is governed by PRC laws and provide for the resolution of disputes through arbitration in China. Accordingly, the Structured Contracts will be interpreted in accordance with PRC laws and any disputes will be resolved in accordance with PRC legal procedures. Under PRC laws, rulings by arbitrators are final and the parties to a dispute cannot appeal the arbitration results in any court based on the substance of the case. The prevailing party may enforce the arbitration award by instituting arbitration award recognition proceedings with a competent PRC court. The legal environment in the PRC is not as developed as in other jurisdictions, such as Hong Kong. As a result, uncertainties in the PRC legal system could limit the Group's ability to enforce the Structured Contracts. If the Group is unable to enforce the Contractual Arrangement, it may not be able to exert effective control over the OPCO and the Registered Owner. As a result, the business and operations of the Group could be severely disrupted, which could materially and adversely affect the business, financial condition and results of operations of the Group.

Certain terms of the Contractual Arrangement may not be enforceable under PRC laws

The Contractual Arrangement provides for dispute resolution by way of arbitration in accordance with the arbitration rules of the Beijing Arbitration Commission. The Contractual Arrangement provides that the arbitral body may award remedies over the equity interests and/or assets of the OPCO, injunctive relief and/or winding up of the OPCO. In addition, the Contractual Arrangement provides that courts in the PRC, Hong Kong and the Cayman Islands are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, the Company's PRC legal adviser advised that the above-mentioned provisions contained in the Contractual Arrangement may not be enforceable. Under PRC laws, an arbitral body does not have the power to grant any injunctive relief or provisional or final winding-up order to preserve the assets of or any equity interest in the OPCO in case of disputes. Therefore, such remedies may not be available to the Group, notwithstanding the relevant contractual provisions contained in the Contractual Arrangement. PRC laws allow an arbitral body to award the transfer of assets of or equity interests in the OPCO in favor of an aggrieved party. In the event of noncompliance with such award, enforcement measures may be sought from the court. However, the court may or may not support the award of an arbitral body when deciding whether to take enforcement measures. Under PRC laws, courts of judicial authorities in the PRC generally do not grant injunctive relief or the winding-up order against the OPCO as interim remedies to preserve the assets or equity interests in favor of any aggrieved party. The Company's PRC legal adviser is also of the view that, even though the Contractual Arrangement provides that courts in Hong Kong and the Cayman Islands may grant and/or enforce interim remedies or in support of arbitration, such interim remedies (even if so granted by courts in Hong Kong or the Cayman Islands in favor of an aggrieved party) may not be recognised or enforced by PRC courts. As a result, in the event that the OPCO or the Registered Owner breaches any of the Structured Contracts, the Group may not be able to obtain sufficient remedies in a timely manner, and the Group's ability to exert effective control over the OPCO and conduct the Data Centre Business could be materially and adversely affected.

If the OPCO becomes subject to winding up or liquidation proceedings, the Group may lose the ability to use and enjoy certain important assets held by the OPCO, which could negatively impact the business of the Group

The OPCO holds assets that are essential to the operation of the Data Centre Business, including the Permit and other facilities related to the data centres.

If the OPCO goes bankrupt and all or part of its assets become subject to liens or rights of third-party creditors, the Group may be unable to continue some or all of the Data Centre Business activities, which could materially and adversely affect the business, financial condition and results of operations of the Group in relation to the Data Centre Business. If the OPCO undergoes a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering the Group's ability to operate the Data Centre Business.

The Company does not have any insurance which covers the risks relating to the Structured Contracts and the transactions contemplated thereunder

The insurance of the Group does not cover the risks relating to the Contractual Arrangement and the Company has no intention to purchase any new insurance in this regard. If any risk arises from the Contractual Arrangement in the future, such as those affecting the enforceability of the Structured Contracts and the relevant agreements for the transactions contemplated thereunder and the operation of the OPCO, the results of the Group may be adversely affected. However, the Group will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations. In addition, the Group will implement relevant internal control measures to reduce the operational risk.

Economic risks the Target Company bears as the primary beneficiary of the OPCO, financial support to the OPCO and potential exposure of the Target Company to losses

As the primary beneficiary of OPCO (through the HK Company and the WFOE), the Target Company will share both profit and loss of the OPCO. Equally, the Target Company bears economic risks which may arise from difficulties in the operation of the OPCO's business. The Target Company may have to provide financial support in the event of financial difficulty of the OPCO. Under these circumstances, the Group's financial results and financial position may be adversely affected by the worsening financial performance of the OPCO and the need to provide financial support to the OPCO.

Inability to renew or expand, cancellation or suspension of the Permit could materially affect the operations and financial performance of the Group

The Data Centre Business and operational activities of the OPCO in the PRC are regulated by the Ministry of Industry and Information Technology of the People's Republic of China (中華人民共和國工業和信息化部) (the "**Ministry of Industry and Information**") and various regulatory bodies. These regulatory bodies stipulate the criteria and requirements that must be satisfied before such permits and licences are granted to, and/or renewed and/or maintained, for the relevant business. Currently the OPCO is the holder of the Permit issued by the Ministry of Industry and Information on 28 November 2017 which is valid until 20 June

2022. The maintenance and renewal of the Permit is subject to compliance with the relevant requirements under the regulations, including 中華人民共和國電信條例 (the Regulations on Telecommunications of the People's Republic of China#) and 電信業務經營許可管理辦法 (the Telecommunications Business Licenses Administration Measures#). The requirements laid down by the Ministry of Industry and Information and various regulatory bodies may change from time to time.

If the OPCO fails to comply with the applicable requirements or any required conditions to maintain the Permit, then the Permit may be suspended or cancelled. Delay or refusal may occur when renewing the Permit upon expiry. The PRC legal advisers of the Company are of the view that subject to the requirements under the relevant regulations, there is no material legal impediment to the renewal of the Permit upon its expiry. In the unlikely event that the OPCO fails to keep or renew the Permit, the business operations, restriction or prohibition of certain business activities, or commencement of new telecommunication business of the Target Group may be suspended, thereby materially and adversely affecting business, financial position, results of operations and prospects of the Group after Completion.

Furthermore, according to Permit, the OPCO is permitted to carry out the Data Centre Business in Shanghai and Shenzhen only and relevant permit has not been issued for Data Centre Business in Beijing. The Target Group is in the process of expanding the scope of the Permit to allow the expansion of its business to full-scope Data Centre Business in Beijing, which, according to the Vendors, is expected to complete by July 2020. The PRC legal advisers of the Company are of the view that there is no material legal impediment for the expansion of scope of the Permit. If such expansion of scope is not complete prior to the entering into of the Contractual Arrangement, the existing marketing and distribution business in Beijing will be operated by WFOE instead, and no material adverse effect will be caused to the business and financial performance of the Group.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in manufacture and sale of office furniture products in the PRC (the "**Furniture Business**").

The Acquisition and the Data Centre Business

As disclosed in the interim report of the Company for the six months ended 30 June 2019, the impact of the "US-China trade war" continued and China's macro economy was still facing further downward pressure. The PRC government had laid down new policies restricting new office construction and expansion of office spaces and promulgating extension of office furniture useful life which resulted in the reduction of government procurement of office furniture and corresponding extension of allocation cycle. Moreover, the increasingly stringent environmental regulation imposed by governments at all levels in China to a certain extent increased the pressure on product cost. The above factors have presented greater challenge to the Group's development. Affected by the above factors together with the intensified domestic market competition in China and the decrease in overall demand in China, revenue achieved by the Group in the first six months of 2019 was significantly lower than that of the corresponding period of 2018, and the Group expects to face major challenges and pressures in its operations in the next one to two years. For the six months ended 30 June 2019, the

Group recorded revenue of approximately RMB19.9 million, representing a decrease of approximately RMB24.1 million or approximately 54.8% as compared with that for the six months ended 30 June 2018.

As disclosed in the third quarterly report of the Company for the nine months ended 30 September 2019, the Group recorded a loss of approximately RMB5.7 million for the nine months ended 30 September 2019 as compared with a profit of approximately RMB6.4 million for the nine months ended 30 September 2018. The loss was mainly attributable to the significant decrease of over 50% in revenue and gross profit for the nine months ended 30 September 2019 as compared with the corresponding period in 2018 due to the overall sluggish economy and extended allocation cycle of our customers, while sales expenses and administrative expenses increased significantly as compared with the corresponding period in 2018.

In view of the above and in order to achieve sustainable growth, the Group has been identifying business opportunities to diversify its business, broaden its revenue base and expand its business into other business sectors. During the course of identifying suitable investment opportunities, leverage on the personal network of the controlling shareholder of the Company, Mr. Ma, the Board had the opportunity to explore the possibility to and expand its business presence into the data centre industry. With the 5G technology coming into commercial operation in the near future, the Directors are of the view that the surge of data usage driven by digitisation and cloud computing will provide driving force for the continual growth of the data centre industry in the PRC. In addition, as the demand for the data centre services mainly originates from domestic customers, the impact of the ‘‘US-China trade war’’ on its business is minimal. The Board believes that the Acquisition will enable the Company to diversify its business, broaden its revenue base and achieve sustainable growth for the benefit of the Shareholders as a whole.

However, it is not the Directors’ intention to introduce the Data Centre Business to replace nor in any way marginalise the Furniture Business. Rather, the Acquisition is looking to build diversification and seeks to stablise earnings, and represents a strategic move to strengthen the Group’s ability to weather the deteriorating economic conditions. The demand for the products of the Furniture Business would be heavily dependent on the state of the macro economy. In a slowing economy, the business prospects and growth of the customers may be materially hampered and the customers may become more cautious with their spending for the acquisition and/or replacement of the office furniture. However, on the other hand, the surge of data usage driven by the digitalisation and cloud-computing has created a constant and growing demand for data centre services from both domestic and commercial customers which tends to be less susceptible to the changes in general market condition. In addition, the operation of the Data Centre Business is based on long-term service agreements and lease agreements entered into with customers and hence the income would be relatively stable.

The Furniture Business

Despite the diversification of business into the Data Centre Business, the Company intends to continue the operation and development of the Furniture Business and has no intention to downsize the Furniture Business.

In relation to the Furniture Business, soon after the listing of the Shares in 2017, the Company commenced its expansion plan of its distribution network. New points of sales were set up in Beijing, Guangdong and the eastern China. Unfortunately, the expansion plan was met with the toughest business environment in the recent decade and it was not as successful as the Directors had expected. The Company has to reduce its geographical presence to Sichuan Province and Chongqing City only (where Group's first sales offices were located at the time of the listing of the Shares) for costs management purpose. To achieve long-term sustainable growth, the Directors consider it best to re-formulate its distribution strategies and focus on the sales locations where the Group did best and secured a strong foothold, namely Sichuan Province and Chongqing City.

The Group is determined to develop the Furniture Business on a long-term basis. Recently the Group entered into several major furniture sale and purchase agreements with its customers. The following is a summary of furniture sale and purchase agreements of material contract sum entered into by the Group since May 2019 up to the Latest Practicable Date:

Customer	**Business nature of the Customer**	**Date**	**Contract sum** *(approx.)*	**Term**	**Remarks**
Customer A	Education	3 August 2019	RMB13.0 million	For a period of approximately three years	The Group shall supply furniture to the customer for a school in Chengdu City from time to time as requested by the customer
Customer B	Software development and consultancy	3 June 2019	RMB9.0 million	By 2nd quarter 2023	The Group shall supply furniture to the customer for a school in Chongqing City in three batches
Customer C	Medical service	10 May 2019	RMB6.7 million	For a period of 24 months	The Group shall supply furniture to the customer for a hospital in Chengdu City from time to time as requested by the customer

Customer	Business nature of the Customer	Date	Contract sum *(approx.)*	Term	Remarks
Customer D	Medical service	14 June 2019	RMB1.9 million	For a period of 15 months	The Group shall supply furniture to the customer for a hospital in Chengdu City from time to time as requested by the customer
Customer E	Banking	10 July 2019	RMB14.5 million	For a period of five years	The Group shall supply furniture to the customer and being responsible for their maintenance for branches in Guizhou City from time to time as requested by the customer
Customer F	Banking	13 August 2019	RMB9.8 million	Until July 2024	The Group shall supply furniture to the customer and being responsible for their maintenance for branches in Chongqing City from time to time as requested by the customer

Customer	Business nature of the Customer	Date	Contract sum *(approx.)*	Term	Remarks
Customer G	Banking	16 September 2019	RMB12.6 million	Until 2024	The Group shall supply furniture to the customer and being responsible for their maintenance for branches in Kunming City from time to time as requested by the customer
Customer H	Software development and consultancy	11 October 2019	RMB1.6 million	For a period of 60 days	The Group shall supply furniture and provide installation service to the customer at designated venue from time to time as requested by the customer

According to the current expectation from the sales department of the Group, approximately RMB9 million of sales will be recognised for the year ending 31 December 2019 from the furniture sale and purchase agreements listed above. The above estimations are based on the purchase orders received as at the Latest Practicable Date and the actual booking of the sales is subject to actual delivery of the products which may, among others, be delayed according to the relevant customers' requests.

This clearly shows that the Group is operating the Furniture Business as normal and it is keen to rebound the performance of the Furniture Business in the coming years, while introducing side business is a strategy to diversify the source of income of the Group to support the development of the Furniture Business to withstand market volatility in different stages of the business and economic cycles in the long run.

To maintain its competitiveness, the Company has no intention to downsize its production facilities. The Company expects its land and production plants would continue to form a significant part of its total assets. The Group is in the process of obtaining loan facility from a PRC bank for an amount of not less than RMB20 million to replenish its working capital and the facility is expected to be secured by the Group's land production plants as collaterals.

The Directors consider that the Furniture Business would continue to be one of the major business segments of the Group and sufficient resources would continue to be allocated to maintain or expand, where appropriate, its scale of operation.

As disclosed in the third quarterly results announcement and their quarterly report of the Company of 8 November 2019, the impact of the ''US-China trade war'' continued, and China's macro economy is still facing further downward pressure. Moreover, the increasingly stringent environmental regulation of governments at all levels in China to a certain extent increased the pressure on product cost. The above factors have presented greater challenge to the Group's development. Affected by the above factors, the intensified domestic market competition in China and the decrease in overall demand in China, revenue achieved by the Group in the first nine months of 2019 was significantly lower than that in the corresponding period of 2018, and the Group expects to face major challenges and pressures in its operations in the coming one to two years.

To improve the performance of the Furniture Business, the Group plans to (i) implement more stringent cost control, including but not limited to reducing sales expenses by reducing its geographical presence to mainly the Sichuan Province, Chongqing City and neighbouring provinces, as opposed to all over China; (ii) allocate more resources in providing better services to and retaining existing loyal customers; (iii) gradually extend the technological research and development inputs on products year by year, in order to strengthen the Group's competitiveness in tendering and to extend the market share; (iv) diversify its product design and keep pace with the evolving market trends in order to attract new customers and retain long-term customers; (v) provide better payment terms for quality customers to establish long-term and stable business relationship; and (vi) shorten payment schedule of suppliers to lower the costs of sales. The Directors believe the above measures would solidify the income stream as well as lower of costs and expenses of the Furniture Business, which would enable the Group to overcome the recent difficulties in business operation.

Looking forward, the Group will also diversify its product design and keep pace with the evolving market trends in order to attract new customers and retain long-term customers. During the past year, the Group has successfully launched over 100 new designs of furniture which have been marketed and sold to its customers. The Directors believe this will solidify the income stream of the Furniture Business, together with the positive cash flow to be contributed by the Data Centre Business to the Group as illustrated above, would enable the Group to overcome the recent difficulties in business operation.

The Furniture Business would continue to be one of the major business segments of the Group and sufficient resources would continue to be allocated to maintain and, where appropriate, expand its current scale of operation.

Having regards to the above reasons, the Directors are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECT OF THE ACQUISITION

Effect on earnings

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company. The Group will record additional revenue stream and consolidate financial results from the Target Group.

Effect on assets and liabilities

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, the total assets of the Group as at 30 June 2019 would increase from approximately RMB203.4 million to approximately RMB310.7 million and its total liabilities as at 30 June 2019 would increase from approximately RMB21.2 million to approximately RMB95.5 million as a result of the Acquisition.

GEM LISTING RULES IMPLICATIONS

The Directors confirm that there is no understanding, agreement or arrangement to appoint any of the Guarantors (being the ultimate beneficial owners of the Vendors) or their respective associates as a Director or the chief executive of the Company before or after the Completion.

As one or more of the applicable percentage ratios (as defined under the GEM Listing Rules) in respect of the Acquisition contemplated under the Sale and Purchase Agreement exceeds 25% but all of them are below 100%, the Acquisition constitutes a major transaction of the Company under Chapter 19 of the GEM Listing Rules, and is therefore subject to the reporting, announcement and Shareholders' approval requirements.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 6 January 2020 to Friday, 10 January 2020, both days inclusive, during which period no transfer of Shares will be registered.

In order to be eligible to attend and vote at the EGM, unregistered holders of Shares should ensure that all transfer documents accompanied by the relevant share certificates must be lodged with 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, Hong Kong for registration not later than 4:30 p.m. on Friday, 3 January 2020 (Hong Kong time).

GENERAL

A notice convening the EGM to be held at Room 1804A, 18/F., Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong at 11:00 a.m. on Friday, 10 January 2020 (Hong Kong time) is set out on pages EGM-1 to EGM-2 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying 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, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM (i.e. at or before 11:00 a.m. on Wednesday, 8 January 2020 (Hong Kong time)) or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

To the best of the knowledge, information and belief of the Directors, no Shareholder has a material interest in the transactions contemplated under the Sale and Purchase Agreement. As such, no Shareholder will be required to abstain from voting on the resolution to approve the Sale and Purchase Agreement and any vote exercised by the Shareholders taken at the EGM shall be taken by way of poll.

RECOMMENDATION

The Board considers that the terms of the Sale and Purchase Agreement are fair and reasonable and the entering into of the Sale and Purchase Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors would recommend the Shareholders to vote in favour of a resolution to be proposed at the EGM approving the Sale and Purchase Agreement and the transactions contemplated thereunder, including the Specific Mandate.

ADDITIONAL INFORMATION

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

By order of the Board
Zhi Sheng Group Holdings Limited
Yi Cong
Executive Director

1. CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR THE THREE FINANCIAL YEARS ENDED 31 DECEMBER 2018

The audited consolidated financial statements of the Group for each of the three years ended 31 December 2016, 2017 and 2018 and the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2019 and the nine months ended 30 September 2019 are disclosed in the following documents which have been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.qtbgjj.com) respectively:

- The annual report for the year ended 31 December 2016 (pages 45 to 93): https://www1.hkexnews.hk/listedco/listconews/gem/2017/0331/gln20170331079.pdf

- The annual report for the year ended 31 December 2017 (pages 50 to 101): https://www1.hkexnews.hk/listedco/listconews/gem/2018/0329/gln20180329067.pdf

- The annual report for the year ended 31 December 2018 (pages 50 to 113): https://www1.hkexnews.hk/listedco/listconews/gem/2019/0328/gln20190328013.pdf

- The interim report for the six months ended 30 June 2019 (pages 2 to 16): https://www1.hkexnews.hk/listedco/listconews/gem/2019/0812/gln20190812017.pdf

- The third quarterly report for the nine months ended 30 September 2019 (pages 2 to 8): https://www1.hkexnews.hk/listedco/listconews/gem/2019/1108/2019110800749.pdf

2. STATEMENT OF INDEBTEDNESS

As at 31 October 2019, being the latest practicable date for the purpose of preparing the indebtedness statement, the Enlarged Group has total lease liabilities of approximately RMB41,034,000 and following amount due to related parties:

	RMB'000
Amount due to an immediate holding company — Billion Eggs Limited	1,341
Amount due to non-controlling interest — Registered owner	6,665

Save as disclosed above and apart from intra-group liabilities and normal trade and other payables, the Enlarged Group did not have any loan capital issued or agreed to be issued, debt securities issued and outstanding, authorised or otherwise created but unissued, bank overdrafts or loans or term loans, other borrowings or other similar indebtedness, liabilities under acceptances, acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, guarantees or other material contingent liabilities outstanding on 31 October 2019.

3. WORKING CAPITAL

The Directors are of the opinion that in the absence of unforeseen circumstances and after taking into account the financial resources available to the Enlarged Group, the available credit facilities and the effect of the Acquisition, the Enlarged Group will have sufficient working capital for its present requirement that is for at least the next 12 months from the date of this circular.

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 2018, being the date to which the latest published audited financial statements of the Group were made up, save as disclosed in the interim results announcement of the Company for the six months ended 30 June 2019 published on 9 August 2019 and the third quarterly results announcements of the Company for the nine months ended 30 September 2019 published on 8 November 2019 or otherwise publicly disclosed.

5. FINANCIAL AND TRADING PROSPECTS

The Group is principally engaged in the manufacture and sale of office furniture products in the PRC. The Group sells its products to the domestic PRC market with a large proportion of its sales derived from Sichuan province, Chongqing city, Tibet Autonomous Region, Jiangsu province and Guangdong province. The Group sells its products to its customers mainly through two major sales channels, namely participating in tenders and direct sales. The Group's sales offices, Sichuan Greenland Furniture Co., Limited and branch office in Chongqing are located in Chengdu city and Chongqing city, respectively.

As affected by the ''US-China trade war'' and China's economic slowdown, the national PRC government department has stipulated ''No new construction of office buildings within the next five years, downsizing in office space, and new office furniture allocation standards to extend office furniture useful life'', resulting in the reduction of government procurement of office furniture; in the southwestern region where the Group has traditional sales advantages, the demand for office furniture at financial institution outlets has decreased significantly as compared with previous years. Moreover, the increasingly strict environmental regulation of governments at all levels in China to a certain extent increased the pressure on product cost. The above factors have presented greater challenge to the Group's development.

Under the combined influence of the above factors, leveraging on years of experience and competitive strengths of the Group, including (i) quality of its products which are recognised by the PRC government and international certification organisations; (ii) its provision of custom-made office furniture to suit the needs of its customers; (iii) its provision of after-sales customer service to ensure customers are satisfied with the quality of the Group's products; (iv) its extensive experience and knowledge in dealing with PRC governmental departments, major financial institutions and state-owned entities; and (v) its experienced management team, the Group actively implemented the established sales strategy, strived to overcome various difficulties, and basically achieved the goal of stabilizing the Group's market share in the five provinces of Southwest China. Meanwhile, the Group effectively expanded the markets outside Southwest China.

In view of the above and in order to achieve sustainable growth, the Group has also been actively identifying business opportunities to diversify its business, broaden its revenue base and expand its business into other business sectors.

With the 5G technology coming into commercial operation in the near future, the Directors are of the view that the surge of data usage driven by digitisation and cloud computing will provide driving force for the continual growth of the data centre industry in the PRC. In addition, as the demand for the data centre services mainly originates from domestic customers, the impact of the "US-China trade war" on its business is minimal. The Directors consider that the Acquisition represents a good opportunity for the Group to tap into the data centre industry which will maximise the corporate value of the Group for the Shareholders.

The following is the text of a report set out on pages II-1 to II-2, received from the Company's independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF ZHI SHING GROUP HOLDINGS LIMITED

Introduction

We report on the historical financial information of Polyqueue Limited (the "**Target Company**") and its subsidiaries (together, the "**Target Group**") set out on pages II-3 to II-38, which comprises the consolidated statements of financial position and statements of financial position of the Target Company as at 31 July 2017, 2018 and 2019, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years then ended (the "**Track Record Period**") 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-3 to II-38 forms an integral part of this report, which has been prepared for inclusion in the circular of the Zhi Sheng Group Holdings Limited (the "**Company**") dated 13 December 2019 (the "**Circular**") in connection with the proposed acquisition of 100% equity interests of the Target Company.

Directors' responsibility for Historical Financial Information

The directors of the Company are responsible for the 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, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's 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 ("**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, 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 Target Company's financial position, the Target Group's financial position as at 31 July 2017, 2018 and 2019 and of the Target Group's financial performance and cash flows for the Track Record Period 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 GEM of The Stock Exchange of the Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-3 have been made.

BDO Limited
Certified Public Accountants
Chan Wing Fai
Practising Certificate Number: P05443

Hong Kong
13 December 2019

I. HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

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 Group for the Track Record Period, on which the Historical Financial Information is based, were audited by BDO Limited in accordance with Hong Kong Standards on Auditing (''HKSAs'') issued by the HKICPA (the ''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.

Consolidated Statements of Comprehensive Income

		Year ended 31 July		
		2017	**2018**	**2019**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*7*	767	9,183	22,001
Cost of sales		(750)	(10,288)	(16,451)
Gross profit/(loss)		17	(1,105)	5,550
Other income and gains	*8*	2	2	26
Administrative expenses		(120)	(270)	(572)
Finance cost	*9*	(1)	(2,865)	(2,613)
(Loss)/profit before income tax	*10*	(102)	(4,238)	2,391
Income tax credit	*11*	—	800	21
(Loss)/profit for the year		(102)	(3,438)	2,412
Other comprehensive income/ (expense)				
Item that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign operations		105	(66)	(1)
Other comprehensive income/(expense) for the year		105	(66)	(1)
Total comprehensive income/ (expense) for the year		3	(3,504)	2,411
(Loss)/profit attributable to:				
Owners of the Target Company		(25)	(1,696)	1,225
Non-controlling interests		(77)	(1,742)	1,187
		(102)	(3,438)	2,412
Total comprehensive income/ (expense) attributable to:				
Owners of the Target Company		80	(1,762)	1,224
Non-controlling interests		(77)	(1,742)	1,187
		3	(3,504)	2,411

Consolidated Statements of Financial Position

		As at 31 July		
		2017	**2018**	**2019**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	*14*	—	—	—
Right-of-use of assets	*15*	54	31,073	38,564
Deferred tax assets	*23*	—	800	821
Total non-current assets		54	31,873	39,385
Current assets				
Trade receivables	*16*	293	3,107	7,312
Deposits and other receivables	*17*	40	408	447
Cash and cash equivalents	*19*	1,240	2,637	3,581
Total current assets		1,573	6,152	11,340
Current liabilities				
Trade payables	*20*	392	5,617	8,197
Accruals and other payables	*21*	40	362	458
Amount due to a director	*18*	1,319	1,400	1,400
Amount due to an immediate holding company	*18*	1,249	1,311	1,313
Lease liabilities	*22*	26	8,808	12,557
Total current liabilities		3,026	17,498	23,925
Net current liabilities		(1,453)	(11,346)	(12,585)
Total assets less current liabilities		(1,399)	20,527	26,800

		As at 31 July		
		2017	**2018**	**2019**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Non-current liabilities				
Amount due to non-controlling interest	*18*	6,665	6,665	6,665
Lease liabilities	*22*	—	25,429	29,291
Total non-current liabilities		6,665	32,094	35,956
Net liabilities		(8,064)	(11,567)	(9,156)
EQUITY				
Equity attributable to owners of the Target Company				
Share capital	*24*	—	1	1
Reserves	*25*	(4,701)	(6,463)	(5,239)
		(4,701)	(6,462)	(5,238)
Non-controlling interests		(3,363)	(5,105)	(3,918)
Total deficit		(8,064)	(11,567)	(9,156)

Statements of Financial Position

		As at 31 July		
		2017	**2018**	**2019**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES				
Non-current asset				
Investments in a subsidiary		856	856	856
Current asset				
Amount due from a subsidiary	*18*	1,028	1,080	1,082
Total current asset		1,028	1,080	1,082
Current liabilities				
Amount due to a director	*18*	615	646	647
Amount due to an immediate holding company	*18*	1,249	1,311	1,313
Total current liabilities		1,864	1,957	1,960
Net current liabilities		(836)	(877)	(878)
Total assets less current liabilities/Net assets/(liabilities)		20	(21)	(22)
EQUITY				
Equity attributable to owners of the Target Company				
Share capital	*24*	—	1	1
Reserves	*25*	20	(22)	(23)
Total equity/(deficit)		20	(21)	(22)

Consolidated Statements of Changes in Equity

	Attributable to owners of the Target Company						
	Share capital *RMB'000*	**Statutory reserve** *RMB'000* *(note 25)*	**Translation reserve** *RMB'000*	**Accumulated losses** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total deficit** *RMB'000*
At 1 August 2016	—	—	(129)	(4,652)	(4,781)	(3,286)	(8,067)
Loss for the year	—	—	—	(25)	(25)	(77)	(102)
Other comprehensive income: Exchange differences on translation of foreign operations	—	—	105	—	105	—	105
Total comprehensive expense for the year	—	—	105	(25)	80	(77)	3
Transfer to statutory reserve	—	17	—	(17)	—	—	—
At 31 July 2017 and 1 August 2017	—	17	(24)	(4,694)	(4,701)	(3,363)	(8,064)
Loss for the year	—	—	—	(1,696)	(1,696)	(1,742)	(3,438)
Other comprehensive expense: Exchange differences on translation of foreign operations	—	—	(66)	—	(66)	—	(66)
Total comprehensive expense for the year	—	—	(66)	(1,696)	(1,762)	(1,742)	(3,504)
Issue of shares	1	—	—	—	1	—	1
Transfer to statutory reserve	—	77	—	(77)	—	—	—
At 31 July 2018	1	94	(90)	(6,467)	(6,462)	(5,105)	(11,567)

	Attributable to owners of the Target Company						
	Share capital	**Statutory reserve**	**Translation reserve**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total deficit**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 July 2018 and 1 August 2018	1	94	(90)	(6,467)	(6,462)	(5,105)	(11,567)
Profit for the year	—	—	—	1,225	1,225	1,187	2,412
Other comprehensive expense: Exchange differences on translation of foreign operations	—	—	(1)	—	(1)	—	(1)
Total comprehensive income for the year	—	—	(1)	1,225	1,224	1,187	2,411
Transfer to statutory reserve	—	99	—	(99)	—	—	—
At 31 July 2019	1	193	(91)	(5,341)	(5,238)	(3,918)	(9,156)

Consolidated Statements of Cash Flows

		Year ended 31 July		
		2017	**2018**	**2019**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from operating activities				
(Loss)/profit before income tax		(102)	(4,238)	2,391
Adjustments for:				
Bank interest income	*8*	(1)	(2)	(8)
Finance cost	*9*	1	2,865	2,613
Depreciation of right-of-use assets	*10*	65	8,169	9,196
Operating (loss)/profit before working capital changes		(37)	6,794	14,192
Increase in trade receivables		(263)	(2,814)	(4,205)
Increase in deposits and other receivables		(32)	(368)	(39)
Increase in trade payables		348	5,225	2,580
(Decrease)/increase in accruals and other payables		(76)	322	96
Cash (used in)/generated from operations		(60)	9,159	12,624
Interest received		1	2	8
Net cash (used in)/generated from operating activities		(59)	9,161	12,632
Cash flows from financing activities				
Issue of shares		—	1	—
(Repayment to)/advance from a director		(9)	14	—
(Repayment to)/advance from an immediate holding company		(95)	62	2
Repayment of lease liabilities		(66)	(7,841)	(11,689)
Net cash used in financing activities		(170)	(7,764)	(11,687)
Net (decrease)/increase in cash and cash equivalents		(229)	1,397	945
Cash and cash equivalents at beginning of year		1,465	1,240	2,637
Effect of foreign exchange rate changes, net		4	—	(1)
Cash and cash equivalents at end of year	*19*	1,240	2,637	3,581

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Target Company is a company incorporated in the British Virgin Islands with limited liability on 4 June 2002. The Target Company's registered office is located at Offshore Incorporations Limited, P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The Target Company's principal place of business in Hong Kong is located at Room C17, 3/F, Manning Industrial Building, 116–118 How Ming Street, Kwun Tong, Kowloon.

The Target Company is an investment holding company. The Target Group is principally engaged in the data centre business in the People's Republic of China (the "PRC").

The ultimate shareholder of the Target Company is Saradjono Grace Wahyuni (referred to as the "Controlling Shareholder"). The Target Company's immediate holding companies are Billion Eggs Limited and Rock Link Limited, companies incorporated in the British Virgin Islands ("BVI").

As at the date of this report, the Target Company has direct or indirect interests in the following entities, the particulars of which are set out as follows:

Name	Place and date of incorporation/ establishment	Particulars of issued share capital/paid-up capital	Attributable equity interest direct	Attributable equity interest indirect	Principal activities
ITO Express Limited	Hong Kong, 11 August 2000	Hong Kong dollar ("HK$") 1,000,000	100%	—	Investment holding
北京萬諾通科技有限公司 ("OPCO")	The PRC, 19 June 2012	RMB2,004,050	—	50%	Data centre business
北京萬諾馳科技有限公司 ("WFOE")	The PRC, 31 July 2019	HK$150,000	—	100%	Data centre business

2. BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA. All HKFRSs effective for the accounting period commencing from 1 August 2018, together with the relevant transitional provisions, have been adopted by the Target Group in the preparation of the Historical Financial Information throughout the Track Record Period. The Historical Financial Information also complies with the applicable disclosure requirements of the Rules Governing the Listing of Securities on GEM of the Stock Exchange of Hong Kong Limited.

The Historical Financial Information has been prepared under historical cost convention.

It should be noted that accounting estimates and assumptions are used in the preparation of the Historical Financial Information. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 5.

The functional currency of the Target Company is HK$, while the functional currencies of the principal subsidiaries of the Target Company is RMB. The Historical Financial Information is presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

As of 31 July 2019, the Target Group had net current liabilities of RMB12,585,000 and current liabilities of RMB23,925,000, of which RMB12,557,000 were current portion of lease liabilities repayable year ended 31 July 2020.

The shareholders of the Target Company have confirmed their intention to provide sufficient financial support to the Target Group so as to enable the Target Group to meet all its liabilities and obligations as and when they fall due and to enable the Target Group to continue its businesses for twelve months after the year ended 31 July 2019 respectively if the Proposed Acquisition is not completed, and to the completion date if the Proposed Acquisition is completed. The Company has also confirmed its intention to provide sufficient financial support to the Target Group so as to enable the Target Group to meet all its liabilities and obligations as and when they fall due and to enable the Target Group to continue its businesses with effective from the completion date of the Proposed Acquisition up to twelve months after the year ended 31 July 2019 if the Proposed Acquisition is completed. Consequently, the Historical Financial Information of the Target Group has been prepared on a going concern basis.

3. IMPACT OF ISSUED BUT NOT EFFECTIVE HKFRSS

The Target Group has not applied the following new and revised HKFRSs, which have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	Definition of Business[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 17	Insurance Contracts[2]
Amendments to HKAS 1 and HKAS 8	Definition of Materials[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

The Target Group will apply the above new and revised HKFRSs when they become effective. The Target Group is in the process of making an assessment of the impact of these new and revised HKFRSs in the period of initial application. So far the Target Group has identified some aspects of the new HKFRSs which may have a significant impact on the financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of consolidation

The Historical Financial Information comprises the financial statements of the Target Company and its subsidiaries for each of the Track Record Period. The financial statements of the subsidiaries are prepared for the same reporting period as the Target Company, using consistent accounting policies.

All intra-group transactions, balances and unrealised gains and losses on transactions within the Target Group are eliminated on consolidation. Unrealised losses resulting from intra-group transactions are also eliminated unless the transaction provides evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

The carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

4.2 Subsidiaries

A subsidiary is an investee over which the Target Company is able to exercise control. The Target Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Target Company's statements of financial position, investments in a subsidiary is stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Target Company on the basis of dividend received and receivable.

4.3 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The principal annual rates used for calculating depreciation are as follows:

Computer equipment	20%
Furniture and fixtures	20%

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

4.4 Leases

The Target Group as lessor

When the Target Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Target Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. As part of this assessment, the Target Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Target Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Target Group applies the recognition exemption, then it classified the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Target Group applies HKFRS 15 to allocate the consideration in the contract.

The Target Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of the revenue.

The Target Group as lessee

The Target Group assesses whether a contract is or contains a lease, at inception of a contract. The Target Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee at the lease commencement date, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets.

Short-term leases and leases of low-value assets

The Target Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Target Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

— the amount of the initial measurement of the lease liability;

— any lease payments made at or before the commencement date, less any lease incentives received;

— any initial direct costs incurred by the Target Group; and

— an estimate of costs to be incurred by the Target Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Target Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. The Target Group presents right-of-use assets as a separate line item on the consolidated statements of financial position.

Lease liabilities

At the commencement date of a lease, the Target Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Target Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

— fixed lease payments (including in-substance fixed payments), less any lease incentives;

— variable lease payments that depend on an index or rate;

— the amount expected to be payable by the lessee under residual value guarantees;

— the exercise price of purchase options, if the lessee is reasonably certain to exercise the option; and

— payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statements of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Target Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever

— the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

— The lease payments changes due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

— a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

4.5 Impairment of assets (other than financial assets)

At the end of each of the Track Record Period, the Target Group reviews the carrying amounts of the property, plant and equipment, right-of-use assets and investments in a subsidiary to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

Value in use is based on the estimated future cash flows expected to be derived from the asset or cash generating unit (i.e. the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets) 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 cash generating unit.

4.6 Financial instruments

(a) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

Financial assets at amortised cost are assets held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. They are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

(b) Impairment loss on financial assets

The Target Group recognises loss allowances for expected credit loss (''ECL'') on trade receivables and other financial assets measured at amortised cost. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Target Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Target Group in accordance with the contract and all the cash flows that the Target Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Target Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Target Group has established a provision matrix that is based on the Target Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other financial assets at amortised cost, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Target Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Target Group's historical experience and informed credit assessment and including forward-looking information.

The Target Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, unless the Target Group has reasonable and supportable information that demonstrates otherwise.

The Target Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Target Group in full, without recourse by the Target Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due, unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

(c) Financial liabilities

The Target Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at FVTPL are initially measured at fair value and financial liabilities at amortised cost are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost including trade and other payables are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(d) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the Track Record Period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(e) Equity instruments

Equity instruments issued by the Target Company are recorded at the proceeds received, net of direct issue costs.

(f) Derecognition

The Target Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

4.7 Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management.

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

4.8 Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Target Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Target Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Target Group performs; or
- does not create an asset with an alternative use to the Target Group and the Target Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Target Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Target Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Renting server racks

The Target Group rents server racks in data centre to the customers. The consideration consist of two portions, which include monthly fixed fee charged for rental of server rack and variable fee for electricity consumed per unit in server rack exceeding the electricity threshold.

For the fixed portion, rental income from rental of server rack is recognised on a straight-line basis over the terms of the relevant leases in accordance to HKFRS 16.

For the variable portion, revenue from electricity consumed in data centre above threshold is recognised over time when the electricity is simultaneously consumed by the customers. The Target Group has elected the practical expedient to recognise revenue in the amount to which the Target Group has a right to invoice as the amount represents and corresponds directly with the value of performance completed and transferred to the customer. The Target Group has no unsatisfied performance obligations at each reporting dates.

Setting up internet access connection

The Target Group sets up internet access connection for the customers. Such services are transferred over time and revenue is recognised when the customers simultaneously receive and consume the benefits from the Target Group's performance of providing such services.

Provision of data centre operating and security service

The Target Group provides data centre operating and security service outsourced by the customer. Such services are transferred over time and revenue is recognised when the customers simultaneously receive and consume the benefits from the Target Group's performance of providing such services.

Provision of IT management service

Revenue from IT management service is recognised over time when the agreed IT service has been performed by the Target Group.

Interest income

Interest income is recognised as interest accrues using the effective interest method.

4.9 Income taxes

Income taxes comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Target Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

4.10 Foreign currency

Transactions entered into by the Target Group entities in currencies other than the currency of the primary economic environment in which it/they operate(s) (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Target Group (i.e. RMB) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of Target Group entities' separate financial statements on the translation of long-term monetary items forming part of the Target Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

4.11 Employee benefits

Defined contribution retirement plan

Retirement benefits to employees are provided through a defined contribution plan. The employees of the Target Company's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries operating in the PRC are required to contribute a certain percentage of the basic salaries for their employees who are registered as permanent residents in the PRC. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

4.12 Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Target Group has a legal or constructive obligation arising as a result of a past event, and it is probable that will result in an outflow of economic benefits that can be reliably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

4.13 Related parties

(a) A person or a close member of that person's family is related to the Target Group if that person:

- (i) has control or joint control over the Target Group;
- (ii) has significant influence over the Target Group; or
- (iii) is a member of key management personnel of the Target Group or the Target Company's parent.

(b) An entity is related to the Target Group if any of the following conditions apply:

- (i) The entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) Both entities are joint ventures of the same third party;
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Target Group or an entity related to the Target Group;

(vi) The entity is controlled or jointly controlled by a person identified in (a);

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity); and

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to the Target Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

5.1 Critical judgements

In the process of applying the Target Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Historical Financial Information:

Control over OPCO

The Target Group owns 50% ownership interests in OPCO and has assessed that the Target Group has the practical ability to direct the relevant activities of OPCO unilaterally through the control of board of directors of OPCO, which is nominated by the Target Group.

5.2 Critical accounting estimates and assumptions

The Target Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of financial assets at amortised cost

The Target Group recognise a loss allowance for expected credit loss ("ECLs") for financial assets measured at amortised cost. ECLs on these financial assets are estimated using provision matrix based on the Target Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the each of the year ended date during the Track Record Period. If the financial condition of the debtors and the general economic conditions were to deteriorate, actual write-offs would be higher than estimates.

6. SEGMENT INFORMATION

The Target Group's revenue and contribution to consolidated results are mainly derived from data centre business, which is regarded as a single reportable segment in a manner consistent with the way in which information, including monthly sales and delivery reports, is reported internally to the Target Group's senior management (e.g. the board of directors) for purposes of resource arrangement and performance assessment. Accordingly, no segment analysis is presented other than entity-wide disclosures.

Information about geographical areas

The following table provides an analysis of the Target Group's revenue from external customers.

	Year ended 31 July		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Revenue from external customers			
Hong Kong	252	101	1,917
The PRC	515	9,082	20,084
	767	9,183	22,001

The geographical location of revenue allocated is based on the location at which the services were provided.

No geographical location of non-current assets is presented as all of the Target Group's non-current assets are physically based in the PRC.

Information about major customers

Revenues from customers for the Track Record Period contributing over 10% of the total revenue of the Target Group are as follows:

	Year ended 31 July		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Customer A	104	n/a	n/a
Customer B	148	—	—
Customer C	231	—	—
Customer D	268	1,383	2,403
Customer E	n/a	6,461	12,883
Customer F	—	—	2,782

n/a: Transactions during the year did not exceed 10% of the Target Group's revenue.

7. REVENUE

Disaggregated revenue information

An analysis of revenue is as follows:

	Year ended 31 July		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Revenue from contracts with customers under HKFRS 15			
IT management service	104	102	105
Provision of internet access connection services	—	302	638
Excess electricity usage	30	418	560
Provision of data centre operating and security service	379	1,426	1,706
	513	2,248	3,009
Revenue from other source			
Rental of server racks	254	6,935	18,992
	767	9,183	22,001

Revenue expected to be recognised in the future arising from contracts in existence at the reporting date

(a) Contract with customers within in the scope of HKFRS 15

The Target Group applies the practical expedient and does not disclose information about any remaining performance obligation that is a part of contract that has original expected duration of one year or less.

(b) Operating leases

The Target Group leases out its right-of-use assets. The Target Group has classified these leases as operating leases, because, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be recovered after the reporting date.

	Year ended 31 July		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Less than one year	1,143	3,040	10,225
Two to five years	855	—	1,496
Total undiscounted lease payments	1,998	3,040	11,721

8. OTHER INCOME AND GAINS

	Year ended 31 July		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Bank interest income	1	2	8
Net foreign exchange gain	1	—	—
Sundry income	—	—	18
	2	2	26

9. FINANCE COST

	Year ended 31 July		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Interest expense on lease liabilities	1	2,865	2,613

10. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax is arrived at after charging:

	Year ended 31 July		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Depreciation of right-of-use assets	65	8,169	9,196
Short term lease with application of recognition exemption under HKFRS 16	516	1,533	4,880
Employee benefit expenses (including directors' emoluments *(note 12(a))*:			
— Wages, salaries, allowances and benefits in kind	100	582	920
— Pension scheme contributions	19	147	302
Total employee benefit expenses	119	729	1,222

11. INCOME TAX CREDIT

	Year ended 31 July		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Current tax	—	—	—
Deferred tax *(note 23)*	—	(800)	(21)
Total income tax credit	—	(800)	(21)

The Target Company is not subject to any taxation under the jurisdiction of the BVI during the Track Record Period.

During the Track Record Period, no provision for Hong Kong profits tax has been made as the subsidiary in Hong Kong of the Target Group had sufficient tax losses brought forward to set-off the estimated assessable profits.

During the Track Record Period, the subsidiaries in the PRC of the Target Group is subject to the PRC EIT at the rate of 25%.

The income tax credit during the Track Record Period can be reconciled to the Target Group's profit before income tax per the consolidated statements of comprehensive income as follows:

	Year ended 31 July		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
(Loss)/profit before income tax	(102)	(4,238)	2,391
Tax calculated at the rates applicable to profit in the tax jurisdictions concerned	(30)	(1,063)	455
Tax effect of non-deductible expense	—	7	8
Tax effect of deductible temporary difference not recognised	4	4	5
Tax effect of tax losses not recognised	—	264	—
Utilisation of tax losses previously not recognised	26	(12)	(489)
Income tax credit	—	(800)	(21)

At 31 July 2019, the Target Group had unutilised tax losses available for offsetting against future assessable profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

12. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The director of the Target Company during the Track Record Period is Mr. Man Chin. No emolument was paid or payable to any of the director during the Track Record Period.

There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period.

(b) Five highest paid individuals

The five highest paid individuals in the Target Group for the years ended 31 July 2017, 2018 and 2019 did not include any director of the Target Company and their emoluments are reflected in the analysis presented above. The emoluments payable to the top five highest paid individuals for the Track Record Period, whose emoluments fell within the band of nil to HK$1,000,000, were as follows:

	Year ended 31 July		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, allowances and benefits in kind	100	354	461
Pension scheme contributions	19	77	143
	119	431	604

During the Track Record Period, no emolument was paid by the Target Group to the director or any of the five highest paid individuals of the Target Group as an inducement to join or upon joining the Target Group or as compensation for loss of office. Neither the director nor the five highest paid individuals has waived or agreed to waive any emolument during the Track Record Period.

13. DIVIDENDS

No dividend has been declared or paid by the Target Company since its incorporation.

14. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment *RMB'000*	Furniture and fixtures *RMB'000*	Total *RMB'000*
At 1 August 2016, 31 July 2017, 1 August 2017, 31 July 2018, 1 August 2018 and 31 July 2019			
Cost	743	80	823
Accumulated depreciation	(743)	(80)	(823)
Net carrying amount	—	—	—

15. RIGHT-OF-USE OF ASSETS

	Office Premises *RMB'000*	Server racks *RMB'000*	Total *RMB'000*
At 1 August 2016			
Cost	116	—	116
Accumulated depreciation	(48)	—	(48)
Net carrying amount	68	—	68
Year ended 31 July 2017			
Opening net carrying amount	68	—	68
Additions	53	—	53
Depreciation	(65)	—	(65)
Exchange realignment	(2)	—	(2)
Closing net carrying amount	54	—	54
At 31 July 2017 and 1 August 2017			
Cost	169	—	169
Accumulated depreciation	(115)	—	(115)
Closing net carrying amount	54	—	54
Year ended 31 July 2018			
Opening net carrying amount	54	—	54
Additions	151	39,036	39,187
Depreciation	(67)	(8,102)	(8,169)
Exchange realignment	1	—	1
Closing net carrying amount	139	30,934	31,073
At 31 July 2018 and 1 August 2018			
Cost	320	39,036	39,356
Accumulated depreciation	(181)	(8,102)	(8,283)
Net carrying amount	139	30,934	31,073

	Office Premises *RMB'000*	Server racks *RMB'000*	Total *RMB'000*
Year ended 31 July 2019			
Opening net carrying amount	139	30,934	31,073
Additions	61	16,626	16,687
Depreciation	(80)	(9,116)	(9,196)
Closing net carrying amount	120	38,444	38,564
At 31 July 2019			
Cost	381	55,662	56,043
Accumulated depreciation	(261)	(17,218)	(17,479)
Net carrying amount	120	38,444	38,564

16. TRADE RECEIVABLES

	As at 31 July		
	2017 *RMB'000*	**2018** *RMB'000*	**2019** *RMB'000*
Trade receivables, gross	293	3,107	7,312
Less: Loss allowance	—	—	—
Trade receivables, net	293	3,107	7,312

The credit periods for customers are normally 60 days from invoice date depends on contract terms.

The ageing of trade receivables as at each of the reporting dates, based on invoice date, is as follows:

	As at 31 July		
	2017 *RMB'000*	**2018** *RMB'000*	**2019** *RMB'000*
Within 3 months	293	2,905	3,937
More than 3 months	—	202	3,375
	293	3,107	7,312

The ageing analysis of trade receivables as of the end of reporting period, based on past due dates, is as follows:

	As at 31 July		
	2017 *RMB'000*	**2018** *RMB'000*	**2019** *RMB'000*
Current (not past due)	293	3,091	5,378
Less than 1 month past due	—	16	921
1 to 3 months past due	—	—	1,013
	293	3,107	7,312

At each reporting date, the Target Group reviews receivables for evidence of impairment on both individual and collective basis. Trade receivables that were neither past due nor impaired relate to a number of customers for whom there was no recent history of default. The Target Group does not hold any collateral or other credit enhancements over its trade receivable balances.

17. DEPOSITS AND OTHER RECEIVABLES

	As at 31 July		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Deposits	5	5	6
Other receivables	35	403	441
	40	408	447

18. BALANCES WITH RELATED PARTIES

Target Group

	As at 31 July		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Due to a director			
— Mr. Man Chin *(Note (i))*	(1,319)	(1,400)	(1,400)
Due to an immediate holding company			
— Billion Eggs Limited *(Note (i))*	(1,249)	(1,311)	(1,313)
Due to non-controlling interest			
— 廣州萬聖易網絡科技有限公司 (Guangzhou Wansheng Network Technology Company Limited[#]) *(Note (ii))*	(6,665)	(6,665)	(6,665)
	(9,233)	(9,376)	(9,378)

Target Company

	As at 31 July		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Due from a subsidiary			
— ITO Express Limited *(Note (i))*	1,028	1,080	1,082
Due to a director			
— Mr. Man Chin *(Note (i))*	(615)	(646)	(647)
Due to an immediate holding company			
— Billion Eggs Limited *(Note (i))*	(1,249)	(1,311)	(1,313)
	(1,864)	(1,957)	(1,960)

[#] *The unofficial English translation is for identification purpose only.*

Notes:

(i) The amounts are unsecured, non-interest bearing and repayable on demand.

(ii) This entity is a registered shareholder of OPCO. The amount is unsecured, non-interest bearing and non-repayable on demand.

19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash at banks and in hand. Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

As at 31 July 2017, 2018 and 2019, included in bank and cash balances of the Target Group was approximately RMB16,000, RMB1,282,000 and RMB2,188,000 of bank balances denominated in RMB placed with all banks and financial institutions in the PRC respectively. RMB is not a freely convertible into other currencies and the remittance of funds out of Mainland China is subject to exchange restrictions imposed by the PRC government.

20. TRADE PAYABLES

The ageing analysis of the Target Group's trade payables as of the end of reporting period, based on invoice dates is as follows:

		As at 31 July	
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	392	3,405	7,329
More than 3 months	—	2,212	868
	392	5,617	8,197

21. ACCRUALS AND OTHER PAYABLES

		As at 31 July	
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Accruals	36	139	144
Other payables	2	119	122
Other tax payable	2	104	192
	40	362	458

22. LEASE LIABILITIES

	Minimum lease payments As at 31 July			Present value of minimum lease payments As at 31 July		
	2017	2018	2019	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Minimum lease payments due						
Within 1 year	26	11,337	15,226	26	8,808	12,557
Between 1 and 2 years	—	22,624	24,644	—	19,921	22,324
Between 2 and 5 years	—	5,643	7,392	—	5,508	6,967
	26	39,604	47,262	26	34,237	41,848
Less: Future finance charges	—	(5,367)	(5,414)	—	—	—
Present value of lease liabilities	26	34,237	41,848	26	34,237	41,848
Less: Amounts due for settlement within 12 months (Shown under current portion)				(26)	(8,808)	(12,557)
Non-current portion				—	25,429	29,291

The Target Group has applied the recognition exemption under HKFRS 16 of not to recognise right-of-use assets and lease liabilities for short-term lease and leases of low-value assets.

23. DEFERRED TAX

The following are the major deferred tax assets and liabilities recognised by the Target Group and movements thereon during the Track Record Period.

	Temporary difference of expense
	RMB'000
At 1 August 2016, 31 July 2017 and 1 August 2017	—
Credited to profit or loss	800
At 31 July 2018 and 1 August 2018	800
Credited to profit or loss	21
At 31 July 2019	821

24. SHARE CAPITAL

	Number of shares	US$
Authorised share capital		
At 1 August 2016, 31 July 2017, 1 August 2017, 31 July 2018 and 1 August 2018 and 31 July 2019	50,000	50,000

	Number of shares	RMB
Issued and fully paid up		
At 1 August 2016, 31 July 2017 and 1 August 2017	1	7
Issue of shares	99	643
At 31 July 2018, 1 August 2018 and 31 July 2019	100	650

25. RESERVES

Target Group

Statutory reserve

In accordance with the Company Law of the PRC, the Target Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses) to the statutory reserve fund. When the balance of the statutory reserve fund reaches 50% of the entity's registered capital. The statutory reserve fund can be utilised to offset prior years' losses or to increase registered capital. However, such balance of the statutory reserve fund must be maintained at a minimum of 25% of registered capital after such usages.

Target Company

	Translation reserve *RMB'000*	Total *RMB'000*
At 1 August 2016	(44)	(44)
Profit for the year	—	—
Other comprehensive income:		
Exchange differences arising on translation of financial statements	64	64
Total comprehensive income for the year	64	64
At 31 July 2017 and 1 August 2017	20	20
Profit for the year	—	—
Other comprehensive expense:		
Exchange differences on translation of financial statements	(42)	(42)
Total comprehensive expense for the year	(42)	(42)
At 31 July 2018 and 1 August 2018	(22)	(22)
Profit for the year	—	—
Other comprehensive expense:		
Exchange differences on translation of financial statements	(1)	(1)
Total comprehensive expense for the year	(1)	(1)
At 31 July 2019	(23)	(23)

26. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Reconciliation of liabilities arising from financing activities

	Lease liabilities *RMB'000* *(Note 22)*	Amount due to a director *RMB'000* *(Note 18)*	Amount due to an immediate holding company *RMB'000* *(Note 18)*	Total *RMB'000*
At 1 August 2016	39	1,424	1,344	2,807
Changes from financing cash flows:				
Payment of lease liabilities	(66)	—	—	(66)
Repayment to a director	—	(9)	—	(9)
Repayment to an immediate holding company	—	—	(95)	(95)
Foreign exchange movement	(1)	(96)	—	(97)
Total changes from cash flows	(67)	(105)	(95)	(267)
Non-cash changes:				
Addition of lease liabilities	53	—	—	53
Interest expense — Lease liabilities	1	—	—	1
Total other changes	54	—	—	54
At 31 July 2017 and 1 August 2017	26	1,319	1,249	2,594
Changes from financing cash flows:				
Payment of lease liabilities	(7,841)	—	—	(7,841)
Advance from a director	—	14	—	14
Advance from an immediate holding company	—	—	62	62
Foreign exchange movement	—	67	—	67
Total changes from cash flows	(7,841)	81	62	(7,698)
Non-cash changes:				
Addition of lease liabilities	39,187	—	—	39,187
Interest expense — Lease liabilities	2,865	—	—	2,865
Total other changes	42,052	—	—	42,052
At 31 July 2018	34,237	1,400	1,311	36,948

	Lease liabilities	Amount due to a director	Amount due to an immediate holding company	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 August 2018	34,237	1,400	1,311	36,948
Changes from financing cash flows:				
Payment of lease liabilities	(11,689)	—	—	(11,689)
Advance from an immediate holding company	—	—	2	2
Total changes from cash flows	(11,689)	—	2	(11,689)
Non-cash changes:				
Addition of lease liabilities	16,687	—	—	16,687
Interest expense — Lease liabilities	2,613	—	—	2,613
Total other changes	19,300	—	—	19,301
At 31 July 2019	41,848	1,400	1,313	44,561

27. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Target Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

Financial risk management is coordinated at the Target Group's headquarters, in close co-operation with the board of directors. The overall objectives in managing financial risks focus on securing the Target Group's short to medium term cash flows by minimising its exposure to financial markets.

27.1 Categories of financial assets and financial liabilities

The carrying amounts of each of the categories of financial instruments as at the end of each of the Track Record Period are as follows:

Target Group

	As at 31 July		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets at amortised cost			
Trade receivables	293	3,107	7,312
Deposits and other receivables	40	408	447
Cash and cash equivalents	1,240	2,637	3,581
	1,573	6,152	11,340
Financial liabilities at amortised cost			
Trade payables	392	5,617	8,197
Accruals and other payables	40	362	458
Amount due to a director	1,319	1,400	1,400
Amount due to an immediate holding company	1,249	1,311	1,313
Lease liabilities	26	34,237	41,848
Amount due to non-controlling interest	6,665	6,665	6,665
	9,691	49,592	59,881

Target Company

	As at 31 July		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Financial asset at amortised cost			
Amount due from a subsidiary	1,028	1,080	1,082
	1,028	1,080	1,082
Financial liabilities at amortised cost			
Amount due to a director	615	646	647
Amount due to an immediate holding company	1,249	1,311	1,313
	1,864	1,957	1,960

27.2 Foreign currency risk

The Target Group has no significant foreign currency risk as its business transactions, majority of its recognised assets and liabilities are principally denominated in RMB, its functional currency. Accordingly, sensitivity analysis has not been disclosed. The Target Group currently does not have any hedge instruments to hedge against other foreign currency transactions.

27.3 Interest rate risk

The Target Group's fair value interest-rate risk mainly arises from lease liabilities as disclosed in Notes 22. The Target Group has not used any financial instruments to hedge potential fluctuations in interest rates.

27.4 Credit risk

The Target Group is exposed to credit risk in relation to its trade receivables, deposits and other receivables; and cash and cash equivalents. The carrying amounts of trade receivables, deposits and other receivables; and cash and cash equivalents represent the Target Group's maximum exposure to credit risk in relation to financial assets.

(i) Trade receivables

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade customers. Normally, the Target Group does not obtain collateral from customers.

As at the end of each of the Track Record Period, the Target Group has a concentration of credit risk on trade receivables from nil, 2 and 2 customers respectively. The management of the Target Group considers the credit risk of the trade receivables from these customers is limited as the Target Group continuously perform credit evaluation on the financial conditions of these related parties.

The Target Group applied simplified approach to measure lifetime ECLs on the Target Group's trade receivables using a provision matrix. Based on the Target Group's assessment, the Target Group's exposure to credit risk and ECLs on trade receivables are immaterial. Thus, no provision of loss allowance is made.

(ii) Deposits and other receivables

The Target Group's management monitors and assess at the end of each of the Track Record Period on any indicator of significant increase in credit risk for the Target Group's deposits and other receivables. In the assessment for indicators, the Target Group's management takes into account information that it has available internally about these counterparties' past, current and expected operating performance and cashflow position, as well as their performance ratio and if the entities had any default in external debts. Based on the assessment, the Target Group's management has determined that the credit risk for these assets has not increased significantly since their initial recognition, and accordingly, the Target Group's deposits and other receivables have been measured based on 12-month ECL model.

(iii) Cash in banks

The Target Group expects that there is no significant credit risk associated with cash deposits at banks since they are substantially deposited at reputable banks or financial institutions. Management does not expect that there will be any significant losses from non-performance by these counterparties.

27.5 Liquidity risk

Liquidity risk relates to the risk that the Target Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Target Group is exposed to liquidity risk in respect of settlement of account and other payables and its financing obligations, and also in respect of its cash flow management. The Target Group's policy is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and long term.

The basis of preparing the Historical Financial Information under the going concern assumption has been discussed in note 2.

The maturity profile of the Target Group's financial liabilities as at each reporting dates, based on the contractual undiscounted payments, are as follows:

	Carrying amount	Total contractual undiscounted cash flow	Within one year or on demand	More than one year but less than two years	More than two years but less than five years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 July 2017					
Trade payables	392	392	392	—	—
Accruals and other payables	40	40	40	—	—
Amount due to a director	1,319	1,319	1,319	—	—
Amount due to an immediate holding company	1,249	1,249	1,249	—	—
Lease liabilities	26	26	26	—	—
Amount due to a non-controlling interest	6,665	6,665	6,665	—	—
	9,691	9,691	9,691	—	—
At 31 July 2018					
Trade payables	5,617	5,617	5,617	—	—
Accruals and other payables	362	362	362	—	—
Amount due to a director	1,400	1,400	1,400	—	—
Amount due to an immediate holding company	1,311	1,311	1,311	—	—
Lease liabilities	34,237	39,604	11,337	22,624	5,643
Amount due to a non-controlling interest	6,665	6,665	6,665	—	—
	49,592	54,959	26,692	22,624	5,643
At 31 July 2019					
Trade payables	8,197	8,197	8,197	—	—
Accruals and other payables	458	458	458	—	—
Amount due to a director	1,400	1,400	1,400	—	—
Amount due to an immediate holding company	1,313	1,313	1,313	—	—
Lease liabilities	41,848	47,262	15,226	24,644	7,392
Amount due to a non-controlling interest	6,665	6,665	6,665	—	—
	59,881	65,295	33,259	24,644	7,392

27.6 Fair value measurements

The fair values of trade receivables, deposits and other receivables, balances with related parties, cash and cash equivalents, accruals and other payables and current portion of lease liabilities approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the non-current portion of lease liabilities have been calculated by discounting the expected future cash flows using the rates currently available for instruments on similar terms, credit risk and remaining maturities.

28. CAPITAL MANAGEMENT

The Target Company's primary objective when managing capital is to safeguard the Target Company's ability to continue as a going concern and to maximise the return to stakeholders. The Target Company's capital structure is regularly reviewed and managed by the directors of the Target Company. The Target Company is not subject to externally imposed capital requirements. To maintain or adjust capital structure, the Target Company may adjust dividend payment to shareholders or issue new shares. Adjustments will be made to the capital structure in light of changes in economic conditions affecting the Target Company or its subsidiaries, and the risk characteristics of the Target Company's underlying assets.

The capital structure of the Target Company consists of debts, which includes amounts due to directors, lease liabilities, cash and bank balances and equity attributable to owners of the Target Company, comprising share capital and reserves. The Target Company's risk management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

The net debt to equity ratio as at the reporting dates was as follows:

	As at 31 July		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Lease liabilities	26	34,237	41,848
Less: Cash and cash equivalents	(1,240)	(2,637)	(3,581)
Net (cash)/debt	(1,214)	31,600	38,267
Total deficiency	(8,064)	(11,567)	(9,156)
Net debt to equity ratio	N/A	N/A	N/A

29. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 31 July 2019.

The information sets out in this Appendix does not form part of the Accountants' Report prepared by BDO Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set out in "Appendix II — Financial Information of the Target Company" and is included herein for information purpose only.

The unaudited pro forma financial information should be read in conjunction with the Accountants' Report set out in "Appendix II — Financial Information of the Target Company".

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Introduction

The following unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 30 June 2019 (the "**Unaudited Pro Forma Financial Information**") has been prepared in accordance with Rule 7.31 of the GEM Listing Rules for the purpose of illustrating the effect on the assets and liabilities of the Enlarged Group as if the acquisition of 100% share equity of the Target Company by the Group (the "**Acquisition**") had been completed on 30 June 2019. The Unaudited Pro Forma Financial Information has been prepared for illustrative purpose only, and because of its nature, it may not give a true picture of the Enlarged Group's assets and liabilities following completion of the Acquisition.

The Unaudited Pro Forma Financial Information has been prepared based on:

(a) the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2019 which has been extracted from the published interim report of the Group for the six months ended 30 June 2019;

(b) the audited consolidated statement of financial position of the Target Group as at 31 July 2019 which has been extracted from Appendix II to this circular; and

(c) after taking into account of the unaudited pro forma adjustments relating to the Acquisition that are (i) directly attributable to the Acquisition and not relating to future events or decisions; and (ii) factually supportable.

The Unaudited Pro Forma Financial Information is based on a number of assumptions, estimates and uncertainties. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Acquisition been completed on 30 June 2019. The Unaudited Pro Forma Financial Information does not purport to predict the future financial position of the Enlarged Group.

THE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	The Group	The Target Group	Pro forma adjustments			The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
Non-current assets						
Property, plant and equipment	53,081	—				53,081
Payments for leasehold land held for own use under operating leases	14,036	—	(14,036)			—
Right-of-use assets	—	38,564	16,763			55,327
Intangible assets	—	—		9,778		9,778
Goodwill	—	—		44,250		44,250
Deferred tax assets	—	821				821
Total non-current assets	67,117	39,385				163,257
Current assets						
Payments for leasehold land held for own use under operating leases	230	—	(230)			—
Inventories	20,644	—				20,644
Contract assets	4,563	—				4,563
Trade and other receivables	66,522	7,759				74,281
Cash and bank balances	44,338	3,581				47,919
Total current assets	136,297	11,340				147,407
Total assets	203,414	50,725				310,664
Current liabilities						
Contract liabilities	1,249	—				1,249
Trade and other payables	13,470	8,655			1,375	23,500
Amount due to a director	—	1,400				1,400
Amount due to immediate holding company	—	1,313				1,313
Lease liabilities	—	12,557	1,003			13,560
Tax payable	1,020	—				1,020
Total current liabilities	15,739	23,925				42,042
Net current assets/(liabilities)	120,558	(12,585)				105,365
Total assets less current liabilities	187,675	26,800				268,622

	The Group	The Target Group	Pro forma adjustments			The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
Non-current liabilities						
Amount due to non-controlling interest	—	6,665				6,665
Lease liabilities	—	29,291	1,453			30,744
Convertible bonds	—	—		8,241		8,241
Deferred tax liabilities	5,431	—		2,445		7,876
Total non-current liabilities	5,431	35,956				53,526
Total liabilities	21,170	59,881				95,568
Net assets/(liabilities)	182,244	(9,156)				215,096

Notes:

1. The amounts are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2019 as set out in the published interim report of the Group for the six months ended 30 June 2019.

2. The amounts are extracted from the accountants' report on the Target Group as set out in Appendix II to this circular.

3. The adjustment represents the adoption of the accounting policy for leases in accordance with HKFRS 16 "Leases".

4. The Group entered into an Acquisition Agreement for acquiring entire issued shares of the Target Company for a total Consideration of HK$37,200,000. A portion of the Consideration of HK$24,800,000 would be settled by allotment and issue of consideration share ("**Consideration Shares**") and HK$12,400,000 would be settled by issue of convertible bonds ("**Convertible Bonds**").

Under Hong Kong Financial Reporting Standard 3 (Revised) Business Combinations, the Group will apply the acquisition method to account for the Acquisition in the consolidated financial statements of the Group. The goodwill arising from the Acquisition is calculated as follows:

	Notes		*RMB'000*
Net liabilities of the Target Group assumed			(9,156)
Intangible asset	*(i)*		9,778
Deferred tax liabilities	*(ii)*		(2,445)
			(1,823)
Consideration for the Acquisition			
Issue of Consideration Shares	*(iii)*		24,982
Issue of Convertible Bonds	*(iv)*		
— Liability component		8,241	
— Equity component		9,204	17,445
			42,427
Goodwill			44,250

(i) The valuation of the intangible asset is based on the assumption that there would be no material changes in the existing political, legal, fiscal, taxation and economic conditions in the PRC which is the Target Group located and carrying on its businesses. The valuation methodologies and major assumptions of the intangible asset are as follows:.

The intangible asset represent the 增值電信業務經營許可證 (Value-added Telecommunications Business Operation Permit#) issued by the Ministry of Industry and Information of the People's Republic of China (中華人民共和國工業和信息化部) on 28 November 2017 which is valid until 20 June 2022 and held by 北京萬諾通科技有限公司. The fair value of intangible asset is based on valuation prepared by the independent professional valuer assessed under income approach using excess earnings method.

(ii) Deferred tax liabilities amounting to approximately RMB2,445,000 is calculated based on the fair value of intangible asset of approximately RMB9,778,000 multiplied by the People's Republic of China enterprise income tax rate of 25%.

(iii) For the purpose of this Unaudited Pro Forma Financial Information, the fair value of the Consideration Shares is calculated based on the price of HK$0.275 per share of the Company. 103,333,333 Consideration Shares of the Company will be issued at HK$0.275 quoted on the Stock Exchange as at 30 June 2019 with a total share consideration of approximately HK$28,417,000 (equivalent to RMB24,982,000).

(iv) For the purpose of preparing the Unaudited Pro Forma Financial Information, the Group has engaged an independent professional valuer to perform a valuation on the fair value of the Convertible Bonds and the valuation date is 30 June 2019. Based on the valuation report, the fair value of the liability component of Convertible Bonds was calculated by discounting the future cash flows at the effective interest rate of 7.24%. The fair value of HK$9,375,000 (equivalent to RMB8,241,000) is credited under non-current liabilities since the maturity date of the Convertible Bonds will be made on the date falling on the fourth anniversary of the issue date of the Circular. The fair value of the conversion rights of the Convertible Bonds was calculated by binomial option pricing model. The fair value of HK$10,469,000 (equivalent to RMB9,204,000) is credited as convertible bonds reserve under shareholders' equity. The issue of the Convertible Bonds is a non-cash transaction.

5. For the purpose of the preparation of the Unaudited Pro Forma Financial Information, the Directors have assessed whether the intangible assets and goodwill would be impaired as at 30 June 2019 on a pro forma basis in accordance with Hong Kong Accounting Standard 36 ("HKAS 36") "Impairment of Assets" and concluded that there is no impairment of the intangible asset and goodwill arising on the Acquisition as at 30 June 2019. The Group will adopt consistent accounting policies, principal assumptions and valuation methods as used in the Unaudited Pro Forma Financial Information to assess impairment of the intangible assets and goodwill arising from Acquisition in future financial statements.

   The actual amount of the intangible asset and goodwill arising from the Acquisition at the date of completion may be different from that presented above and the difference may be significant.

6. The adjustment represents the transaction costs of the Acquisition incurred by the Group including expenses charged by professional parties. The total amount is estimated at RMB1,375,000.

7. Apart from the above, no adjustments have been made to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 30 June 2019.

8. For the purpose of this Unaudited Pro Forma Financial Information, Renminbi is translated into Hong Kong dollars at the exchange rate of RMB1 to HK$1.138.

B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong.

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INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the directors of Zhi Sheng Group Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Zhi Sheng Group Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities of the Group as at 30 June 2019 and related notes as set out on pages III-1 to III-5 of Appendix III of the Company's circular dated 13 December 2019 (the "**Circular**") in connection with the proposed acquisition of the 100% issued share capital of Polyqueue Limited (the "**Target Company**") (the "**Proposed Acquisition**"). The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described on pages III-1 to III-5 of Appendix III of the Circular.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the Proposed Acquisition on the Company's consolidated assets and liabilities as at 30 June 2019 as if the Proposed Acquisition had taken place at 30 June 2019. As part of this process, information about the Group's assets and liabilities has been extracted by the directors of the Company from the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2019.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "**GEM 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 ("**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 HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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 7.31(7) of the GEM 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 of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

For purpose 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 a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purpose of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Proposed Acquisition at 30 June 2019 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 unaudited 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' judgement, having regard to the reporting accountants' understanding of the nature of the entity, 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 by the directors of the Company on the basis stated;

b. such basis is consistent with the accounting policies of the Company; and

c. the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

BDO Limited
Certified Public Accountants

Hong Kong
13 December 2019

REVENUE

The Target Group recorded a total revenue of approximately RMB767,000, RMB9,183,000 and RMB22,001,000 for the year ended 31 July 2017, 2018 and 2019 respectively, represented annual growth of 5.5 times, 12 times and 2.4 times in year 2017, 2018 and 2019 respectively.

The data centre business of the Target Group started in year 2016 and therefore the total revenue in year 2016 was relatively low, but it grew significantly from year 2017 to year 2019. Revenue mainly comprises of rack rental income and extra electricity charges to customers. The increase in revenue for the year ended 31 July 2018 as compared with the corresponding period was mainly attributable to the ramp up of business in Shanghai, the average number of rack leased was increased from 11 racks in yr 2017 to 120 racks in year 2018, while the average per rack selling price was increased from RMB5,500 to RMB5,800.

The increase in revenue for the year ended 31 July 2019 as compared with the corresponding period was mainly attributable to continued expansion of market, especially started business with two large customers during the year, namely Macalline and Lakala, whose total revenue contribution was RMB6,000,000 per year. The average number of rack sold was increased from 120 racks in year 2018 to 230 racks in year 2019, while the average per rack selling price was increased from RMB5,800 to RMB6,100.

COST OF REVENUE

The cost of revenue of the Target Group amounted to approximately RMB750,000, RMB10,288,000 and RMB16,451,000 for the year ended 31 July 2017, 2018 & 2019 respectively.

The cost of revenue mainly comprises of rack rental cost and electricity charges. The increase in cost of revenue for the year ended 31 July 2018 as compared with the corresponding period was mainly attributable to the rent privilege period ended in March 2018, the Target Group was required to pay fixed rent regardless not all the racks were occupied since April 2018.

The increase in cost of revenue for the year ended 31 July 2019 as compared with the corresponding period was mainly attributable to the increase of rack selling and the fixed rent payment throughout the year.

GROSS PROFIT

The Target Group had recorded gross profit/(loss) of approximately RMB17,000, RMB(1,105,000) and RMB5,550,000 for the year ended 31 July 2017, 2018 and 2019 respectively.

The negative gross profit appeared in year 2017 was mainly due to the rent privilege ended in March 2018 while there was spare rack capacity not yet digested for the year ended 31 July 2018. Nevertheless, above 85% racks were taken up by customers for the year ended 31 July 2019; henceforth the gross profit was turning from loss RMB1,105,000 to profit RMB5,550,000.

ADMINISTRATIVE EXPENSES

The administrative expenses of the Target Group for the year ended 31 July 2017, 2018 and 2019 were approximately RMB120,000, RMB270,000 and RMB572,000 respectively.

The increase in cost of administrative expense for the year ended 31 July 2018 as compared with the corresponding period was mainly attributable to the increase of staff cost.

The increase in cost of administrative expense for the year ended 31 July 2019 as compared with the corresponding period was mainly due to increase of staff cost.

FINANCE COSTS

The finance costs of the Target Group for the year ended 31 July 2017, 2018 and 2019 were approximately RMB1,000, RMB2,865,000 and RMB2,613,000 respectively.

The large amount of finance costs for the year ended 31 July in year 2018 and 2019 was mainly attributable to the adoption of new HKFRS 16 for leasing which recognise rental commitment as liabilities and amortized it over the leasing period as interest expense.

PROFIT/(LOSS)

The Target Group recorded net profit/(loss) after taxation of approximately RMB(102,000), RMB(3,438,000), and RMB2,412,000 for the year ended 31 July 2017, 2018 and 2019 respectively.

The increase in net loss for the year ended 31 July 2018 as compared with the corresponding period was mainly due to rent privilege ended in March 2018 and subject to fixed rent cost, while the racks were not fully occupied.

The gross profit for the year ended 31 July 2019 was turning from net loss to net profit as compared with the corresponding period, it was mainly attributable to the success of market expansion and the racks are almost fully occupied.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 July 2017, 2018 and 2019, the total liabilities of the Target Group amounted to approximately RMB9,691,000, RMB49,592,000 and RMB59,881,000 respectively.

As at 31 July 2017, 2018 and 2019, the Target Group had cash and cash equivalents of approximately RMB1,240,000, RMB2,637,000 and RMB3,581,000 respectively.

As at 31 July 2017, 2018 and 2019, the Target Group had net current liabilities of approximately RMB1,453,000, RMB11,346,000 and RMB12,585,000 respectively.

BORROWINGS

As at 31 July 2017, 2018 and 2019, the Target Group did not have any borrowings.

PLEDGE OF ASSETS

As at 31 July 2017, 2018 and 2019, the Target Group did not have any pledge of assets.

COMMITMENTS

As at 31 July 2017, the Target Group had future minimum lease payments under non-cancellable operating leases of approximately RMB26,000. The Target Group do not have any capital commitment.

As at 31 July 2018, the Target Group had future minimum lease payments under non-cancellable operating leases of approximately RMB39,604,000. The Target Group do not have any capital commitment.

As at 31 July 2019, the Target Group had future minimum lease payments under non-cancellable operating leases of approximately RMB47,262,000. The Target Group do not have any capital commitment.

CONTINGENT LIABILITY

The Target Group had no material contingent liabilities as at 31 July 2017, 2018 and 2019.

FOREIGN CURRENCY EXPOSURE

The Target Group's exposure to risk resulting from changes in foreign currency exchange rates is minimal as most of the transactions are conducted in RMB for the years ended 31 July 2017, 2018 and 2019. The impact of fluctuations in foreign currency on the Target Group was minimal and the Target Group did not have any foreign currency hedging policy.

EMPLOYEES

The Target Group had 11 employees as at 31 July 2019. The remunerations paid to the Target Group's employees for the years ended 31 July 2017, 2018 and 2019 were approximately RMB99,850, RMB368,841 and RMB410,885 respectively.

The remuneration package for the employees generally includes salary and discretionary bonuses. The employees also receive welfare benefits, including retirement benefits, occupational injury insurance and other miscellaneous items. Annual review of the performance of the employees is conducted for determining the level of bonus, salary adjustment and promotion. The Target Group will provide in-house or out-sourced training to the employees as and when necessary.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITION AND DISPOSAL.

The Target Group did not have any significant investment, material acquisition or disposal for the years ended 31 July 2017, 2018 and 2019.

The following is the text of a valuation report, prepared for the purpose of incorporation in this circular, received from Graval Consulting Limited, an independent valuer, in connection with its valuation as at 31 August 2019 of the fair market value of entire issued share capital in the Target Company (as defined below).

Graval Consulting Limited
Unit 1026A, Ocean Centre
Harbour City
5 Canton Road
Tsim Sha Tsui
Kowloon
Hong Kong

13 December 2019

The Board of Directors
Zhi Sheng Group Holdings Limited
Room 747, 7/F
Star House
3 Salisbury Road
Tsim Sha Tsui
Kowloon
Hong Kong

Dear Sirs,

Re : Valuation of 100% equity interests in Polyqueue Limited

In accordance with the instructions from Zhi Sheng Group Holdings Limited ("**Company**" and together with its subsidiaries, "**Group**"), we have conducted a valuation of fair market value of 100% equity interests in Polyqueue Limited ("**Target Company**" and together with its subsidiaries, "**Target Group**"), an investment holding company incorporated in British Virgin Islands. Pursuant to the corporate reorganization to be undergone by the Target Group ("**Proposed Reorganization**"), the Target Company shall have indirect control over the management and operation and that the Target Company shall be entitled to the entire economic benefits and assets of 北京萬諾通科技有限公司 (unofficially translated as "Beijing Wannuotong Technology Company Limited" and hereinafter, "**OPCO**"), despite the lack of full registered equity ownership, by entering into a series of contractual arrangement ("**Contractual Arrangement**"). The OPCO is a holder of 增值電信業務經營許可證 (unofficially translated as "Value-added Telecommunications Business Operation Permit" and hereinafter, "**Permit**") and is principally engaged in the provision of data center services, including but not limited to leasing and management of data centre facilities, installation and maintenance services and security services in the People's Republic of China ("**China**" or "**PRC**"). We confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the fair market value of the Target Company as at 31 August 2019 ("**Valuation Date**") under a hypothetical situation and an assumption that the Proposed Reorganization was completed prior to the Valuation Date.

This report states the purpose of valuation and premise of value, sources of information, identifies the business valued, describes the methodology of our valuation, investigation and analysis, assumptions and limiting conditions, and presents our opinion of value.

1. PURPOSE OF VALUATION

This report is being solely prepared for the directors and management of the Company for reference and incorporation into the public circular of the Company in connection with the proposed acquisition ("**Proposed Acquisition**") by the Company over the entire issued share capital of the Target Company.

The Proposed Acquisition, if materialized, and the corresponding transaction price would be the result of negotiations between the transacting parties. The directors and management of the Company should be solely responsible for determining the consideration of the Proposed Acquisition, in which Graval Consulting Limited ("**Graval**") is not involved in the negotiation and has no comment on the agreed consideration. Furthermore, Graval assumes no responsibility whatsoever to any person other than the Company in respect of, or arising out of, the contents of this report. If others choose to rely in any way on the contents of this report they do so entirely on their own risk.

2. PREMISE OF VALUE

Our valuation has been prepared in accordance with the International Valuation Standards ("**IVS**") published by the International Valuation Standards Council and the RICS Valuation — Global Standards 2017 ("**RICS Standards**") published by the Royal Institution of Chartered Surveyors, where applicable.

Our valuation is based on the going concern premise and conducted on a fair market value basis. Fair market value is defined as the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction.

3. SOURCES OF INFORMATION

We relied on the following major documents and information in our valuation analysis. Some of the information and materials are furnished by the management of the Target Group, the Group and their representatives (collectively, "**Management**"). Other information is extracted from public sources such as government sources, HKEX news, Bloomberg and Duff & Phelps, LLC, etc.

The major documents and information include the following:

- Business licenses of the Target Group;
- Official website(s) of the Target Group;
- Permit issued by Ministry of Industry and Information Technology of People's Republic of China for the effective period commencing on 28 November 2017 and ended on 20 June 2022.

- Relevant contracts, agreements and supplementary agreements in relation to the leasing and transfer of storage racks, and the outsourcing of data centre services (collectively, "**Leasing Agreements**") dated 31 December 2012, 1 March 2013, 17 February 2014, 30 September 2016, 1 February 2017 and 10 July 2019, and entered into between the Target Group, an independent third party ("**PRC Co I**") and its subsidiary.

- 《合作經營協議書》 (unofficially translated as "Cooperation and Operation Agreement" and hereinafter, "**Distribution Agreement**") dated 1 August 2019 in relation to the distribution of storage racks entered into between the Target Group and an independent third party ("**PRC Co II**");

- Relevant contracts, agreements, supplementary agreements and letters of intent for further sub-leasing of storage racks leased from the PRC Co. I in accordance with the Leasing Agreements and provision of date centre value-added services, including but not limited to the maintenance of electricity supply systems, temperature control systems and fire protection systems, and security control, entered into between various corporate clients in the PRC and the Target Group (collectively, "**Sub-leasing Agreements**");

- Relevant letters of intent associated with the Distribution Agreement, including but not limited to as follows:

  i. 《機房合作意向協議書》(unofficially translated as "Storage Racks Cooperation Letter of Intent" and hereinafter, "**Sub-distribution LOI**") dated 13 August 2019 in relation to the letter of intent for sub-distribution of storage racks entered into between the Target Group and an independent third party ("**Sub-distribution Agent**"), a company incorporated in the PRC in 2013 and is principally engaged in the operation of data centres in Hangzhou, Guizhou, Chengdu, Changsha, Guangdong, Tianjin, Beijing and Lanzhou; and

  ii. 《機房採購意向協議書》 (unofficially translated as "Storage Racks Purchase Letter of Intent" and hereinafter, "**Storage Rack Purchase LOI**" and together with the Sub-distribution LOI, "**LOIs**") dated 8 October 2019 in relation to the letter of intent for sales of storage racks entered into between, the Target Group and an independent third party ("**Distribution Client**"), a company incorporated in the PRC in 2010 and is principally engaged in the provision of digital marketing and media production services in the PRC.

- Structured contracts in relation to the Proposed Reorganization and the Contractual Arrangement (collectively, "**Structured Contracts**");
- Customer list of the Target Group provided by the Management;
- Announcement(s) and/or circular(s) made by the Company in relation to the Proposed Acquisition;
- Audited annual reports and unaudited interim reports of the Group;
- Historical financial information of the Target Group including the income statements and balance sheets provided by the Management; and
- Projections of the Target Group prepared and provided by the Management.

In the course of our valuation, we conducted a company visit in October 2019 and had discussion with the Management on the industry and the development of the Target Group. Furthermore, we have made reference to or reviewed the above information and data and assumed such information and data are true and accurate without independent verification except as expressly described herein. We consider that we have obtained adequate information from the sources described above to provide a reliable opinion of value.

We have no reason to believe that any material facts have been withheld from us, however, we do not warrant that our investigations have revealed all of the matters which an audit or more extensive examination might disclose.

In arriving at our opinion of value, it was assumed that the projections provided to us were based on the assumptions reflecting the best available estimates, judgment and knowledge of the Management in relation to the proposed operations and are reasonable, reflecting market conditions and economic fundamentals. However, we do not express any opinion regarding the accuracy of the projections provided by the Management.

We do not express an opinion as to whether the actual results of the operations of the Target Group will approximate the projections because assumptions regarding future events by their nature are not capable of independent substantiation. We are making no representation that the business expansion will be successful, or that market growth and penetration will be realized.

4. COMPANY PROFILE

4.1. Zhi Sheng Group Holdings Limited

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 4 March 2016. The shares of the Company are listed on GEM of The Stock Exchange of Hong Kong Limited. The Group is principally engaged in the manufacture and sale of office furniture products in the PRC.

4.2. Polyqueue Limited

The Target Company is an investment holding company incorporated in the British Virgin Islands with limited liability. Following the completion of the Proposed Reorganization, the Target Company holds the entire issued share capital of ITO Express Limited (“**HK Company**”), which in turn owns 50% equity interests in the OPCO and 100% equity interests in 北京萬諾馳科技有限公司 (unofficially translated as “Beijing Wannuochi Technology Company Limited” and hereinafter, “**WFOE**”). Pursuant to the Management, the Target Company has no business operations except for holding the equity interests in the HK Company.

4.3. ITO Express Limited

The HK Company is a private company incorporated in Hong Kong with limited liability on 11 August 2000. Pursuant to the Management, the HK Company has no business operations except for holding the equity interests in the OPCO and the WFOE.

4.4. Beijing Wannuochi Technology Company Limited

The WFOE is a private company incorporated in the PRC with limited liability on 31 July 2019. Following the completion of the Proposed Reorganization, the WFOE will act as an exclusive service provider to provide the OPCO with technical support and professional training services, marketing consultancy services and promotional services, design, installation, daily management, maintenance and upgrade of network systems, hardware and databases, using the WFOE’s resources, properties and relevant services related to OPCO’s business operations, and where permitted by the PRC’s laws, other consulting and services related thereto from time to time in accordance with the Structured Contracts, such that the financial results, the entire economic benefits and the risks of the business of the OPCO is able to flow into the WFOE and thus to enable the WFOE to gain 100% effective control over the OPCO.

4.5. Beijing Wannuotong Technology Company Limited

The OPCO is a limited liability company incorporated in the PRC on 19 June 2012 with registered capital of RMB10,000,000. The scope of business of the OPCO is confined to (i) domestic internet virtual private net services in the first class of value-added telecommunication services; and (ii) call centre services in the second type of valued-added telecommunication services in the PRC.

5. BUSINESS OVERVIEW

The OPCO is the holder of the Permit and is in the business of provision of data centre, facilities management and value-added services, installation and maintenance services, which is regulated as type 1 value-added telecommunication services under the laws and regulations of the PRC. As at the Valuation Date, the OPCO secured the execution of the Leasing Agreements, the Distribution Agreement, the Sub-leasing Agreements and the LOIs, all of which contain normal commercial terms and conditions, including but not limited to number of storage racks leased, sub-leased and to be distributed, monthly leasing and sub-leasing fees, and tenure of the leasing and sub-leasing terms. The OPCO primarily generates revenues from the following two operations:

Sub-leasing of Storage Racks of Data Centre in Shanghai

The OPCO leased two storage rack modules of a data centre situated at 上海市浦東新區華京路6號 for a contractual period from 1 July 2019 to 30 June 2024 from the PRC Co I. The PRC Co I was incorporated in the PRC in 2006 and its scope of business is confined to technical development and services for computer disaster recovery and data backup; sales of self-developed products; domestic data transmission services via fixed line; internet data center services; domestic internet virtual private network business and internet access service business. The PRC Co I has a wholly owned subsidiary listed on the NASDAQ Global Market ("**NASDAQ Listed Co**"), a company that is principally engaged in the development and operation of high performance data centres in Shanghai, Shenzhen, Guangzhou, Beijing, Hong Kong, Chengdu and Hebei. Pursuant to the annual report of the NASDAQ Listed Co for the year ended 31 December 2018, the NASDAQ Listed Co had an aggregated net floor area of 160,356 m^2 in service to render data centre colocation services and managed services for approximately 590 customers.

According to the Leasing Agreements, the OPCO is obligated to pay the rental fee of the leased storage rack and the associated electricity charges to the PRC Co I. The total number of storage racks of two leased modules is 344, of which 302 storage racks have been sub-leased to 13 third-party corporate clients through the execution of the Sub-leasing Agreements as of the Valuation Date, representing approximately 87.8% of the total existing capacity. The average monthly sub-leasing fee for the storage racks ranges from RMB5,000 to RMB11,000 for a contractual tenure between 12 months and 36 months.

Distribution of Storage Racks of Data Centre in Beijing

Pursuant to the Distribution Agreement and the Management, the OPCO will act as a non-exclusive agent to perform marketing activities and to distribute the storage racks of the PRC Co II located at 北京市豐台區久敬莊路56號院7號樓 for a period commencing on 1 August 2019 and ended on 31 July 2029, subject to renewal upon expiry. The PRC Co II was incorporated in the PRC in 2015 and its scope of business is confined to technical development, transfer, services and consulting; economic information consulting; sales of computer software & hardware and auxiliary equipment, telecommunication equipment, electronic products; internet data center services of type 1 value-added telecommunication businesses; internet access services business of type 1 value-added telecommunication businesses. Pursuant to the Management, as at the date of this valuation report, the PRC Co II is primarily engaged in the operation and management of internet data centres covering an aggregated area of approximately 3,600 m^2 in Beijing.

Based on the Distribution Agreement, the OPCO is agreed to distribute at least 30 storage racks for sales over the contractual period by making rental payment, connection fee and associated electricity charges to the PRC Co II in relation to the storage racks. According to the Storage Rack Purchase LOI, the Distribution Client intends to procure the purchase of 90 storage racks from the OPCO in 2020.

To facilitate the sales distribution, based on the Sub-distribution LOI, the OPCO will also cooperate with the Sub-distribution Agent for additional sales of 50 storage racks for a period of 3 years ending on 31 July 2022. Further represented by the Management, the OPCO and the Sub-distribution Agent are currently in the negotiation process with several potential corporate clients for sale and purchase of the storage racks. Considering the market demand and by leveraging on the extensive experience of the OPCO for sub-leasing of the storage racks in Shanghai, the Management is confident to meet the sales target. The following is the latest status of negotiation with potential corporate clients:

Potential customer	**Expected number of storage rack to be distributed**	**Expected start date of service term**	**Negotiation status**
Distribution Client	90	2020 Q1	Entered into letter of intent
An independent third-party A[1]	24	2020 Q1	Negotiation on pricing in progress
An independent third-party B[1]	32	2020 Q2	Negotiation on pricing in progress
An independent third-party C[2]	200	2020 Q2	Negotiation on number of storage rack supply in progress

Table 1: Potential customer list of the distribution of storage racks in Beijing
Source: The Management

Notes:

1. The independent third-party A and the independent third-party B are non-disclosable corporate clients in the PRC procured by the Sub-distribution Agent.

2. The independent third-party C is a leading news and media provider in the PRC.

Pursuant to the Management, the ultimate beneficial owner of the PRC Co I and the PRC Co II are individuals not connected to the Target Group nor the Company and both the PRC Co I and the PRC Co II do not have any relationship, whether past or existing, business or otherwise, with the Company. Both the PRC Co I and the PRC Co II are introduced to the OPCO through referral by the general manager of the OPCO.

6. FINANCIAL REVIEW

The following two tables set forth the historical selected financial result of (i) the Target Group for the year ended 31 July 2017, 2018 and 2019 and (ii) the OPCO for the one month ended 31 August 2019 (collectively, "**Track Record Period**"). We have only reviewed the financial accounts of the Target Group and the OPCO provided by the Management without independent verification.

	Year ended 31 July			One month ended 31 August
	2017[1]	**2018**[1]	**2019**[1]	**2019**[2]
(RMB'000)				
Revenue[3]	767	9,183	22,001	2,075
EBT	(102)	(4,238)	2,391	406
Net profit	(102)	(3,438)	2,412	406
Total assets	1,627	38,025	50,725	10,406
Net liabilities	8,064	11,567	9,156	5,650

* *Figures above are subject to rounding*

Table 2: Key financial performance of the Target Group and the OPCO
Source: The Management

Notes:

1. The results were audited results of the Target Group and were prepared according to the newly effective accounting standard HKFRS 16 Leases.

2. The results were unaudited results of the OPCO.

3. The results excluded the valued-added tax expenses.

	Year ended 31 July			One month ended 31 August
	2017	2018	2019	2019
Revenue growth	n/a	1,097%	140%	n/a[1]
EBT margin	–13%	–46%	11%	19%
Net profit margin	–13%	–37%	11%	19%
Return on total assets	–6%	–9%	5%	n/a[1]
Return on equity	n/a[2]	n/a[2]	n/a[2]	n/a[1]

* *Figures above are subject to rounding*

Table 3: Key financial ratios of the Target Group and the OPCO
Source: The Management

Notes:

1. The results were not applicable due to the non-full-year earning figures.

2. The results were not applicable due to the net liabilities.

Pursuant to the Management, the increase in number of storage racks sub-leased in Shanghai was the major earning driver of the Target Group throughout the Track Record Period. Revenue of the Target Group increased from RMB0.77 million in FY2017 to RMB22.00 million in FY2019, representing a CAGR of 436%, and revenue of the OPCO for the one month ended 31 August 2019 amounted to approximately RMB2.08 million. EBT margin of the Target Group was improving from –13% in FY2017 to 11% in FY2019. Net profit margin of the Target Group increased from –13% in FY2017 to 11% in FY2019. As at 31 August 2019, total assets and net liabilities of the OPCO were RMB10.41 million and RMB5.65 million respectively.

7. ECONOMIC OVERVIEW

This section of economic overview is based on the research conducted by Hong Kong Trade Development Council ("**HKTDC**").

China's gross domestic product ("**GDP**") grew by 6.4% in the first quarter of 2019 and 6.2% in the second quarter of 2019. The added-value industrial output grew by 4.4% in August 2019, down from 4.8% in July 2019. The fixed assets investment grew by 5.5% in January to August 2019, down from 5.7% in January to July 2019. The retail sales increased by 8.2% in January to August 2019, down from 8.3% in January to July 2019. Inflation stood at 2.8% in August 2019, with food prices increased by 10.0% and non-food prices increased by 1.1%. In August 2019, exports (in terms of US$) decreased by 1.0%, while imports (in terms of US$) decreased by 5.6%, resulting in a trade surplus of US$34.8 billion. The Manufacturing Purchasing Managers' Index decreased from 49.7 in July 2019 to 49.5 in August 2019.

	January to August 2019	
	Value	**Growth (%)**
Gross domestic product *(RMB billion)*	45,093	6.3
GDP per capita *(RMB)*	n/a	n/a
Fixed asset investment *(RMB billion)*	40,063	5.5
Added-value of industrial output	n/a	5.6
Consumer goods retail sales	26,218	8.2
Inflation rate *(%)*	n/a	2.4

Table 4: Major economic indicators of China
Source: HKTDC

8. INDUSTRY OVERVIEW

This section of the industry overview is based on the research conducted by DBS Group Research ("**DBS Research**") dated December 2018, namely "*DBS Asian Insights — China Data Centre Sector*".

Data Centre Supply in China

In China, internet data centre licenses are restricted to the Chinese entities. Foreign companies have to form partnerships with local players to offer cloud services. They are also required to host their content in China. According to DBS Research, there were 1,641 data centres in China, amounting to 1.24 million cabinets at the end of 2016. The average utilisation was low at approximately 50% due to the mismatch of supply and demand within the country. Capacity under construction was 437 data centres with approximately 1.25 million cabinets. Around 85% of new capacity will come from large and ultra-large data centres which are mainly located in lower-tier data centre cities. Small-to-mid data centres under construction, which are mainly located in developed cities and top-tier data centre cities, only contribute 15% of total capacity under construction.

	Scale of data centres	Numbers in operation	Numbers under construction
Number of data centres	Ultra-large[1]	16	40
	Large[2]	109	131
	Small-Mid[3]	1,516	266
	Total	**1,641**	**437**
Number of cabinets	Ultra-large[1]	141,000	496,000
	Large[2]	352,000	562,000
	Small-Mid[3]	751,000	192,000
	Total	**1,244,000**	**1,250,000**
Utilization rate	Ultra-large[1]	29.01%	n/a
	Large[2]	50.16%	n/a
	Small-Mid[3]	54.67%	n/a
	Total	**50.69%**	**n/a**

Table 5: Data centre capacities and project under construction in China (2016)
Source: DBS Research

Notes:

1. Data centres with more than 10,000 cabinets.

2. Data centres with more than 3,000 cabinets.

3. Data centres with fewer than 3,000 cabinets.

Data centre service providers are categorised into (i) telecom carriers and; (ii) carrier-neutral data centre operators. Telecom operators are the major players in the data centre market whereas China Telecom has the largest market share of 32%. Major carrier-neutral data centre operators are GDS, 21Vianet and Sinnet.

Mismatch of Data Centre Supply and Demand in China

From the above data, there have been market concerns of oversupply in China's data centre market due to overall low utilisation rate of approximately 50%. However, study from DBS Research suggests that there is a geographical mismatch of supply and demand, which is more relevant to analysing the market dynamics, pricing and evaluating a data centre portfolio. The strong demand for data centre services is mainly from Beijing, Shanghai, Guangzhou and Shenzhen (top-tier data centre cities). Nevertheless, new data centre supply in these cities is limited due to scarcity of land and power supplies. The utilisation rate is high at over 80% for established data centres in these top-tier data centre cities and demand will continue to grow at an annual growth rate of over 30%. The estimated demand for data centres will be 832,000 cabinets, which is 33% higher than the forecasted capacity of 627,000 cabinets in 2018. Proximity favours network stability and latency, which are crucial factors for mission-critical and time-sensitive tasks.

Figure 1: Regional data centre supply and demand in China (2018)
Source: DBS Research

Business Models of Data Centres

Data centre business models can be generally categorized into (i) wholesale data centres and; (ii) retail data centres, of which both are riding on the uprising demand trend in China.

Wholesale data centre operators usually lease their space to one or a few large clients with highly customised specifications. For example, cloud players typically require higher power density. Major services include physical security (entrance control), uninterrupted power supply and air conditioning. Contracts tend to be longer, up to 5–10 years. Customer stickiness and retention rates are high. Prices should be lower because electricity and bandwidth costs are usually billed separately to customers. The target customers are usually cloud service providers, retail colocation companies and large organisations or corporations.

Retail data centre operators usually lease individual racks or cabinets to clients. The facilities are usually designed and standardised by the operators. Major services include physical security, uninterruptible power supply, air conditioning, telecom and proximity services. Customers tend to utilise more value-added services, such as connectivity enhancement. Contracts tend to be shorter at 1–3 years. Customer stickiness and retention rates are also high but lower than that of wholesale data centres. The prices are usually higher due to value-added services. Electricity and bandwidth pricing are standardised and packaged with rack space. The target customers are usually small and medium enterprises, internet content companies and social media application developers.

Current and Projected Data Centre Market Size in China

According to DBS Research, total revenue for the internet data centre market in China grew by 32% to RMB94 billion in 2017. It is estimated that total revenue from data centre services was RMB61 billion in 2017, accounting for approximately 65% of the internet data centre market. The remaining 35% includes content delivery network and cloud related services etc. The expected demand for data centres will grow in a manner with approximately 20% to 30% per annum. in the next 3 years. The corresponding major growth driver is analysed to be the rapid increase in demand for the infrastructure-as-a-service in China, which is estimated to grow at annual rate of more than 100%.

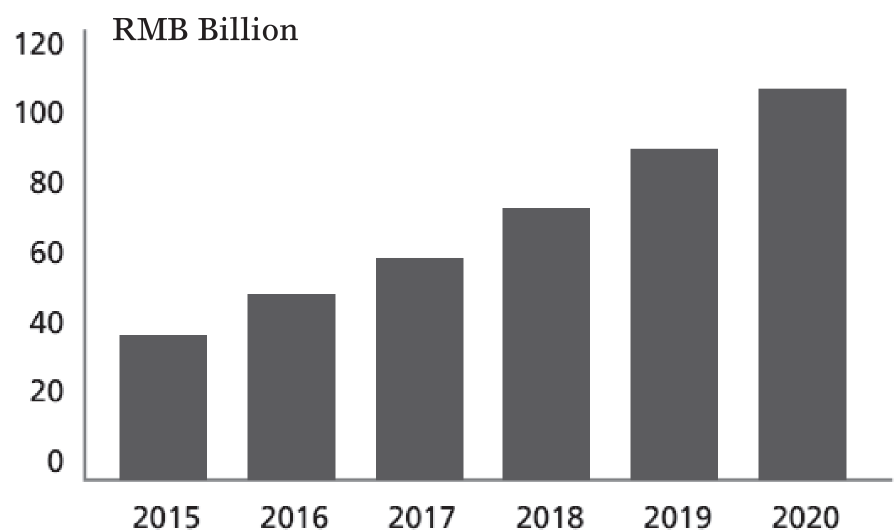

Figure 2: Data centre market size in China (2015–2020E)
Source: DBS Research

9. INVESTIGATION AND ANALYSIS

Our investigation included discussion with the Management in relation to historical performance, operations and industry, and other relevant information of the Target Group. In addition, we have made relevant enquiries and obtained such further information including financial and business information, and statistical figures from other sources as we consider necessary for the purpose of this valuation. As part of our analysis, we have made reference to financial information, projections and other pertinent data concerning the Target Group provided to us by the Management.

The valuation of the Target Company requires consideration of all pertinent factors, which affect the operations of the business and its ability to generate future investment returns. The factors considered in this valuation include the following:

- Nature and operations of the Target Group;
- Historical information of the Target Group;
- Financial condition of the Target Group;
- Proposed business development of the Target Group;
- Nature and terms of the relevant agreements, contracts, licenses, permits and rights;
- Regulations and rules of the relevant industries;
- Economic and industry data affecting the markets and other dependent industries;
- Market-derived investment return(s) of similar business; and
- General global economic outlook.

10. GENERAL VALUATION APPROACHES AND METHODS

There are three generally accepted approaches to value a business subject:

- Market approach;
- Asset approach; and
- Income approach.

Under each approach, a number of methods are available which can be used to assess the value of a business subject. Each method uses a specific procedure to determine the business value.

Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted in valuing businesses that are similar in nature. It is also common practice to employ a number of valuation methods under each approach. Therefore, no one business valuation approach or method is definitive. A more detailed discussion of each approach is presented in the *ADDENDUM I — VALUATION APPROACHES* of this report.

11. VALUATION ANALYSIS

11.1. Methodology

Having considered the business nature, assets type, specialty of its operations, assets owned and liabilities assumed and industry of the subject, we have adopted the income approach and rejected the use of the asset and market approaches based on the following reasons:

- On a going concern basis, the cost of reproducing and replacing its assets ignore the future economic benefits of the business as a whole, and thus the asset approach is not a good and relevant valuation method;

- There are insufficient relevant comparable transactions to form a reliable basis for the opinion of value, and therefore the Comparable Transaction Method under the market approach is not a good and relevant valuation method;

- The Target Group is currently considered as a service provider which possibly had intangibles of economic value that were not measured and reported on its latest accounts, including but not limited to the Permit. The use of current net book value ignores the potential economic benefit bought by any non-reported intangible assets and possibly underestimates the true value of the Target Group, and thus Price-to-Net Book Value ratio ("**P/B**") under the Guideline Public Company Method of the market approach is not a good and relevant indicator;

- Sales does not capture the cost of operations which does not necessarily indicate the profitability of the subject, and thus Enterprise Value-to-Sales ratio ("**EV/S**") and Price-to-Sales ratio ("**P/S**") under the Guideline Public Company Method of the market approach is not a good and relevant indicator; and

- As the latest annual financial results of the Target Group failed to capture the potential growth driven by the Distribution Agreement and the LOIs and the additional potential sales and purchases of storage rack under negotiation, valuation based on historical financial metrics, including Enterprise Value-to-Earnings before Interest, Taxes, Deprecation & Amortization ratio ("**EV/EBITDA**"), Enterprise Value-to-Earnings before Interest & Taxes ratio ("**EV/EBIT**") and Price-to-Earning ratio ("**P/E**") under the Guideline Public Company Method of the market approach is not a good and relevant indicator.

Based on the above concerns, we have therefore relied solely on the income approach in determining our opinion of value as reasonable future projections could be estimated on the basis of historical financial results and potential future benefits.

It is simple adopting the income approach to state the value of a business in present value terms. This method is well accepted by most analysts and practitioners. One common method under the income approach is by looking from the perspective of the firm's investors including shareholders and debtholders. That is the free cash flow available to the business as a whole.

11.2. Projections

Projections were provided and prepared by the Management for 11 months ended 31 July 2020, and for the year ended 31 July 2021, 2022 and 2023. We have reviewed the calculation and had discussion with the Management regarding the assumptions and basis of the projections as below:

	2020[1]	**2021**	**2022**	**2023**
HK$'000				
Revenue	28,529	39,557	44,343	48,820
Operating expenses				
— Data centre operating expenses[2]	(21,814)	(30,428)	(34,431)	(38,391)
— Additional tax surcharges	(78)	(104)	(113)	(119)
— Selling, maintenance and administration expenses	(1,691)	(2,158)	(2,320)	(2,485)
EBT	4,946	6,867	7,479	7,825
Income tax	(1,236)	(1,717)	(1,870)	(1,956)
Net profit	3,709	5,150	5,610	5,868
Changes in non-cash net working capital	(1,173)	430	324	375
Free cash flow to firm ("**FCFF**")	2,537	5,580	5,934	6,243

* *Figures above are subject to rounding*

Table 6: Projections (2020E–2023E)
Source: The Management

Note:

1. As the year end cutoff date of the Target Group is 31 July, the forecast in the first year as of the Valuation Date of 31 August 2019 represents eleven month projected result ended 31 July 2020.

2. The expenses include storage rack rental expenses and data centre staff cost.

Revenue

Revenue primarily includes ongoing monthly income from the storage rack sub-leasing business in Shanghai and the new sales from the storage rack distribution business in Beijing. Increase in revenue in the projections is based on the following considerations by the Management: (i) the demand of data centre in top-tier data centre cities including Shanghai and Beijing as stated in *Section 8 INDUSTRY OVERVIEW* in which the utilization rate is above 80% for established data centres and the annual growth rate of demand is expected to be over 30%; (ii) the historical sales and track record of sub-leasing of storage racks in Shanghai; (iii) potential sales and purchase under the LOIs; and (iv) the demand from the potential corporate clients under current negotiation as presented in *Section 5 BUSINESS OVERVIEW*:

	2020[1]	**2021**	**2022**	**2023**
HK$'000				
Sub-leasing of storage racks in Shanghai				
— Revenue	26,631	30,301	30,610	30,610
— Cumulative number of storage racks sub-leased[2]	320	332	332	332
— Utilization rate	93%	97%	97%	97%
Distribution of storage racks in Beijing				
— Revenue	1,898	9,256	13,733	18,210
— Cumulative number of storage racks distributed[3]	90	150	210	270
Total	28,529	39,557	44,343	48,820

Table 7: Revenue projections by each segment (2020E–2023E)
Source: The Management

Note:

1. This is the projected eleven-month result.

2. As of the Valuation Date, 302 units of storage racks in Shanghai have been sub-leased by entering into the signed contracts with a weighted average remaining contractual life of approximately 1.1 years, representing approximately 87.8% of the total existing capacity. Based on historical experience, considering the well-established customer relationship and the long-term stable business collaboration, the Management is of the best belief that it is very likely to retain the current customer base and to further renew the sub-leasing of the storage racks in Shanghai upon expiry.

3. The projected number of storage racks distributed in FY2020 is based on the purchase procured by the Distribution Client pursuant to the Storage Rack Purchase LOI. Regarding the additional number of storage rack to be distributed from FY2021 to FY2023, the Management has considered that (i) the annual growth rate of market demand of data centre in top-tier cities like Shanghai and Beijing is over 30%; (ii) the additional sales to potential

corporate clients by the Sub-distribution Agent pursuant to the Sub-distribution LOI; and (iii) the historical monthly average sales of approximately 7.5 storage racks by the OPCO for twelve months ended 31 August 2019. For conservative and prudent basis, the Management has estimated and projected a number of 5 storage racks to be distributed each month, equivalent to a total distribution of 60 storage racks per annum.

Operating Expenses

Major operating expenses include (i) data centre operating expenses composed by rental payment, connection fee and associated electricity charges to the data centre owners, and data centre staff cost, which are based on the contractual terms and historical track record; (ii) additional tax surcharges; and (iii) selling expenses, maintenance expenses and administrative expenses, which are based on actual costs incurred in the latest financial period or historical cost to sales ratios, and are projected to grow at the historical GDP or inflation rate.

Tax and Surcharges

The Target Group is subject to the below tax and surcharges:

Value-added tax	6.00%
Urban construction and maintenance tax	7.00%
Education surcharge	3.00%
Local educational surcharge	2.00%
Income tax	25.00%

Table 8: Tax and surcharges payable by the Target Group
Source: The Management

Profit Margins

The EBT margin and net profit margin of the Target Group averaged around 17% and 13%, which are both within the range of the corresponding latest historical margin ratios during the Track Record Period.

11.3. Discount Rate

A discount rate represents the total expected rate of return that an investor would demand on the purchase price of an ownership interests in an asset given the level of risk inherent in that ownership interests. In this valuation, the discount rate applied to the cash flow streams attributable to the Target Group is the weighted average cost of capital (“**WACC**”). A more detailed discussion is presented in *ADDENDUM II — DISCOUNT RATE DERIVATION*.

The following criteria have been adopted for the selection of comparable companies:

- Public listing location in Hong Kong, the PRC and the United States;
- Principal place of business based in China (including Hong Kong); and

- Major revenue contribution from the operation and management of internet data centres and provision of related services.

Based on the above searching criteria, on best effort basis, the exhaustive list of selected comparable companies which are engaged in the similar business include:

Comparable name	**Bloomberg stock code**
SUNeVision Holdings Limited	1686 HK
Gosun Holding Co., Ltd.	000971 CH
Beijing Sinnet Technology Company Limited	300383 CH
Shanghai AtHub Co., Ltd.	603881 CH
GDS Holdings Limited	GDS US
21Vianet Group, Inc.	VNET US

Table 9: List of comparable companies
Source: Bloomberg

The principal activities of the selected comparable companies are set out on *ADDENDUM III — COMPARABLE COMPANIES DESCRIPTION* of this report. We have made a comparison between the Target Group and the above shortlisted comparable in terms of geographical and business segments. All the above identified comparable produced income from the operation and management of internet data centres and provision of related services in the PRC, including but not limited to hardware supply, facility management and security control within the data centres. Set forth below are the revenue distribution among the Target Group and the shortlisted comparable companies based on the latest available annual financial results:

	Target Group	**1686 HK**	**000971 CH**	**300383 CH**	**603881 CH**	**GDS US**	**VNET US**
By geographical segment							
— China (including Hong Kong)	100%	100%	100%	100%	100%	100%	100%
By business segment							
— Operation of internet data centres and provision of related services	100%	83%	57%	73%	100%	100%	100%

Table 10: Comparative analysis of the comparable and subject valuation
Source: Bloomberg

Our analysis suggested that a discount rate of 13.43% to be appropriate for valuing the Target Group as at the Valuation Date.

11.4. Non-cash Working Capital

The non-cash working capital turnover rates are estimated by making reference to the historical level of the Target Group as set forth below:

Account receivable turnover rate	21.10%
Inventory turnover rate	n/a[1]
Account payable turnover rate	33.31%

Table 11: Non-cash working capital of the Target Group
Source: The Management

Note:

1. This is not applicable as the Target Group did not own any inventory.

11.5. Capital Investment

Pursuant to the Management, considering the business models of continuous sub-leasing and distribution of storage racks, the Target Group requires minimum capital investment over the projections.

11.6. Terminal Growth

The terminal growth rate adopted is 3.00%, which is based on historical GDP and inflation rate.

11.7. Marketability Discount

We have adopted a lack of marketability discount ("**DLOM**") of approximately 15.80% for the Target Group as 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 held company. The discount is benchmarked to the 2018 edition of the *Stout Restricted Stock Study Companion Guide*, a research study to assist the valuation profession in determining DLOM.

11.8. Non-operating Assets and Liabilities

In computing the value of the Target Group, we have adjusted the assessed enterprise value for the non-operating assets and liabilities as at the Valuation Date. Based on the unaudited financial results provided by the Management, the non-operating assets and liabilities are as follows:

	OPCO	**Target Company and other holding subsidiaries of the Target Group**
	HK$'000[1]	*HK$'000*
Excess cash	3,501	1,593
Debt	—	4,220
Other non-operating assets	455	7
Other non-operating liabilities	7,609	20

* *Figures above are subject to rounding*

Table 12: Non-operating assets and liabilities of the Target Group
Source: The Management

Note:

1. Exchange rate conversion at RMB1 = HK$1.10 as at the Valuation Date.

11.9. Calculation

Based on the above parameters and inputs, the calculation of this valuation is presented as follows:

		Formula	**Input value**
			HK$'000
(1)	Sum of discounted FCFF		15,496
(2)	Present value of terminal value[1]		38,143
(3)	Enterprise value	(1) + (2)	53,640
(4)	Net non-operating liabilities of the Target Group[2]		7,167
(5)	Firm value before DLOM	(3) - (4)	46,472
(6)	DLOM	(5) x 15.80%	7,343
(7)	Firm value	(5) - (6)	39,130
(8)	Surplus cash of the Target Group[3]		874
(9)	100% equity value of the Target Group	(7) + (8)	40,004

* *Figures above are subject to rounding*

Table 13: Calculation basis of the valuation
Source: Graval and the Management

Notes:

1. Terminal value = [FY2023 net profit x (1 + terminal growth rate) + terminal-year changes in non-cash net working capital]/(discount rate — terminal growth rate).

2. This is the sum of non-operating assets and the non-operating liabilities.

3. This is the sum of excess cash and debts.

12. VALUATION ASSUMPTIONS

- The Proposed Reorganization was completed prior to the Valuation Date;

- In addition to the agreements and contracts stated in *Section 3 SOURCES OF INFORMATION*, for business expansion, the Management will procure further cooperation between the Target Group and the potential clients currently under negotiation by entering into a contractual relationship;

- The Target Group is assumed to have no contingent assets and liabilities or any other off-balance sheet items which should be recognized or valued attributable to the Target Group;

- To continue as a going concern, the Target Group will successfully carry out all necessary activities for the development of its business;

- The contractual parties of the relevant agreements will act in accordance with the terms and conditions of the agreements and understandings between the parties and will be renewable upon expiry, if applicable;

- The availability of financing will not be a constraint on the forecast growth of the Target Group's operations;

- The audited/unaudited financial information of the Target Group as supplied to us have been prepared in a manner which truly and accurately reflect the financial position of the Target Group as at the respective balance sheet dates;

- Market trends and conditions where the Target Group operates will not deviate significantly from the economic forecasts in general;

- Key management, competent personnel and technical staff will all be retained to support ongoing operations of the Target Group;

- There will be no material changes in the business strategy of the Target Group and its expected operating structure;

- Interest rates and exchange rates in the localities for the operations of the Target Group will not differ materially from those presently prevailing;

- All relevant consents, business certificates, licenses or other legislative or administrative approvals from any local, provincial or national government, or private entity or organization required to operate in the localities where the Target Group operates or intends to operate will be officially obtained and renewable upon expiry unless otherwise stated; and

- There will be no major changes in the political, legal, economic or financial conditions and taxation laws in the localities in which the Target Group operates or intends to operate, which would adversely affect the revenues and profits attributable to the Target Group.

13. LIMITING CONDITIONS

Our conclusion of the value is derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

This valuation reflects facts and conditions existing as at the Valuation Date. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

To the best of our knowledge, all data set forth in this report is reasonable and accurately determined. The data, opinions, or estimates as identified or being furnished by others, which have been used in formulating this analysis, are gathered from reliable sources, however, no guarantee is made nor liability assumed for their accuracy.

We have made reference to the information provided by the Management in arriving at our opinion of value. We are not in the position to verify the accuracy of all information provided to us. However, we have had no reason to doubt the truth and accuracy of the information provided to us and that any material facts have been omitted from the information provided. No responsibility for the operational and financial information that have not been provided to us is accepted.

We have not investigated the title to or any legal liabilities of the Target Group and have assumed no responsibility for the title to the Target Group.

Save as and except for the purpose stated above, neither the whole nor any part of this report nor any reference thereto may be included in any document, circular or statement without our written approval of the form and context in which it will appear.

In accordance with our standard practices, we must state that this report is for the exclusive use of the party to whom it is addressed and for the specific purpose stated above. Furthermore, the report and conclusion of value(s) are not intended by the author, and should not be construed by the reader, to be investment advice in any manner whatsoever. The conclusion of value(s) represents the consideration based on information furnished by the Management/engagement parties and other sources. No responsibility is accepted to any third party for the whole or any part of its contents.

Actual transactions involving the subject assets/business might be concluded at a higher or lower value, depending upon the circumstances of the transaction and the business, and the knowledge and motivation of the buyers and sellers at that time.

We would particularly point out that our valuation was based on the information such as company background, business nature, market share, and future prospect as well as the projections of the Target Group provided to us.

14. REMARKS

The Management has reviewed and agreed on the report and confirmed the factual content of the report.

We hereby confirm that we have neither present nor prospective interests in the Target Group, the Group and its holding companies or the value reported herein.

15. OPINION OF VALUE

Based on the investigation and analysis stated above and on the valuation method employed, we are of the opinion that the fair market value of the 100% equity interests in the Target Company as at the Valuation Date was in the sum of **HK$40,004,000 (HONG KONG DOLLARS FORTY MILLION AND FOUR THOUSAND ONLY).** A sensitivity check is presented *in ADDENDUM IV — SENSITIVITY ANALYSIS*.

Respectfully submitted,
For and on behalf of
GRAVAL CONSULTING LIMITED
Kelvin C.H. Chan, *FCCA, CFA, MRICS*
Chairman

Analysed and reported by : **Damon S.T. Wan,** *CFA, FRM*
Director

: **Willy T.Y. Yu**
Analyst

ADDENDUM I — VALUATION APPROACHES

Market Approach

The market approach values a business entity by comparison of the prices at which other similar business nature companies or interests changed hands in arm's length transactions. The underlying theory of this approach is that one would not pay more than one would have to pay for an equally desirable alternative. By adopting this approach, we will first look for an indication of value from the prices of other similar companies or equity interests in companies that were sold recently.

The right transactions employed in analysing for indications of value need to be sold at an arm's length basis, assuming that the buyers and sellers are well informed and have no special motivations or compulsions to buy or to sell.

The derived multiples (most commonly used are: price to earnings, price to revenues and price to book multiple) based on the analysis of those transactions are then applied to the fundamental financial variables of the subject business entity to derive an indication of value.

Asset Approach

The asset approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business entity and equals the value of its invested capital (equity and debt capital). In other words, the value of the business entity is represented by the money that has been made available to purchase the business assets needed.

This money comes from investors who buy stocks of the business entity (equity) and investors who lend money to the business entity (debt). After collecting the total amounts of money from equity and debt, and converted into various types of assets of the business entity for its operations, the sum of such assets equals the value of the business entity.

From a valuation perspective, we will restate the values of all types of assets of a business entity from book values, i.e. historical cost minus depreciation to appropriate standards of value. After the restatement, we can identify the indicated value of the business entity, or, by applying the accounting principle ''assets minus liabilities'', to arrive at the value of the equity interests of the business entity.

Income Approach

The income approach focuses on the economic benefits generated by the income producing capability of a business entity. The underlying theory of this approach is that the value of a business entity can be measured by the present worth of the economic benefits to be received over the life of the business entity.

Based on this valuation principle, the income approach estimates the future economic benefits and discounts these benefits to its present value using a discount rate appropriate for the risks associated with realizing those benefits.

Alternatively, this can be calculated by capitalizing the economic benefits to be received in the next period at an appropriate capitalization rate. This is subject to the assumption that the business entity will continue to maintain stable economic benefits and growth rate.

ADDENDUM II — DISCOUNT RATE DERIVATION

WACC comprises of two components: cost of debt and cost of equity. It is calculated taking into account the relative weights of each component of the capital structure. It is computed using the formula below:

WACC = We x Re + Wd x Rd x (1-T)

in which

Re = cost of equity

Rd = cost of debt

We = portion of equity value to enterprise value

Wd = portion of debt value to enterprise value

T = corporate tax rate

The cost of equity is developed through the application of the Capital Asset Pricing Model ("**CAPM**") with reference to the required rates of return demanded by investors for similar projects. The CAPM states that an investor requires excess returns to compensate for any risk that is correlated to the risk in the return from the stock market as a whole but requires no excess return for other risks. Risks that are correlated to the risk in the return from the stock market as a whole are referred to as systematic and measured by a parameter called beta, whereas other risks are referred to as nonsystematic. A major requirement in generating the cost of equity is to identify companies that are comparable to the business related to the subject in terms of business nature and associated risks.

The cost of equity for the business related to the subject is the sum of the risk-free rate return, the equity risk premium required by investors to compensate for the systematic risk assumed with adjustments for increment for risk differentials of the business related to the subject versus those of the comparable companies, if applicable, including risk adjustments for size ("**Small Capitalization Risk Premium**"), lack of marketability of privately held companies ("**Liquidity Risk Premium**") and other risk factors in relation to the comparable companies ("**Company Specific Risk Premium**").

Discount rate calculation

	Basis	Input
(1) Risk free rate		3.06%
(2) Equity beta		1.20
(3) Market risk premium		7.32%
(4) Size premium		3.39%
(5) Start-up risk premium		1.00%
(6) Cost of equity	(1) + (2) x (3) + (4) + (5)	16.26%
(7) Weight of equity		77.51%
(8) Cost of debt		4.90%
(9) After-tax cost of debt		3.68%
(10) Weight of debt		22.49%
(11) Discount rate	(6) x (7) + (9) x (10)	13.43%

* *Figures above are subject to rounding*

Table 14: Discount rate input and basis
Source: Bloomberg

Notes:

1. This is the 10-year yield of China Government Bond, which is sourced from Bloomberg.

2. This is the average of adjusted beta of comparable companies, which is sourced from Bloomberg.

3. This is the adjusted equity market risk premium, which is sourced from Bloomberg and Damodaran Online, a common and widely used information source of valuation, corporate finance and investment management.

4. This is to account for the higher return of smaller company stocks, which is based on the research published by Duff & Phelps, LLC.

5. This is the increased required return for start-up risk in relation to the new operation location in Beijing.

6. Cost of equity = risk free rate + equity beta x market risk premium + size premium + start-up risk premium.

7. This is based on weight of equity of comparable companies, which is sourced from Bloomberg.

8. This is the benchmark lending rate currently fixed by the People's Bank of China for term loans above five years, which is sourced from Bloomberg.

9. After-tax cost of debt = cost of debt x (1 - corporate income tax rate).

10. This is based on weight of debt of comparable companies, which is sourced from Bloomberg.

11. This is based on weighted average cost of capital.

ADDENDUM III — COMPARABLE COMPANIES DESCRIPTION

SUNeVision Holdings Limited — 1686 HK

SUNeVision Holdings Limited, through its subsidiaries, operates Internet services centres and information technology facilities. The company also designs and installs SMATV, structural cabling and security systems as well as provides system development, solutions, and management services.

Gosun Holding Co., Ltd. — 000971 CH

Gosun Holding Co., Ltd. designs, and operates cloud infrastructure platforms, cloud storage centres, and other related services to global customers.

Beijing Sinnet Technology Company Limited — 300383 CH

Beijing Sinnet Technology Company Limited provides customers with broadband access services, internet data centre and its value-added services, and other internet integrated services.

Shanghai AtHub Co., Ltd. — 603881 CH

Shanghai AtHub Co., Ltd. is a data center service provider. The company provides custom scale data centre services within the cloud computing industry.

GDS Holdings Limited — GDS US

GDS Holdings Limited operates as a leading developer and operator of high-performance data centres in China. The company offers colocation and managed services, including direct private connection to major public cloud platforms. GDS Holdings serves large Internet companies, financial institutions, telecommunications, and IT service providers.

21Vianet Group, Inc. — VNET US

21Vianet Group, Inc. provides carrier-neutral Internet data centre services. The company hosts its customers' servers and networking equipment, as well as provides interconnectivity to enable customers to deliver data across the Internet. 21Vianet conducts business in Beijing, China.

ADDENDUM IV — SENSITIVITY ANALYSIS

Sensitivity analysis was performed to test the sensitivity of the value to change of certain underlying variables which are considered to be risk exposures of the valuation subject, while holding other parameters unchanged:

	HK$'000
Discount rate	
1% increase	36,093
1% decrease	44,743
Terminal growth rate	
1% increase	43,895
1% decrease	36,794

ADDENDUM V — STAFF BIOGRAPHY

Kelvin C.H. Chan, *FCCA, CFA, MRICS*

Chairman

Mr. Kelvin C.H. Chan is a CFA Charterholder, a member of RICS and a fellow member of the Association of Chartered Certified Accountants. He has been working in the financial industry since 1996, with experiences covering the area of corporate banking, equity analysis and business valuation.

Damon S.T. Wan, *CFA, FRM*

Director

Mr. Damon S.T. Wan is a CFA Charterholder and Certified FRM and has been working in the professional valuation field since 2008. He is experienced and specialized in performing financial instruments, intangible assets and business valuations for the purposes of corporate advisory, merger & acquisition and public listing.

Willy T.Y. Yu

Analyst

Mr. Willy T.Y. Yu is an analyst who has been working in the banking and financial industry since 2014. He possesses experience in the aspects of corporate credit risk, cash trading and business valuation.

As the valuation of the fair market value on the Target Group is based on the discounted future cash flows method, it is deemed to be a profit forecast under the Listing Rules. The following is the text of a letter from each of Euto Capital Partners Limited and BDO Limited on such valuation for the purpose of incorporation in this circular.

1. LETTER FROM EUTO CAPITAL PARTNERS LIMITED

Euto 裕韜
Capital Partners

The Board of Directors
Zhi Sheng Group Holdings Limited
Room 747, 7/F
Star House
Salisbury Road
Tsim Sha Tsui
Hong Kong

13 December 2019

Dear Sirs,

We refer to the valuation report prepared by Graval Consulting Limited (the "**Independent Professional Valuer**") in relation to the fair market value of 100% equity interests in Polyqueue Limited ("**Target Company**" and together with its subsidiaries, "**Target Group**") as at 31 August 2019 (the "**Valuation**"). The principal assumptions upon which the Valuation is based are included in the circular of Zhi Sheng Group Holdings Limited (the "**Company**") dated 13 December 2019 (the "**Circular**"), of which this letter forms part. Capitalised terms used herein shall have the same meanings as those defined in the Circular unless the context requires otherwise.

We note that the Valuation has been developed based on discounted cash flow analysis which is regarded as profit forecast (the "**Profit Forecast**") under Rule 19.61 of the GEM Listing Rules. We have discussed with the management of the Company and the Independent Valuer regarding the bases and assumptions of the Profit Forecast to arrive at the Valuation and have reviewed the letter dated 13 December 2019 issued by BDO Limited, the reporting accountants of the Company, as set out in Appendix VI to the Circular in regard to their work performed on the Profit Forecast. As the relevant bases and assumptions are about future events which may or may not occur, the actual financial performance of the Target Company may or may not achieve as expected and the variation may be material.

On the basis of the foregoing, we are of the opinion that the Profit Forecast underlying the Valuation, for which the Directors are solely responsible, has been made after due and careful enquiry. Our opinion has been given for the sole purpose of compliance with Rule 19.62(3) of the GEM Listing Rules and for no other purpose.

Yours faithfully,
For and on behalf of
Euto Capital Partners Limited
Manfred Shiu
Director

2. LETTER FROM BDO LIMITED

BDO

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永安中心25樓

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE ARITHMETICAL ACCURACY OF THE CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF 100% EQUITY INTERESTS IN POLYQUEUE LIMITED

To the directors of Zhi Sheng Group Holdings Limited

In accordance with our agreed terms of engagement, we have examined the arithmetical accuracy of the calculations of the discounted future estimated cash flows (the "**Underlying Forecast**") on which the business valuation (the "**Valuation**") dated 13 December 2019 prepared by Graval Consulting Limited in respect of the appraisal of the fair value of 100% equity interests in Polyqueue Limited (the "**Target Company**") as at 31 August 2019 is based. The Valuation is set out in Appendix V to the circular of Zhi Sheng Group Holdings Limited (the "**Company**") dated 13 December 2019 (the "**Circular**") in connection with the proposed acquisition of 100% equity interests in the Target Company. The Valuation based on the Underlying Forecast is regarded as a profit forecast under Rule 19.61 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "**GEM Listing Rules**").

Directors' responsibility for the Underlying Forecast

The directors of the Company (the "**Directors**") are responsible for the preparation of the Underlying Forecast in accordance with the bases and assumptions approved by the Directors, a summary of which is set out in Appendix V to the Circular. This responsibility includes carrying out appropriate procedures relevant to the preparation of the Underlying Forecast for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

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 Hong Kong Institute of Certified Public Accountants ("**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' responsibility

Our responsibility is to report, as required by paragraph 29(2) of Appendix 1B of the GEM Listing Rules, on the arithmetical accuracy of the calculations of the Underlying Forecast on which the Valuation is based.

We conducted our work in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) ''Assurance Engagements Other Than Audits or Reviews of Historical Financial Information'' issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations is concerned, the Directors have properly compiled the Underlying Forecast in accordance with the bases and assumptions as set out in the Valuation. We performed procedures on the arithmetical accuracy and compilation of the Underlying Forecast in accordance with the bases and assumptions. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, based on the foregoing, the Underlying Forecast, so far as the arithmetical accuracy of the calculations is concerned, has been properly compiled in all material respects in accordance with the bases and assumptions approved by the Directors as set out in Appendix V to the Circular.

Other Matters

Without qualifying our opinion, we draw your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the Underlying Forecast is based and our work does not constitute any valuation of the Target Company or an expression of an audit or review opinion on the Valuation.

The Underlying Forecast does not involve the adoption of accounting policies. The Underlying Forecast depends on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under paragraph 29(2) of Appendix 1B of the GEM Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

BDO Limited
Certified Public Accountants

Hong Kong

13 December 2019

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. 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 aspects 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. SHARE CAPITAL

As at the Latest Practicable Date

Authorised:		*HK$*
1,500,000,000	Shares at nominal value of HK$0.01 each	15,000,000
Issued and fully-paid or credited as fully-paid:		
804,000,000	Shares at nominal value of HK$0.01 each	8,040,000

All the Shares in issue rank pari passu with each other in all respects including as regards to dividends and voting rights.

3. DISCLOSURE OF INTERESTS

(a) 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 and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long position in the Share and underlying Shares of the Company

Name of Director	Capacity/nature of interest	Number of ordinary Shares held/ interested	Approximate percentage of interest
Mr. Yi Cong	Interest of a spouse *(Note)*	116,580,000	14.50%

Note: Mr. Yi Cong is the spouse of Ms. Zhang Gui Hong. Accordingly, Mr. Yi Cong is deemed to be interested in all the shares which Ms. Zhang Gui Hong is interested for the purpose of Part XV of the Securities and Futures Ordinance.

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) (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 to be entered in the register referred to therein pursuant to section 352 of the SFO; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules.

(b) Substantial Shareholders and other persons' interests in Shares and underlying Shares

As at the Latest Practicable Date, so far as any Directors are aware, the interests or short positions owned by the following parties (other than the Directors or chief executives of the Company) in the Shares or underlying Shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO were as follows:

Long position in the Shares and underlying Shares of the Company

Name of Shareholder	Capacity/nature of interest	*Notes*	Number of ordinary Shares held/ interested	Approximate percentage of interest
Sun Universal Limited ("**Sun Universal**")	Beneficial owner	—	245,300,400	30.51%
Mr. Ma	Interest in a controlled corporation	*1*	245,300,400	30.51%
Ms. Hung Fung King Margaret	Interest of spouse	*2*	245,300,400	30.51%
Brilliant Talent Global Limited	Beneficial owner	*3*	116,580,000	14.50%
Ms. Zhang Gui Hong	Interest in a controlled corporation	*3*	116,580,000	14.50%

Notes:

1. Such shares are held by Sun Universal Limited and its 100% equity interest is owned by Mr. Ma. Mr. Ma is deemed to be interested in the shares held by Sun Universal under Part XV of the SFO.

2. Ms. Hung Fung King Margaret is the spouse of Mr. Ma. Accordingly, Ms. Hung Fung King Margaret is deemed to be interested in the shares held by Mr. Ma for the purpose of Part XV of the SFO.

3. The entire issued share capital of Brilliant Talent Global Limited is owned by Ms. Zhang Gui Hong. Ms. Zhang Gui Hong is deemed to be interested in the shares held by Brilliant Talent Global Limited for the purpose of Part XV of the SFO.

Save as disclosed above and as at the Latest Practicable Date, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or chief executives of the Company) in the Shares or underlying Shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

4. DIRECTORS' SERVICE CONTRACTS

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

5. EXPERT'S QUALIFICATION AND CONSENT

The following are the qualifications of the experts who have given opinion or advice which is contained in this circular:

BDO Limited	Certified public accountants
Graval Consulting Limited	Independent professional valuer
GFE Law Office	PRC legal advisers
Euto Capital Partners Limited	a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

Each of the above experts has given and confirmed that it has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, report, valuation certificate, advice, opinion and/or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the above experts did not have any shareholding in any member of the Enlarged Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Enlarged Group.

As at the Latest Practicable Date, each of above experts did not have any interest, either directly or indirectly, in any assets which have been since 31 December 2018 (being the date to which the latest published audited consolidated financial statements of the Company were made up) acquired or disposed of by or leased to any member of the Enlarged Group, or were 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, so far as the Directors were aware of, no member of the Enlarged Group was involved in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Enlarged Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Enlarged Group within the two years immediately preceding the date of this circular and are or may be material:

(i) the placing agreement (the "**Placing Agreement**") dated 6 June 2019 and entered into between the Company and Celestial Capital Limited (the "**Placing Agent**") pursuant to which the Placing Agent has conditionally agreed to place, on a best effort basis and on behalf of the Company, up to 134,000,000 new Shares (the "**Placing Share(s)**") to not less than 6 placees, whom are all Independent Third Parties at the Placing Price of HK$0.235 per Placing Share (the "**Placing**");

(ii) the supplemental agreement to the Placing Agreement dated 10 June 2019 and entered into between the Company and the Placing Agent pursuant to which the parties agree to amend the long stop date for the fulfillment of all the conditions of the Placing;

(iii) the Sale and Purchase Agreement; and

(iv) the Extension Letter

8. DIRECTORS' INTEREST IN COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective close associates had any interests in businesses which competed or might compete with the businesses of the Enlarged Group or had any other conflict of interests with the Enlarged Group.

9. DIRECTORS' INTEREST IN CONTRACTS AND ASSETS OR ARRANGEMENTS

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to any business of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been since 31 December 2018 (being the date to which the latest published audited financial statements of the Group were made up) acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

10. MISCELLANEOUS

(1) Mr. Yi Cong, an executive Director, is the compliance officer of the Company.

(2) Ms. Leung Yuk Yi is the company secretary. She is member of Hong Kong Institute of Certified Public Accountants.

(3) The registered office of the Company is at Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands.

(4) The headquarters and principal place of business of the Company in the PRC is at 3/F, 222 Tianren Road, Gaoxin District, Chengdu City, Sichuan Province, the PRC.

(5) The principal place of business of the Company in Hong Kong is at Room 747, 7/F, Star House, 3 Salisbury Road, Tsim Sha Tsui, Kowloon, Hong Kong.

(6) The principal share registrar and transfer office of the Company is Estera Trust (Cayman) Limited at Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands.

(7) 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, Hong Kong

(8) In the case of any discrepancies, the English texts shall prevail over their respective Chinese texts.

11. AUDIT COMMITTEE

As at the Latest Practicable Date, the audit committee comprises three members, Mr. Chan Wing Kit, Ms. Cao Shao Mu, Mr. Kwok Sui Hung, being all the independent non-executive Directors. The primary duties of the audit committee are to review and supervise the financial reporting process, audit plan and relationship with external auditors, the internal control systems of the Group and to provide advices and recommendations to the Board for review and follow-up.

Mr. Chan Wing Kit (陳永傑), aged 48, obtained a Bachelor of Commerce degree from Monash University in February 1996. Mr. Chan Wing Kit is an associate member of the Hong Kong Institute of Certified Public Accountants and a certified practicing accountant of CPA Australia. Mr. Chan Wing Kit has over 14 years of experience in the furniture industry. Mr. Chan Wing Kit acted as executive director and the chief executive officer of Jia Meng Holdings Limited (家夢控股有限公司) (stock code: 8101), a company listed on GEM which is principally engaged in the design, manufacture and sale of mattresses and soft bed products, from September 2013 to January 2016, and has been responsible for the general management and operational decisions of the company. Mr. Chan Wing Kit also has experience in financial work. Mr. Chan Wing Kit was employed by Lai & Fan, Sothertons as an auditor from April 1996 to March 2000 and by Ernst & Young from March 2000 to September 2001. Mr. Chan Wing Kit acted as the financial controller and company secretary in Royale Furniture from October 2001 to May 2011 and as the export manager from May 2011 to September 2013. During his tenure, Mr. Chan Wing Kit also acted as a director of two subsidiaries of the Royale Furniture Group. On 1 March 2016, Mr. Chan Wing Kit rejoined Royale Furniture and has since acted as an executive director of Royale Furniture.

Mr. Kwok Sui Hung (郭瑞雄), aged 59, was appointed as our independent non-executive Director on 17 December 2016. Mr. Kwok Sui Hung's appointment as a member of Audit Committee, Nomination Committee and Remuneration Committee will take effect on the Listing Date. Mr. Kwok Sui Hung completed a certificate programme on marketing management from the Hong Kong Management Association in June 1994. Since 1996, Mr. Kwok Sui Hung has been the general manager of Sun Champion Trading Limited, responsible for monitoring the operation of Hong Kong and China divisions of the Company.

Ms. Cao Shao Mu (曹少慕), aged 58, being appointed as a member of Audit Committee, Nomination Committee and Remuneration Committee will take effect on the Listing Date. Ms. Cao Shao Mu completed a selected on-job executive master of business administration course* (在職經理工商管理碩士(EMBA)精選課程研修班) in November 2004 at Yiyuan College, Sun Yat-Sen University. Ms. Cao Shao Mu worked in the sales department of Guangzhou Pepsi-Cola Beverage Co., Ltd from 2001 to 2014 and retired holding the position of senior district development manager.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours at the principal place of business in Hong Kong of the Company at Room 747, 7/F, Star House, 3 Salisbury Road, Tsim Sha Tsui, Kowloon, Hong Kong from the date of this circular up to and including the date of the EGM:

(a) the memorandum of association and articles of association of the Company;

(b) the annual report of the Company for the two years ended 31 December 2018;

(c) the first quarterly report of the Company for the three months ended 31 March 2019;

(d) the interim report of the Company for the six months ended 30 June 2019;

(e) the third quarterly report of the Company for the nine months ended 30 September 2019;

(f) the accountants' report of the Target Group as set out in Appendix II to this circular;

(g) the accountants' report on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular;

(h) the valuation report of the Target Group as set out in Appendix V to this circular;

(i) the letter from Euto Capital Partners Limited and BDO Limited relating to the profit forecast as set out in Appendix VI to this circular;

(j) the written consents referred to in the paragraph headed "5. Expert's qualification and consent" in this appendix;

(k) copy of each of the material contracts referred to in the paragraph headed "7. Material contracts" in this appendix; and

(l) this circular.

ZHI SHENG GROUP HOLDINGS LIMITED
智昇集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8370)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**Meeting**") of Zhi Sheng Group Holdings Limited (the "**Company**") will be held at 11:00 a.m. on Friday, 10 January 2020 (Hong Kong time) at Room 1804A, 18/F., Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong for the purpose of considering and, if thought fit, passing with or without amendments, the following ordinary resolution:

ORDINARY RESOLUTION

1. To consider, and if thought fit, with or without modifications, to pass the following resolution as an ordinary resolution of the Company:

"**THAT**:

(a) the sale and purchase agreement dated 21 October 2019 as amended and supplemented by the extension letter dated 12 December 2019 (the "**Sale and Purchase Agreement**") and entered into among the Company, Billion Eggs Limited and Rock Link Limited as vendors (the "**Vendors**") and Ms. Grace Wahyuni Sardjono and Mr. Fang Shin as guarantors in relation to the proposed acquisition (the "**Acquisition**") by the Company from the Vendors of the entire issued capital in Polyqueue Limited, (a copy of which has been marked "A" and is produced to the Meeting and signed by the chairman of the Meeting for identification purpose), and all the transactions contemplated thereunder, be and are hereby ratified, confirmed and approved;

(b) the allotment and issue of the 103,333,333 new ordinary shares (each a "**Share**") (the "**Consideration Shares**") of HK$0.01 each in the share capital of the Company to the Vendors to satisfy part of the consideration for the Acquisition pursuant to the terms and conditions of the Sale and Purchase Agreement be and is hereby approved;

(c) the issue of the convertible bonds (the "**Convertible Bonds**") in the aggregate principal amount of HK$12,400,000 carrying rights to convert into conversion shares (the "**Conversion Shares**") at an initial conversion price of HK$0.24 (subject to adjustment) for each conversion share, to be issued to the Vendors by the Company to satisfy part of the consideration for the Acquisition pursuant to the terms and conditions of the Sale and Purchase Agreement be and is hereby approved; and

(d) any one or more of the directors (the "**Directors**" and each a "**Director**") of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents (and to affix the common seal of the Company thereon, if necessary) for the purpose of, or in connection with, the implementation of and giving effect to the Sale and Purchase Agreement, including but not limited to the issue of the Convertible Bonds, the allotment and issue of the Consideration Shares and the Conversion Shares, and the transactions ancillary thereto and of administrative nature which he/she/they consider necessary, desirable or expedient."

By order of the Board
Zhi Sheng Group Holdings Limited
Yi Cong
Executive Director

Hong Kong, 13 December 2019

Notes:

The register of members of the Company will be closed from Monday, 6 January 2020 to Friday, 10 January 2020, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the EGM, unregistered holders of Shares should ensure that all transfer documents accompanied by the relevant share certificates must be lodged with 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, Hong Kong for registration not later than 4:30 p.m. on Friday, 3 January 2020 (Hong Kong time).

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his/her/its behalf. A proxy need not be a member of the Company but must be present in person at the Meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. A form of proxy for use at the Meeting is enclosed. Whether or not you intend to attend the Meeting in person, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof, should he/she/it so wish.

3. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power 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, Hong Kong, not less than 48 hours before the time appointed for holding the Meeting (i.e. at or before 11:00 a.m. on Wednesday, 8 January 2020 (Hong Kong time)) (or any adjournment thereof).

4. In the case of joint holders of shares, any one of such joint holders may vote at the EGM, either in person or by proxy, in respect of such share as if he/she/it was solely entitled thereto, but if more than one of such joint holders are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.

As at the date of this notice, the Board comprises Mr. Yi Cong and Mr. Liang Xing Jun as executive Directors; Mr. Luo Guoqiang as non-executive Director; and Mr. Chan Wing Kit, Ms. Cao Shao Mu and Mr. Kwok Sui Hung as independent non-executive Directors.