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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

Financial Adviser



Euto Capital Partners Limited

THE SALE AND PURCHASE AGREEMENT

On 21 October 2019, (after trading hours), the Company, the Vendors and the Guarantors entered into the Sale and Purchase Agreement 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, subject to the terms and conditions of the Sale and Purchase Agreement. The Guarantors have agreed to guarantee the performance of the obligations of the Vendors under the Sale and Purchase Agreement.

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, 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, convertible into Conversion Shares at the initial Conversion Price of HK\$0.24 (subject to adjustment) for each Conversion Share.

The Target Group, through the OPCO, is principally engaged in the Data Centre Business in Shanghai, the PRC.

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

THE CONTRACTUAL ARRANGEMENT

As advised by the Company's PRC legal advisers, for the operation of the Data Centre Business in the PRC, the OPCO is subject to certain foreign-ownership restrictions under the laws and regulations of the PRC.

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.

GEM LISTING RULES IMPLICATIONS

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.

GENERAL

The EGM will be convened and held for the Shareholders to consider, and if thought fit, to approve, (i) the Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the Specific Mandate for the allotment and issue of the Consideration Shares and the Conversion Shares.

A circular containing, among other things, further details of the Sale and Purchase Agreement and the transactions contemplated thereunder, the Contractual Arrangement, and other information required to be disclosed under the GEM Listing Rules will be despatched to the Shareholders. The circular is expected to be despatched by the Company to the Shareholders on or before 11 November 2019.

Completion of the Acquisition is subject to the fulfillment (or waiver) of the conditions precedent set out in the Sale and Purchase Agreement and therefore may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

INTRODUCTION

On 21 October 2019, (after trading hours), the Company, the Vendors and the Guarantors entered into the Sale and Purchase Agreement 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, subject to the terms and conditions of the Sale and Purchase Agreement. The Guarantors have agreed to guarantee the performance of the obligations of the Vendors under the Sale and Purchase Agreement.

THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement 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 is 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 announcement 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, 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 announcement.

The Directors consider 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 premium of approximately 5.17% over the average closing price of approximately HK\$0.228 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Sale and Purchase Agreement;
- (iii) a premium of approximately 3.81% over the average closing price of approximately HK\$0.231 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the date of the Sale and Purchase Agreement;

- (iv) a premium of approximately 10.31% 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 date of the Sale and Purchase Agreement; and
- (v) a discount of approximately 4.75% 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 date of the Sale and Purchase Agreement.

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 date of this announcement 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 premium of approximately 5.17% over the average closing price of approximately HK\$0.228 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Sale and Purchase Agreement;
- (iii) a premium of approximately 3.81% over the average closing price of approximately HK\$0.231 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the date of the Sale and Purchase Agreement;
- (iv) a premium of approximately 10.31% 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 date of the Sale and Purchase Agreement; and
- (v) a discount of approximately 4.75% 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 date of the Sale and Purchase Agreement.

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 approximately 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 date of this announcement; (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.

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 Company) from a valuer nominated by the Company showing the valuation of the entire issued share capital of the 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 31 December 2019 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.

As at the date of this announcement, none of the above conditions have been fulfilled.

Due Diligence Review

Upon signing of the Sale and Purchase Agreement, the Company 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 31 December 2019 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 of the Acquisition 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 date of this announcement) 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 date of this announcement).

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.

INFORMATION OF THE TARGET GROUP

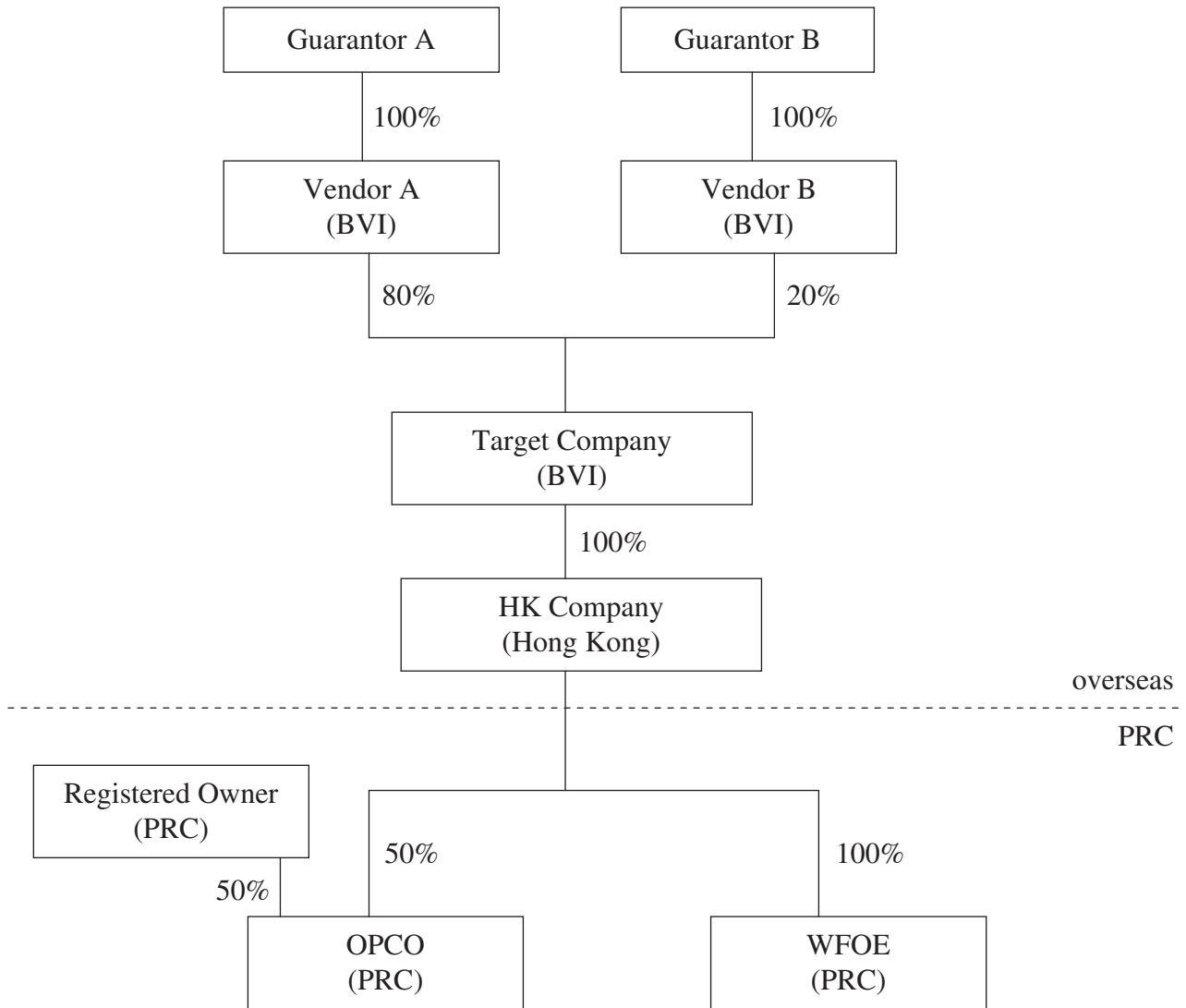
The Target Company is an investment holding company incorporated in the BVI with limited liability and is owned as to 80% by Vendor A and as to 20% by Vendor B before Completion. The Target Company is the sole shareholder of the HK Company which in turn wholly-owns WFOE and owns 50% of the registered 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 date of this announcement. 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.

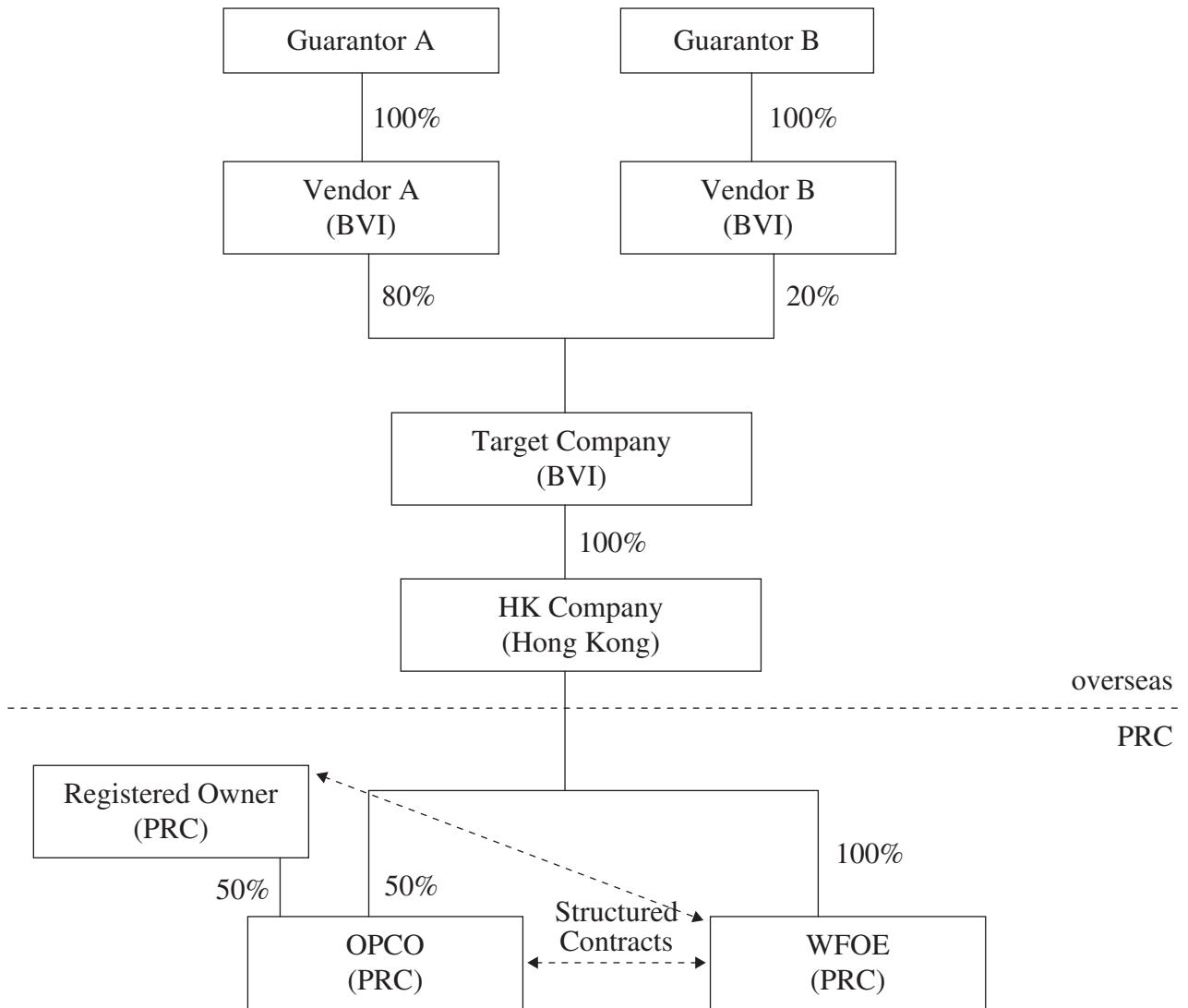
Shareholding structure of the Target Group

(i) Before completion of the Reorganisation



“ _____ ” denotes shareholding relationship

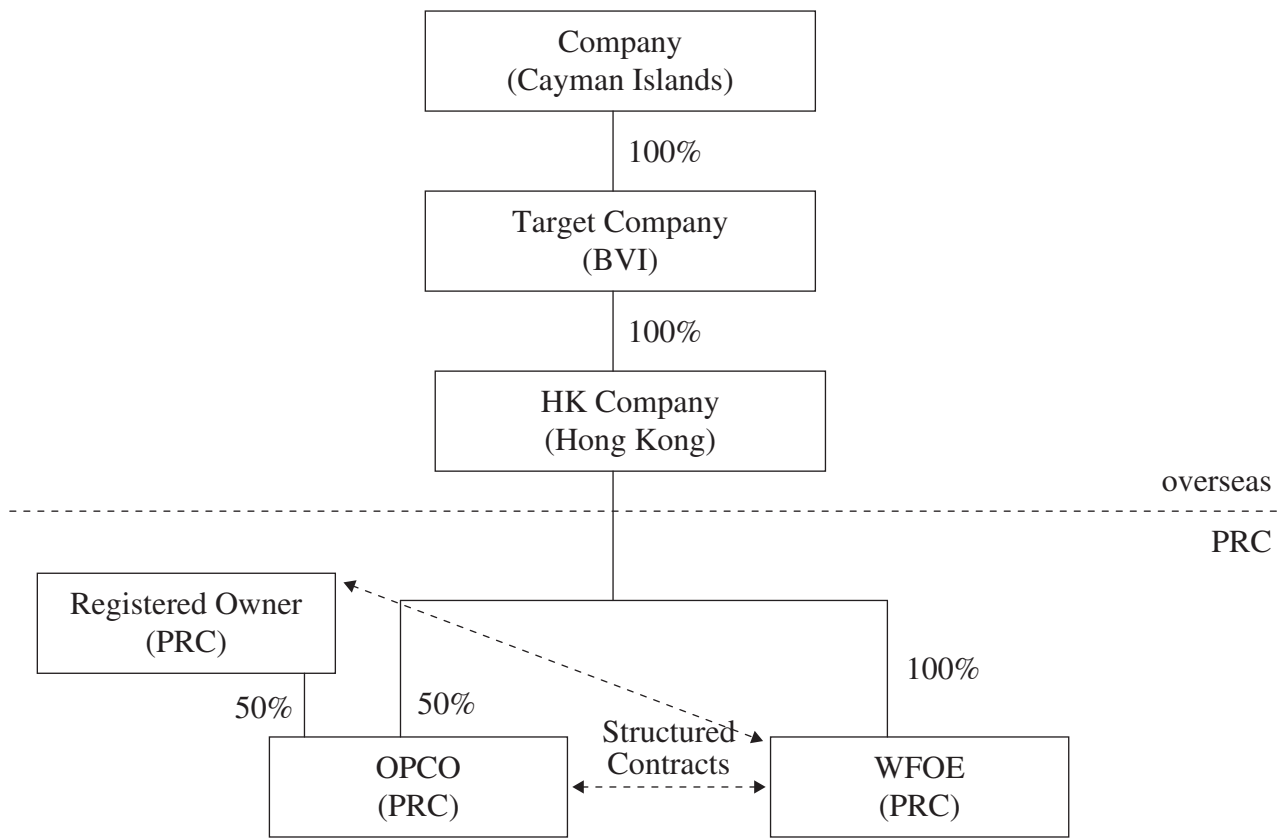
(ii) After completion of the Reorganisation but before the Completion



“_____” denotes shareholding relationship

“-----” denotes contractual relationship

(iii) After the Completion



“ _____ ” denotes shareholding relationship

“ - - - - - ” denotes contractual relationship

The Data Centre Business of the Target Group

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.

The OPCO operates a data centre in Shanghai, the PRC, which occupies an area of approximately 660 square metres, comprises approximately 344 numbers of data storage racks which are maintained and managed for its customers. 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.

Financial information of the Target Group

Set out below is the unaudited 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
	(Approx. RMB)	(Approx. RMB)
	(unaudited)	(unaudited)
Revenue	10,162,236	21,408,428
Net (loss)/profit before taxation	(1,714,203)	2,552,147
Net (loss)/profit after taxation	(1,714,203)	2,552,147

The unaudited combined net liabilities of the Target Group as at 31 July 2019 were approximately RMB8.45 million (equivalent to approximately HK\$9.38 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 date of this announcement; (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 date of this announcement		(ii) Immediately after allotment and issue of the 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
<i>Public Shareholders</i>						
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	<u>422,059,800</u>	<u>52.50</u>	<u>422,059,800</u>	<u>46.51</u>	<u>422,059,800</u>	<u>44.01</u>
Total	<u>804,000,000</u>	<u>100.00</u>	<u>907,333,333</u>	<u>100.00</u>	<u>959,000,000</u>	<u>100.00</u>

Notes:

1. The entire issued share capital of Sun Universal Limited is owned by Mr. Ma Gary Ming Fai. Mr. Ma Gary Ming Fai 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 the use of the Structured Contracts

As at the date of this announcement, 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 announcement.

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 《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 the 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, 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). 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.

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. The spouse of Mr. Wu will issue a written consent letter which will provide that she understands and agrees with the undertaking made by Mr. Wu and will do everything possible, including signing of all necessary legal and non-legal documents, and fulfilling all necessary legal and non-legal procedures to achieve Mr. Wu's commitments as abovementioned.

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 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. 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 date of the announcement, 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 non-compliance 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.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in manufacture and sale of office furniture products in the PRC.

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.

Reference is made to the profit warning announcement of the Company dated 17 October 2019. As disclosed, based on the initial assessment of the information currently available, the Group expects to record a loss attributable to the owners of the Company for the nine months ended 30 September 2019 as compared to the profit recorded for the corresponding period in 2018. The loss is mainly attributable to overall weakness of the economy, coupled with the prolonged configuration cycle of customers, leading to significant decrease of over 50% in the Group's revenue and gross profit for the nine months ended 30 September 2019 as compared with those for the corresponding period in 2018. The Group expects to face major challenges and pressures in its operations in the next one to two years.

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.

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.

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.

GEM LISTING RULES IMPLICATIONS

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.

GENERAL

The EGM will be convened and held for the Shareholders to consider, and if thought fit, to approve, (i) the Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the Specific Mandate for the allotment and issue of the Consideration Shares and the Conversion Shares. To the best of the Directors' knowledge, information and belief, no Shareholder is required to abstain from voting for the approval of the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM (including the Specific Mandate).

A circular containing, among other things, further details of the Sale and Purchase Agreement and the transactions contemplated thereunder, the Contractual Arrangement, and other information required to be disclosed under the GEM Listing Rules will be despatched to the Shareholders. The circular is expected to be despatched by the Company to the Shareholders on or before 11 November 2019.

Completion of the Acquisition is subject to the fulfillment (or waiver) of the conditions precedent set out in the Sale and Purchase Agreement and therefore may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall 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 announcement 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 an Issue Price of approximately 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 (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 announcement
“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

“Equity Pledge Agreement”	the 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
“Exclusive Call Option Agreement”	the 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”	the 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
“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
“OPCO”	北京萬諾通科技有限公司 (Beijing Wannuotong Technology Company Limited [#]), a wholly foreign owned 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”	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 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 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”	the 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 Directors 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 liabilities, 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 liabilities, 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.

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

For the purpose of this announcement, 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.

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

Hong Kong, 21 October 2019

As at the date of this announcement, 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.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and on the Company’s website at www.qtbj.com.