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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)**

### **SUPPLEMENTAL ANNOUNCEMENT MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN POLYQUEUE LIMITED; AND DELAY IN DESPATCH OF CIRCULAR**

Reference is made to the announcement (the “**Announcement**”) of Zhi Sheng Group Holdings Limited (the “**Company**”) dated 21 October 2019 in relation to, among other things, the conditional sale and purchase agreement (the “**Sale and Purchase Agreement**”) entered into by the Company, Billion Eggs Limited and Rock Link Limited as the vendors, (the “**Vendors**”) and Ms. Grace Wahyuni Sardjono and Mr. Fang Shin as the guarantors, pursuant to which the Company has agreed to acquire and the Vendors have agreed to sell the entire issued share capital in Polyqueue Limited, subject to the terms and conditions of the Sale and Purchase Agreement. Unless the context otherwise requires, capitalised terms used herein shall have the same meanings as those defined in the Announcement.

#### **SUPPLEMENTAL INFORMATION**

In addition to the information provided in the Announcement, the Company would like to provide further information as follows:

##### **In relation to basis for determination of the Consideration**

As mentioned in the Announcement, the Consideration was primarily determined based on arm’s length negotiations between the Company and the Vendors with reference to the preliminary valuation of the Target Group of approximately HK\$40,000,000 as at 31 August 2019 and the benefits of the Acquisition.

In determining the Consideration, the Directors have specifically considered that (i) the net liabilities recorded by the Target Group of approximately RMB8.45 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 an unaudited net profit of approximately RMB2.55 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.

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.

The final valuation of the Target Group is expected to adopt the discounted cash flow method under the income-based approach as its valuation methodology it is deemed to be a profit forecast under the Rule 19.61 of the GEM Listing Rules. Details of the valuation, including the valuation method, key assumptions and the justification and basis for determining the consideration of the Acquisition, a letter from each of the financial advisers to the Company and the Company's auditor relating to the profit forecast and the details of the principal assumptions upon which the forecast is based, will be disclosed in the Circular (as defined below) accordingly in compliance with the GEM Listing Rules.

### **In relation to conditions precedent**

Completion is subject to and conditional upon the satisfaction or waiver of, among other conditions as disclosed in the Announcement, the following conditions:

- (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; and
- (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 Target Company being not less than HK\$40,000,000.

The Directors are of the view that the absolute discretion vests 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 Group (as enlarged by the Target Group following the Completion) 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.

### **In relation to 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.

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.

The Board is 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 Gary Ming Fai (“**Mr. Ma**”), being the controlling shareholder of the Company who has introduced the opportunity of the Acquisition to the Board, has extensive experience and personal network in the data centre industry who 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. 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 of the Company.

### **In relation to the Registered Owner**

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, Mr. Wu Yi (吳軼) 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 the Registered Owner are willing to continue the above nominee arrangement following the Completion.

### **In relation to the reasons for and benefits of the Acquisition**

As disclosed in the Announcement, affected by the “US-China trade war”, the downward pressure of China’s macro economy, the increasingly stringent policies and regulations imposed by the PRC government, together with the intensified domestic market competition and the decrease in overall demand in China, the Company expects the Furniture Business to face major challenges and pressures in the coming one to two years. In view of the above, the Directors consider it is necessary for the Company to identify business opportunities which may or may not be of different nature from the existing Furniture Business.

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.

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 current principal business of the Group, namely the manufacture and sale of office furniture products in the PRC (the “**Furniture Business**”). Rather, the Acquisition is looking to build diversification and seeks to stabilise 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.

### **In relation to 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.

The Group is determined to develop the Furniture Business on a long-term basis. As regards business development of the Group, in the past five months, the Group entered into furniture sale and purchase agreements with its customers with total contract sums of over RMB67 million. This included the tenders won by the Group for the sale of furniture to the Agricultural Bank of China for a term of five years from July 2019. 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.

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.

#### **DELAY IN DESPATCH OF CIRCULAR**

As set out in the Announcement, a circular (the “**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, is expected to be despatched to the Shareholders on or before 11 November 2019.

As additional time is required by the Company for the preparation and finalisation of the relevant information for inclusion in the Circular, the despatch of the Circular is expected to be postponed to a date on or before 29 November 2019.

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

Hong Kong, 11 November 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, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive; and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

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