THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Vestate Group Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser, the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

國投集團
VESTATE

VESTATE GROUP HOLDINGS LIMITED
國投集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1386)

(I) MAJOR TRANSACTION ACQUISITION OF 51% ISSUED SHARE CAPITAL OF THE TARGET COMPANY INVOLVING THE ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE; AND (II) NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial adviser to the Company

AKRON
Akron Corporate Finance Limited
亚贝隆资本有限公司

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

A notice convening the EGM to be held at 3:30 p.m. on Friday, 30 July 2021 at Room 631, 6/F, Kowloonbay International Trade & Exhibition Centre, 1 Trademart Drive, Kowloon Bay, Kowloon, Hong Kong is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use by the shareholders of the Company at the EGM is enclosed herein.

Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish, and in such event, the form of proxy shall be deemed to be revoked.

30 June 2021

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

"Acquisition"	the proposed acquisition of the Sale Shares pursuant to the terms and conditions of the Agreement
"Agreement"	the sale and purchase agreement dated 9 March 2021 (as supplemented by the Supplemental Agreements) and entered into among the Purchaser, the Vendor and the Guarantor in relation to the Acquisition
"Applicable Laws"	in respect of any person, any laws, rules, regulations, directives, decrees, treaties, or orders of any authority (including but not limited to the Listing Rules), that are applicable to and binding on such person
"Board"	the board of Directors
"Business Day(s)"	a day (other than a Saturday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
"BVI"	British Virgin Islands
"Company" or "Purchaser"	Vestate Group Holdings Limited, an exempted company incorporated with limited liability under the laws of the Cayman Islands, the issued Shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Acquisition in accordance with the terms and conditions of the Agreement
"Completion Date"	the 5th Business Day after the date of fulfillment (or waiver) of all the conditions set out in the Agreement
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Consideration"	the consideration for the Acquisition, being HK$104,490,000
"Consideration Shares"	maximum of 204,882,352 new Shares to be issued to the Vendor at an Issue Price of HK$0.51 per new Share for full settlement of the Consideration pursuant to the terms and conditions of the Agreement

"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened and held at Room 631, 6/F, Kowloonbay International Trade & Exhibition Centre, 1 Trademart Drive, Kowloon Bay, Kowloon, Hong Kong on Friday, 30 July 2021 at 3:30 p.m. or any adjournment thereof for the purpose of considering and, if thought fit, (i) approving the Agreement and the transactions contemplated thereunder; and (ii) the grant of the Specific Mandate to issue and allot the Consideration Shares
"Enlarged Group"	the Group upon Completion, together with the Target Group
"Group"	the Company and its subsidiaries
"Guarantor"	Mr. Cheng Zhengwei, being the owner of the entire issued share capital of the Vendor as at the Latest Practicable Date
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HK Company"	Sunrise IVF (HK) Service Limited, a company to be incorporated in Hong Kong with limited liability which is wholly owned by the Target Company
"HKFRS"	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	third party(ies) independent of and not connected with the Company and any of its connected persons (having the meaning ascribed to it under the Listing Rules)
"Issue Price"	HK$0.51 per Consideration Share
"Latest Practicable Date"	29 June 2021, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Committee"	has the meaning ascribed to it under the Listing Rules
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"Long Stop Date"	30 September 2021 or such later date as the Vendor and the Purchaser may agree in writing
"MOU"	the memorandum of understanding entered into between the Vendor and the Company in relation to possible acquisition of a minimum of 51% equity interest in the OPCO
"OPCO"	廣東明大智能設備科技有限公司 (Guangdong Mingda Intelligent Equipment Technology Co., Ltd.*), a company established in the PRC with limited liability and a direct wholly-owned subsidiary of the SZ Company
"PRC"	the People's Republic of China which, for the purpose of this circular, excludes Hong Kong, Macau and Taiwan
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Shares"	51% of the issued share capital of the Target Company
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) with par value of HK$0.1 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Specific Mandate"	a specific mandate to issue, allot or otherwise deal in additional Shares to be sought from the Shareholders who are entitled to vote and not required to be abstained from voting under the Listing Rules at the EGM to satisfy the issue and allotment of the Consideration Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Agreements"	the supplemental agreements dated 12 March 2021 and 24 June 2021 entered into among the Purchaser, the Vendor and the Guarantor in relation to the Agreement

"SZ Company"	深圳市曦蕾試管國際諮詢有限公司 (Shenzhen City Xilei Shiguan International Consulting Co., Ltd.*), a company established in the PRC with limited liability and wholly owned by the HK Company
"Takeovers Code"	the Code on Takeovers and Mergers issued by the SFC
"Target Company"	Scape Bliss Limited, a company incorporated in the BVI with limited liability, which is wholly owned by the Vendor immediately prior to Completion
"Target Group"	the Target Company and its subsidiaries
"Vendor"	Ease Beacon Limited, a company incorporated in the BVI with limited liability
"%"	per cent.

For the purpose of this circular, unless otherwise indicated, conversion of RMB into HK$ is calculated at the exchange rate of RMB1.0 to HK$1.2. The exchange rate is for illustrative purpose only and does not constitute a representation that any amount has been, could have been, or may be exchanged at this or any other rate at all.

* *For identification purposes only*

國投集團
VESTATE

VESTATE GROUP HOLDINGS LIMITED
國投集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1386)

Executive Directors:
Mr. ZHU Xiaojun *(Chairman)*
Ms. CAI Jiaying
Mr. YIN Wansun

Independent Non-executive Directors:
Mr. YU Lei
Mr. CHAI Guoqiang
Ms. LI Qin

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
Unit E, 22nd Floor, Tower A
Billion Centre
1 Wang Kwong Road
Kowloon Bay, Kowloon
Hong Kong

30 June 2021

To the Shareholders

Dear Sir or Madam,

(I) MAJOR TRANSACTION ACQUISITION OF 51% ISSUED SHARE CAPITAL OF THE TARGET COMPANY INVOLVING THE ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE; AND (II) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

References are made to the announcements of the Company dated (i) 16 September 2020 in relation to the MOU; and (ii) 9 March 2021, 10 March 2021, 12 March 2021, 28 May 2021 and 24 June 2021 in relation to the Acquisition.

On 9 March 2021 (after trading hours), the Purchaser, the Vendor and the Guarantor entered into the Agreement, pursuant to which, the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell, the Sale Shares, at the Consideration of HK$104,490,000 which shall be satisfied: (i) as to HK$42,075,000 payable by way of allotment and issuance of 82,500,000 Consideration Shares by the Purchaser on the Completion Date; and (ii) subject to the Guaranteed Profits is being satisfied, as to HK$62,415,000 payable by way of allotment and issuance of 122,382,352 Consideration Shares by the Purchaser.

The purpose of this circular is to provide you with, among other things, (i) further information on the Acquisition; (ii) details of the Specific Mandate; (iii) accountants' reports on the Target Group; (iv) unaudited pro forma financial information on the Enlarged Group; (v) a valuation report of the OPCO; and (vi) a notice of the EGM.

THE AGREEMENT (AS SUPPLEMENTED BY THE SUPPLEMENTAL AGREEMENTS)

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

Date

9 March 2021 (after trading hours)

Parties

(i) the Purchaser;

(ii) the Vendor; and

(iii) the Guarantor (collectively, the "**Parties**").

The Vendor is incorporated in the BVI with limited liability and is principally engaged in investment holdings. The entire issued share capital of the Vendor is wholly owned by the Guarantor. The Guarantor is a merchant and experienced in mechanical engineering and production and manufacturing designs. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Vendor and its ultimate beneficial owner, the Guarantor, are Independent Third Parties.

Mr. Zhu Xiaojun ("**Mr. Zhu**"), an executive Director, met Mr. Cheng Zhengwei ("**Mr. Cheng**"), the owner of the entire issued share capital of the Vendor, in a private social party in 2020 and realized that Mr. Cheng was exploring potential purchaser for the OPCO. The Company commenced negotiations with Mr. Cheng in relation to the Acquisition since second half of 2020. Mr. Zhu participated in the negotiations and execution in relation to the Acquisition with Mr. Cheng. To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, save for the Acquisition, the Vendor and Mr. Cheng, its ultimate beneficial owner, has no prior relationship or other transactions with the Company or any of its connected persons. Save for the Agreement, there is no arrangement, understanding, or undertaking among (a) the Vendor and its ultimate beneficial owner; and (b) the Company and its connected persons.

Assets to be acquired

The Sale Shares, representing 51% of the issued share capital of the Target Company as at the Completion Date.

Consideration

The maximum Consideration is HK$104,490,000, which shall be satisfied in the following manner:

(i) as to HK$42,075,000 payable by way of allotment and issuance of 82,500,000 Consideration Shares by the Purchaser on the Completion Date (the "**First Tranche Consideration Shares**"); and

(ii) subject to the Guaranteed Profits is being satisfied, as to HK$62,415,000 (the "**Second Tranche Consideration**") payable by way of allotment and issuance of 122,382,352 Consideration Shares (the "**Second Tranche Consideration Shares**") by the Purchaser.

Further details of the Consideration Shares are set out in the section headed "The Consideration Shares" below.

The Consideration was arrived based on normal commercial terms after arm's length negotiations between the Purchaser and the Vendor and was determined with reference to the following factors:

(i) the preliminary valuation of 51% equity interests of the OPCO of RMB90 million (equivalent to approximately HK$108.0 million) as at 31 January 2021 prepared by an independent valuer based on the market approach;

(ii) the financial and operating performance of the OPCO and latest financial position of the OPCO as shown in its unaudited financial information for the year ended 31 December 2020;

(iii) the business development and future prospects of the OPCO;

(iv) the Guaranteed Profits (as defined below); and

(v) the reasons for and benefits of the Acquisition as stated under the section headed "Reasons for and benefits of the Acquisition" below.

As set out in Appendix V to this circular, the valuation (the "**Valuation**") of 51% equity interests of the OPCO as at 31 January 2021 was RMB96 million (equivalent to approximately HK$115.2 million). The Consideration represents a discount of approximately 10.24% to the Valuation.

In view of the above, the Directors consider that the Consideration is fair and reasonable.

Profit guarantee and compensation

The Vendor has irrevocably and unconditionally guaranteed to the Purchaser that the audited net profit after tax of the Target Group for the year ending 31 December 2021 (the "**Profit Guarantee Period**") as shown on its audited consolidated financial statements to be prepared in accordance with the HKFRS (the "**2021 Audited Report**") shall be no less than RMB10,000,000 (the "**Guaranteed Profits**").

If the actual audited consolidated net profit after tax of the Target Group for the Profit Guarantee Period as shown on the 2021 Audited Report (the "**Actual Profits**") is equal to or greater than the Guaranteed Profits, the Consideration of HK$62,415,000 shall be payable by way of allotment and issuance of the Second Tranche Consideration Shares at the Issue Price of HK$0.51 per Consideration Share by the Purchaser within 30 days upon the issuance of the 2021 Audited Report and subject to the Vendor has disposed or placed all the First Tranche Consideration Shares to the public (the "**First Tranche Disposal**").

If the Actual Profits shall be less than the Guaranteed Profits, the Vendor shall compensate the Purchaser with an amount in respect of the shortfall calculated according to the following formula (the "**Compensation Sum**") within 30 days upon the issuance of the 2021 Audited Report:

$$\text{Compensation Sum} = \frac{(\text{Guaranteed Profits} - \text{Actual Profits})}{\text{Guaranteed Profits}} \times \text{Consideration}$$

The Compensation Sum shall be settled by the Vendor with the Purchaser by way of set off against the Second Tranche Consideration (the "**Set Off**"). Subject to the completion of the First Tranche Disposal, in the event that the Compensation Sum is less than the Second Tranche Consideration, the remaining balance of the Second Tranche Consideration after the Set Off shall be payable by way of allotment and issuance of relevant number of Consideration Shares at the Issue Price of HK$0.51 per Consideration Share by the Purchaser. In the event that the Compensation Sum is more than the Second Tranche Consideration, the shortfall of the Compensation Sum shall be paid by the Vendor in cash.

Under all circumstances, the allotment and issuance of the Second Tranche Consideration Shares will not result in the Company being unable to meet the minimum public float requirement under the Listing Rules.

For the avoidance of doubt, if the Actual Profits shall be negative, it shall be deemed to be zero. The maximum amount of the Compensation Sum payable by the Vendor shall not exceed the amount of the Consideration.

For the further avoidance of doubt, if the Actual Profits shall exceed the Guaranteed Profits, there shall not be any upward adjustment to the Consideration.

Upon Completion, the Vendor shall execute a share charge over its 49% of the entire equity interests in the Target Company in favour of the Company to secure the due and punctual performance by the Vendor of the Profit Guarantee and all its obligations under the Agreement.

The Guaranteed Profits was arrived at after arm's length negotiations between the Parties with reference to (i) historical financial performance of the OPCO with profit-making record; and (ii) the business development and future prospect of the Target Group.

The Company will publish announcement(s) and disclose in its future annual report(s), among others, the outcome of the Guaranteed Profits and the actual performance of the Target Group for the Profit Guarantee Period, as and when appropriate.

The Actual Profits shall exclude any one-off, non-recurring or extraordinary items such as non-operating income or expenses. The 2021 Audited Report shall be reported by the auditor to be nominated by the Purchaser within 5 months after the said Profit Guarantee Period or any other date as agreed by the Vendor and the Purchaser.

The amount of the Guaranteed Profits represents a level of business that both the Company and the Vendor consider to be feasible. The Guaranteed Profits was determined through arm's length negotiation between the Purchaser and the Vendor with reference to, among others (i) the historical profits generated from the OPCO of approximately HK$8.7 million for the year ended 31 December 2020; (ii) the number of potential contracts under negotiation; and (iii) the number of existing contracts on hands. In assessing the reasonableness and achievability of the Guaranteed Profits, the Board has reviewed the list of the existing contracts on hands of the OPCO and the amount of over RMB60 million is expected to be recognized as the revenue from the contracts on hands for the year ending 31 December 2021. The contract amount of each project would be determined based on the target profit margin predetermined by the management of the OPCO, taking into account the estimated relevant costs and expenses to be incurred for each project. As such, the Board considers that the revenue and the profit margin for the Target Group is sustainable. Thus, the Board are of the view that it is highly probable for the Target Group to meet the Guaranteed Profits and that the Guaranteed Profit is reasonable and achievable.

In the event that the Guaranteed Profits is not reached, the Vendor shall compensate the Purchaser the Compensation Sum by way of set off against the Second Tranche Consideration of HK$62,415,000 and in the event that the Compensation Sum is more than the Second Tranche Consideration, the shortfall of the Compensation Sum shall be paid by the Vendor in cash. As the maximum amount of the Compensation Sum payable by the Vendor shall not exceed the amount of the Consideration of HK$104,490,000, the maximum Compensation Sum payable by the Vendor shall be HK$42,075,000, being the First Tranche Consideration. Mr. Cheng, being the ultimate beneficial owner, has unconditionally and irrevocably guaranteed the due and punctual performance and payment obligations of the Vendor under the Agreement. In the event that the Vendor is unable to pay any part of the Compensation Sum, Mr. Cheng shall be liable on the outstanding amount of the Compensation Sum owing by the Vendor. Background checks have been conducted on Mr. Cheng by professional parties on behalf of the Company, and no unusual issues had been identified that should be brought to the attention of the Board. In addition, the remaining 49% of the equity interest in the Target Company beneficially owned by the Vendor will be pledged as collateral upon Completion in order to secure the obligations of the Vendor. As such, the Board is of the view that the Vendor and/or the Guarantor has sufficient financial resources to compensate the Company in case the Profit Guarantee is not met.

Conditions precedent

Completion shall be conditional upon and subject to:

(a) the Purchaser having obtained a due diligence report/legal opinion (in such form and substance satisfactory to the Purchaser) from a qualified PRC legal adviser appointed by the Purchaser, confirming, among other things, the Agreement and the Acquisition in respect of the PRC laws, and the confirmation in respect of the due incorporation of the SZ Company and the OPCO and their operations;

(b) the Purchaser having obtained a valuation report (in such form and substance satisfactory to the Purchaser) issued by a qualified valuer appointed by the Purchaser on the 51% equity interests of the OPCO, stating, among other things, the valuation of the OPCO being not less than RMB90 million (equivalent to approximately HK$108.0 million);

(c) the Target Group having obtained all relevant licences and consent or renewals thereof in relation to its business and such licenses being valid and subsisting; for the licences which validity period will expire soon, the Target Group having submitted application for renewal/extension within the time limit stipulated under the relevant law or regulations;

(d) the Purchaser, its agents or professional advisers being satisfied with the results of the review (in relation to legal, accounting, finance, operation or any other matters, which, in the Purchaser's opinion, are important) of the Target Group and the results of such review being satisfactory to the Purchaser;

(e) the Vendor having obtained all necessary approvals, confirmations, waivers or consents in respect of the Agreement and all transactions contemplated thereunder under applicable laws and regulations from the relevant authorities having jurisdiction over the SZ Company and the OPCO or other relevant third parties (if so required by the relevant legislations);

(f) the Shareholders having approved at the EGM the Acquisition and the transactions contemplated thereunder in accordance with the articles of associations of the Company and the Listing Rules;

(g) permission having been obtained from the Stock Exchange for the listing of and the dealing in the Consideration Shares;

(h) the Purchaser having obtained all relevant approvals, confirmations, waivers or consents in respect of the Agreement and all transactions contemplated thereunder from the courts of the Cayman Islands and/or Hong Kong (if so required by the relevant legislations);

(i) the Purchaser being satisfied, from the date of signing the Agreement and at any time before Completion, that the representations, warranties and undertakings given under the Agreement by Vendor in respect of the Target Group remain true, accurate, not misleading or being breached in any material changes;

(j) the Purchaser not having discovered or known that from the date of signing of the Agreement and up to Completion, there being any abnormal operations or any material adverse change in the business circumstances (including assets, financial and legal status), operations, performance or assets, or any undisclosed material potential risks in the Target Group; and

(k) there having been no material adverse change in respect of legal, regulation, policy or other applicable regulatory requirements on the Vendor, the Purchaser and the Target Group.

The Purchaser may waive the above conditions save and except for conditions (f), (g) and (h) which are not capable for being waived. If the conditions precedent have not been satisfied (or, as the case may be, waived by Purchaser) on or before the Long Stop Date, the Purchaser shall not be bound to proceed with the purchase of the Sale Shares and the Agreement (other than the survival clause(s)) shall from the Long Stop Date, become void and of no further effect and, save in respect of any antecedent breaches, all liabilities and obligations of the Parties shall cease and determine provided that such termination shall be without prejudice to any rights or remedies of the parties thereto which shall have accrued prior to such termination.

As at the Latest Practicable Date, condition precedent (b) has been fulfilled.

Completion

Completion shall take place on the Completion Date after all the conditions precedent of the Agreement have been fulfilled (or waived as the case may be) or such date as the Vendor and the Purchaser may agree in writing.

Upon Completion, the Target Company will become a direct 51%-owned subsidiary of the Company and accordingly, the financial results of the Target Group will be consolidated into the accounts of the Company.

Guarantee

Under the Agreement, the Guarantor guarantees to the Purchaser the due and punctual performance of the Vendor of its obligations under the Agreement.

Undertaking

The Vendor and the Guarantor jointly and severally undertakes to the Purchaser that from the Completion Date:

(i) the Vendor and the Guarantor will not, without the prior written consent of the Purchaser, sell, transfer, or otherwise dispose of or encumber any of its/his shares in the Target Company;

(ii) the Guarantor to be remain as director, general manager and legal representative of the OPCO for a period of 3 years; and

(iii) the Vendor and Guarantor and their respective associates shall not (a) directly or indirectly engage or involve in any business or activities which may compete with the Target Group; and (b) own any interest in, obtain the controlling rights of any entity, corporation and organization which compete with the Target Group, or to serve as senior management or core technical persons of such entity, corporation and organization.

If the Vendor, Guarantor and/or their respective associates breach the above undertaking, such parties will jointly and severally indemnify all economic loss of the Target Group caused by such breach.

THE CONSIDERATION SHARES

The Consideration Shares will be allotted and issued at the Issue Price of HK$0.51 each, credited as fully paid. 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, on the record date which falls on or after the date of such allotment and issue.

The Issue Price represents:

(i) the closing price per Share of HK$0.51 as quoted on the Stock Exchange on 9 March 2021, being the date of the Agreement;

(ii) a premium of approximately 0.4% over the average closing price per Share of approximately HK$0.508 as quoted on the Stock Exchange for the five consecutive trading days immediately preceding the date of the Agreement;

(iii) a premium of approximately 1.8% over the average closing price per Share of approximately HK$0.501 as quoted on the Stock Exchange for the ten consecutive trading days immediately preceding the date of the Agreement; and

(iv) a premium of approximately 10.9% over the closing price per Share of approximately HK$0.460 as quoted on the Stock Exchange on the Latest Practicable Date.

The Issue Price was arrived at after arm's length negotiations between the Purchaser and the Vendor with reference to the prevailing market price of the Shares and the current market conditions. The Directors consider the Issue Price is fair and reasonable.

The Consideration Shares represent approximately 28.6% of the number of issued Shares as at the Latest Practicable Date and represent approximately 22.2% of the number of issued Shares as enlarged by the allotment and issue of the Consideration Shares. The Consideration Shares will be allotted and issued pursuant to the Specific Mandate.

The aggregate nominal value of the Consideration Shares is HK$20,488,235.2. The allotment and issue of the Consideration Shares will not result in change in control of the Company.

An application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Consideration Shares.

EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after Completion and the allotment and issuance of the First Tranche Consideration Shares; and (iii) immediately after the First Tranche Disposal and the allotment and issuance of the Second Tranche Consideration Shares:

Shareholders	As at the Latest Practicable Date		Immediately after Completion and the allotment and issuance of the First Tranche Consideration Shares		Immediately after the First Tranche Disposal and the allotment and issuance of the Second Tranche Consideration Shares	
	Number of Shares	*Approximately % (Note 2)*	*Number of Shares*	*Approximately % (Note 2)*	*Number of Shares*	*Approximately % (Note 2)*
China Consume Elderly Care Holdings Limited *(Note 1)*	513,300,002	71.7	513,300,002	64.3	513,300,002	55.7
The Vendor	–	–	82,500,000	10.3	122,382,352	13.3
Public Shareholders	202,889,998	28.3	202,889,998	25.4	285,389,998	31.0
Total	716,190,000	100.0	798,690,000	100.0	921,072,352	100.0

Notes:

1. China Consume Elderly Care Holdings Limited is a company incorporated in the Republic of Seychelles with limited liability and the entire issued share capital of which is owned by Mr. Zhu Xiaojun, an executive Director and chairman of the Company. Accordingly, Mr. Zhu Xiaojun is deemed to be interested in the entire 513,300,002 Shares held by China Consume Elderly Care Holdings Limited under the SFO.

2. Certain percentage figures included in the above table have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

3. The Second Tranche Consideration Shares will only be issued to the Vendor subject to the Vendor has disposed of placed all the First Tranche Consideration Shares to the public.

INFORMATION OF THE TARGET GROUP

The Target Company is a limited company incorporated in the BVI which is directly wholly-owned by the Vendor. The principal activity of the Target Company is investment holding.

The HK Company is a limited company incorporated in Hong Kong which is directly wholly-owned by the Target Company. The principal activity of the HK Company is investment holding.

The SZ Company is a limited company incorporated in the PRC which is directly wholly-owned by the HK Company. The principal activity of the SZ Company is investment holding.

The OPCO is a company established in the PRC with limited liability which is a direct wholly-owned subsidiary of the SZ Company.

The Target Group, through the operation of the OPCO, is principally engaged in providing customized automated production solutions in the PRC deploying advanced production equipment and techniques with main application for the production process of plastic materials such as modified plastics, recycled plastics and degradable plastics. With a view to improving production efficiency and reducing production cost of the customers, the OPCO sells the intelligent control systems and machines for automated production line which cover various production process such as automated raw material feeding, automated transmission belt, automated palletizing and real-time monitoring of operation. The OPCO outsources the production of the machine to third party manufacturers in the PRC.

Different from other service providers which only provide standardized equipment to customers in the PRC, the OPCO provides comprehensive services to its customers, which cover provision of tailored design of hardware and software of industrial automation instrument based on customers' specifications, products delivery and installation, conducting quality control test for integration of the OPCO's products with the customers' production line and provision of technical support and after sales services.

Overview

As discuss in the paragraph headed "Reasons for and Benefits of the Acquisition", the PRC government expects to effectively control plastic pollution and to substantially reduce the amount of plastic waste in landfills. In addition, the market size of the degradable plastics in the PRC increased by approximately 144% from approximately RMB2.5 billion in 2012 to approximately RMB6.1 billion in 2019. The growing demand of degradable plastics and recycled plastics will drive the demand of machinery for their production.

Business of the Target Group

The main products of the OPCO include (i) centralized material feeding systems; (ii) automatic strand conveying systems; (iii) robotic automated palletizing systems; and (iv) basic infrastructure plan for production plant. The OPCO generally provides a combination of design, procurement, installation, testing and after-sales technical support services. The OCPO would manufacture the core parts of the aforesaid systems such as controller of dense phase conveying which is a key to material handling system to control the ratio of conveying gas and material, and the self-developed software applications. Other than that the manufacturing of the equipment have been outsourced to OEM manufacturers in the PRC. The OPCO mainly purchases parts and components such as storage hoppers, industrial mixers from suppliers and processes, modifies and assembles them into machine tool that can meet the special requirement of the customers.

1. Centralized Material Feeding Systems

The OPCO offers highly accurate solutions for handling a wide range of ingredients. In order to have an optimal end product, the ingredients must be fed consistently into the process at a prescribe rate along with a variety of additives selected. The design of the feeder can vary greatly depending on the materials properties or throughput requirements. The OPCO has a strong offering of design feeders which ensure a continuous, uniform infeed with a very tight short-term accuracy and repeatability. In addition, the OPCO provides different control solutions for the feeding systems such as 5G and remote control technology, production progress reporting and recipe management that accommodate the customers' different demands.

2. Automatic Strand Conveying Systems

This is a systems automatic transfer of strands from extruder die head to pelletizer. As compared to the normal strand conveying systems, the OPCO offers the systems which guarantee a consistent granulate quality throughout. Due to the high level of automation of the systems of the OPCO, strand breaks are immediately fed back into the pelletizer during productions which would ensure the productively of the machine.

3. Robotic Automated Palletizing Systems

Palletizing systems are the equipment that helps in automatic compiling of products on a pallet. Palletizing is the core function of every industry for the distribution and transportation of the final products. Robotic automated palletizing provides consistently accurate product placement on the pallet and reduce damages of products. The OPCO has a variety of designs of automatic palletizing systems which can create stable pallet patterns with excellent repeatability and able to prevent any sudden impacts and mechanical contact that can damage the most sensitive products during the operations.

4. Basis Infrastructure for Production Plant

This service is mainly for the new production plant of the customers. The basis infrastructure includes sewage treatment system, electricity distribution system, cooling system and fire protection system, etc. All of the abovementioned infrastructure and facilities are commonly used in production plant. The OPCO would offer a customized plan of the basic infrastructure to address specific requirement of its customers.

Customers

The OPCO has undertaken and provided design and supply of automated system to customers mainly from new materials industry, such as modified plastics and biocompatible plastics. The OPCO places strong emphasis on establishing and maintaining strong and stable business relationship with its customers. As at the year ended 31 December 2020, the OPCO had not less than 2 years of business relationship with all of its top five customers.

For the year ended 31 December 2020, sales to top five customers of the OPCO represented approximately 71.35% of its total revenue. As at the Latest Practicable Date, the OPCO (i) had not received any indication from its major customers that they will cease placing orders or terminate business relationship with the OPCO; and (ii) had not received any indication from its major customers relating to any change of existing business relationship between the OPCO. As such, the management of the OPCO is of the view that the business relationship between the OPCO and its major customers remained and would continue to remain stable and positive. The tables below set forth the basic information of the top five customers for the year ended 31 December 2020:

Customers	Approximate % of the total revenue of the OPCO attributable to the customers	Background of the customers	Principal business of the customers	Years of business relationship as at 31 December 2020 (approximate)
Customer A	22.76%	A company established in the PRC	Manufacturer of chemical products	3
Customer B	18.90%	A company established in the PRC	Developing, manufacturing and sales of modified materials	3
Customer C	12.57%	A company established in the PRC	Developing, manufacturing and sales of modified materials	2
Customer D	9.97%	A company established in the PRC	Developing, manufacturing and sales of modified materials	3
Customer E	7.15%	A company established in the PRC	Developing, manufacturing and sales of modified materials	3

Suppliers

The suppliers of the OPCO includes OEM manufactures and raw materials providers. The OPCO would procure raw materials and components for the OEM manufactures for the production with a view to ensure the quality of the equipment. Such raw materials and components including stainless steel, electric wire etc. The OPCO selected the suppliers according to criteria such as pricing, quality, reliability and lead time. The OPCO does not enter into any long-term contracts with its suppliers. The OPCO would base on the requirements of each project to enter into contract with the suppliers and therefore does not enter into any long-term agreement with the suppliers.

For the year ended 31 December 2020, purchase from top five suppliers of the OPCO accounted for an approximately 29.70% of its total purchase, as such the OPCO does not have heavy reliance on its major suppliers. The tables below set forth the basic information of the top five suppliers for the year ended 31 December 2020:

Suppliers	Approximate % of total purchase of the OPCO attributable to the suppliers	Background of the suppliers	Principal business of the suppliers	Years of business relationship as at 31 December 2020 (approximate)
Supplier A	10.29%	A company established in the PRC	Sales and processing of stainless steel	4
Supplier B	8.28%	A company established in the PRC	Manufacturing of general machinery and equipment	5
Supplier C	7.14%	A company established in the PRC	Sales and processing of stainless steel	4
Supplier D	2.19%	A company established in the PRC	Manufacturing of electrical equipment	4
Supplier E	1.80%	A company established in the PRC	Manufacturing and sales of conveying fans, sewage engineering fans etc.	3

Capital requirement and resources

The OPCO's principal sources of liquidity and capital resources are cash flow from operations and debt financing from banks. The capital requirement of the OPCO was mainly related to costs associated with modification and processing the components that the suppliers manufactured.

Employees

As at 31 May 2021, the OPCO has 50 full-time employees. The following table set forth the number of the employees of the OPCO by function as at 31 May 2021:

	Employees
Production	26
Research and Development	8
Management	5
Sales and marketing	4
Administration and human resources	3
Finances	2
Warehousing	2
Total	50

Intellectual property

As at the Latest Practicable Date, the Target Group, through the OPCO has registered the following intellectual property rights:

No.	Place of application	Name of the patent	Registration number	Method of acquisition	Validity date
1	PRC	(一種截風閥)	ZL 2018 2 0024090.1	Original acquisition	7 January 2028
2	PRC	(明大機械自動供料系統(簡稱：供料系統軟件)V4.0)	2018SR102348	Original acquisition	31 December 2067
3	PRC	(攪拌成品倉500L均化罐)	ZL 2018 2 0023833.3	Original acquisition	7 January 2028
4	PRC	(除濕乾燥機)	ZL 2018 2 0023572.5	Original acquisition	7 January 2028
5	PRC	(不銹鋼吸料斗)	ZL 2018 2 0022754.0	Original acquisition	7 January 2028
6	PRC	(粉氣分離裝置)	ZL 2018 2 0023228.6	Original acquisition	7 January 2028
7	PRC	(快速型粉碎機)	ZL 2018 2 0023117.5	Original acquisition	7 January 2028
8	PRC	(水冷開放式冷水機)	ZL 2018 2 0023324.0	Original acquisition	7 January 2028
9	PRC	(一種用於澱粉加工的具備清理雜質的篩選系統)	ZL 2019 2 2333282.8	Original acquisition	22 December 2029
10	PRC	(一種螺旋式的防漏風的旋風集塵器)	ZL 2019 2 2348829.1	Original acquisition	23 December 2029
11	PRC	(一種自動增壓的羅茨高壓風機)	ZL 2019 2 2350855.8	Original acquisition	23 December 2029
12	PRC	(一種方便更換吸料桶的大功率吸料機)	ZL 2018 2 2005275.0	Original acquisition	2 December 2028
13	PRC	(一種具備自行稱重功能的稱重混料機)	ZL 2019 2 2348742.4	Original acquisition	23 December 2029
14	PRC	(一種高效節能除濕乾燥機)	ZL 2019 2 2348738.8	Original acquisition	23 December 2029

Sales channel

From time to time, the OPCO would participate in exhibitions and international trade fairs in order to keep abreast of industry trends, interacting with existing customers cultivating new relationship and building brad awareness. More importantly, the primary marketing efforts are spent on visiting and managing the needs of existing customers in order to maintain customer relationships. The customers of the OPCO are often introduced by referral or are recurring customers. The directors of the Target Group believes that the Target Group has established reputation of quality services provided to customers have gained trust and appreciation from customers that foster continuous growth of the business of the Target Group.

Competition landscape

The main competitors of the OPCO are automated production solution providers including Guangzhou Chris Technology Co. Ltd. (廣州科里時科技有限公司), On Goal Technology Co. Ltd. (宏工科技股份有限公司), Zeppelin Systems GmbH and Coperion GmbH which the automated systems provided are similar to the OPCO, as such, there is a certain degree of competition in the exploration of customers.

Competitive strengths

The Target Group has the following competitive strengths which have contributed and will continue to contribute to its continuing growth and success: (i) the ability to maintain a stable relationship with the customer; (ii) strong and stable relationship with their suppliers including OEM manufacturer and material suppliers; (iii) its capabilities to provide customers with a tailor-made automated system that meet customer needs and desires; and (iv) its strong and experienced management team led by its founder.

FINANCIAL INFORMATION OF THE TARGET GROUP

According to the Accountants' Report of the Target Group as set out in Appendix II to this circular, key financial data of the Target Group for the years ended 31 December 2019 and 2020 are set out as follows:

	For the year ended 31 December	
	2020	**2019**
	HK$'000	*HK$'000*
	(audited)	(audited)
Revenue	30,650	13,490
Net profit before taxation	10,623	372
Net profit after taxation	8,656	345

According to the Accountants' Report of the Target Group, the Target Group recorded audited net assets of approximately HK$14.6 million as at 31 December 2020.

The increase in revenue for the year ended 31 December 2020 as compared with the corresponding period in 2019 was mainly attributable to (i) increase in customer demand for factory automation after the pandemic; (ii) increase in exports, such as the explosive growth in demand from the home appliance industry and anti-epidemic supplies; and (iii) the OPCO has expanded its customer base by offering wider service scope from only processing and modifying components to provide overall automatic solution from design, procurement, customized system applications to installation and maintenance of systems.

The Board noted that the Target Group recorded trade receivable of HK$20.2 million as at 31 December 2020, which represents more than 65% of the Target Group's revenue for the full financial year of 2020. It is understood by the Board from the management of the Target Group that the increase of the trade receivable is mainly due to the pandemic in 2020, the factory resumed operation in June, so orders were mainly gathered in the second half of 2020 and the projects of the Target Group being substantially completed in the end of 2020. In addition, the clients of the OPCO requires longer time to settle payment as their operations affected by certain emergency measures with an objective to contain the spread of the coronavirus COVID-19 such as closure of offices.

According to the unaudited management financial information of the Target Group, the Target Group recorded revenue and profit of approximately HK$7.5 million and HK$1.7 million for the three months ended 31 March 2021. It is an industry norm for the manufacturing solution providers in the PRC generated lower revenue and profit in the first quarter of year primarily due to slower and reduced level of production and sales as a result of annual leave of employees and temporary business suspension during the Chinese New Year holiday season. The revenue of the Target Group typically ramps in the second half of a year as normal business operations accelerates after the Chinese New Year holiday season.

Management of the Target Group

Pursuant to the Agreement, Mr. Cheng, a director and general manager of the OPCO, will continue to serve the OPCO for 3 years after Completion. As at the Latest Practicable Date, the Board has no intention to appoint Mr. Cheng as a director of the Company. Mr. Cheng established the OPCO in 2014 and he is the founder of the OPCO. He graduated from Hengyang Normal University with a bachelor degree in industrial electrical automation in 2009. Prior to founding the OPCO, he worked in Guangdong Topstar Tech Co. Ltd. (300607:Shenzhen), a company principally engaged in providing industrial automation solutions and related equipment, responsible for project management. Mr. Cheng has over 10 years of experience in mechanical engineering and production and manufacturing designs. He is involved in both the overall technical and general management of the OPCO. The remuneration of Mr. Cheng will be determined regard to his performance and the market trend.

Mr. Yin Wansun ("**Mr. Yin**"), an executive Director of the Company. Mr. Yin holds a Bachelor's Degree in Engineering from the Dalian University of Technology (formerly known as 大連工學院) in the PRC. He has substantial years of experience in the field of manufacturing engineering and general management and has concrete knowledge in computer-aided engineering technology and production system. On the other hand, Mr. Yin is not the senior management of the OPCO, and upon Completion, the OPCO will become a subsidiary of the Company. In Mr. Yin's capacity as an executive Director, he will be overseeing the overall business activities of the Group, including the OPCO upon Completion. The Company will consider to appoint Mr. Yin to the board of directors of OPCO in near future.

In view of Mr. Yin's education background and experience in engineering industry, alongside with the retention of Mr. Cheng and continuous monitoring by the Company, the Board considers that the business and operation of the OPCO will be effectively managed and controlled. The Board considers that skilled staffs equipped with appropriate knowledge in manufacturing engineering is crucial for management the OPCO, as such, the Group will from time to time, identify, hire and motivate skilled and experienced candidates to ensure efficient operation of the OPCO. The Group will take multi-channel, such as campus recruitment, referral and social recruitment, to recruit suitable candidates.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in (i) retailing business; (ii) financial services business; and (iii) e-Commerce and e-Payment business (collectively, "**Existing Businesses**").

As disclosed in the annual report of the Company for the year ended 31 March 2020, the Group maintains a cautiously optimistic outlook for the current financial year, while proactively seeking positive opportunities in various markets.

The OPCO is an automated production solution provider in the PRC. The main application of the automated solutions offered by the OPCO is in the production process of plastic materials such as modified plastics, recycled plastics and degradable plastics.

The PRC government expects to effectively control plastic pollution and to substantially reduce the amount of plastic waste in landfills. In August 2020, China's National Development and Reform Commission and the Ministry of Ecology and Environment has issued new restrictions (the "**Restrictions**") on the production, sale and use of disposable plastic products. Pursuant to the Restrictions, single-use and non-degradable plastic bags will be banned in China's major cities by the end of 2020 and will be extended to all cities and towns in 2022. In this connection, it is expected that there will be a growing demand for the degradable plastics and plastics recycling. According to the article published by the China Industry Information Network (中國產業信息網 www.chyxx.com) which is operated by Intelligence Research Group (北京智研科信諮詢有限公司), one of the leading industry information providers in the PRC, the market size of the degradable plastics in the PRC increased by approximately 144% from approximately RMB2.5 billion in 2012 to approximately RMB6.1 billion in 2019. The Directors consider that the growing demand of degradable plastics and recycled plastics will drive the demand of machinery for their production. As such, the Board is optimistic towards the prospects of the automated production of plastic materials in the PRC.

Based on the audited financial information of the Target Group for the year ended 31 December 2020, the Target Group recorded revenue of approximately HK$30.7 million, which demonstrated a growth of over 1.2 time as compared with that for year ended 31 December 2019. The Directors consider that the Acquisition will provide another income stream to the Group. In addition, the profit of the Target Group substantially increase from approximately HK$0.3 million for the year ended 31 December 2019 to approximately HK$8.7 million for the year ended 31 December 2020.

The Company has engaged China Commercial Law Firm (廣東華商律師事務所) to perform legal due diligence work and CCTH CPA Limited to perform auditing work on the Target Group, respectively. China Commercial Law Firm has provided their draft legal opinion to the Board that no material legal violation on the asset titles or certificates for the operation of the OPCO was noted. And CCTH CPA Limited has prepared an Accountant's report of the Target Group which give a true and fair view of the combined financial position of the Target Group as at 31 December 2018, 31 December 2019, 31 December 2020 and of its combined financial performance and its combined cash flows of each of the years ended 31 December 2018, 2019 and 2020.

The Board has discussed with the management of the OPCO and was given to understand that the surge of profit is mainly due to the OPCO has put extra effort on research and development with a view to offering value-added services and to optimizing its gross profit margin. Riding on the advanced technology capabilities of the OPCO and skillful talent recruited, the OPCO provides manufacturers with comprehensive solutions for automated production of plastic materials. The gross profit margin increased from approximately 15.1% for the year ended 31 December 2019 to approximately 43.3% for the year ended 31 December 2020.

Having considered the future prospect of plastics materials manufacturing industry and the capability of the OPCO in providing comprehensive solutions for the automated production of plastic materials, the Directors consider that the operation of the OPCO will contribute positively to the Group. In this regard, the Directors consider that the Acquisition is in line with the Group's business diversification strategy and it represents an attractive investment opportunity of the Group to expand in the business with growth potential and to generate diversified income and additional cashflow through the Acquisition.

In view of the above, the Directors are of the view that the terms and conditions of the Acquisition are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

BUSINESS PLAN OF THE GROUP'S EXISTING BUSINESSES

Upon Completion of the acquisition, the Group will be operating both Existing Businesses and the business operated by the Target Group (the "**Acquired Business**").

For the six months ended 30 September 2020, (i) revenue of the Group was contributed by 3 business segments (i.e. retail business, finance services business and e-Commerce and e-Payment) and all of such business segments recorded segment profits; and (ii) the Group recorded net cash inflow from operating activities of approximately HK$8.5 million. The Group will continue to pursue development and expansion of the Existing Businesses, and considers that the Existing Businesses will continue to make significant contribution to the Group's operation and performance and remain as major business segments of the Group.

(i) Retail Business

The retail business of the Company including the retailing of footwear and the operations of convenience store.

(a) Retailing of Footwear

All footwear retail stores in Hong Kong and the PRC had been closed in early 2020, as the Group has taken the approach to concentrate its resources to develop its e-commerce business and shifted the sale of footwear products to online sale. Currently, the Group sells footwear through online sales platforms operated by third parties including Taobao, JD and TMall. The Group offers a diversified range of footwear products including formal, smart casual, sports casual and casual footwear products under its in-house authorized brands. The Group aims to expand its online sales channels and continuously enhance brand recognition in markets. The Group intends to maintain its sales in footwear through existing e-commerce platforms in the PRC, and believes it can expand consumer reach by taking advantage of the established consumer base and brand recognition of the major e-commerce platforms.

The Group has begun initiative in planning to establish mobile applications to further solicit new customers through different e-channels. The Group is of the view that it is critical to maintain its awareness through existing customers as well as potential customers, which are predominantly young to middle aged. In this case, the establishment of dedicated mobile app may trigger higher retention rate, along with built in loyalty programs. In addition, the footwear design and development team of the Group has attended fashion and footwear trade fairs and exhibitions to keep abreast of the latest footwear trends and development, and through these experiences, introduce new ideas and elements to the Group's footwear products.

(b) Operations of Convenience Store

The Group focuses on rendering of franchises and management services to convenience stores located in the PRC. A commissioned management business model (franchisee model) is adopted in this segment, whereby 國信全聯便利店有限公司 (the "**Franchisor**") procures/establishes a store, and the potential franchisee will pay a performance bond. The Group has granted franchises to approximately 50 convenience stores owned by independent third parties across provinces in the PRC.

In order to broaden the geographical coverage of the Convenience Stores, the Group is deciding on the feasibility to uplift the overall awareness of the convenience stores to attract new potential franchisees. In addition, to optimize the client's accessibility and choices to consumer goods, the team has been increasing its exposures to new consumer products and new suppliers by attending trade shows, in order to optimize its pricing policy and controlling its procurement costs. The Group has been soliciting its customers through the use of local agencies, as well as referrals from existing franchisee, however now intends to focus on carrying out advertising through Wechat channels to drive down other unnecessary fees and costs.

(ii) Financial Services Business

The Group possesses a Money Lenders License under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). For the year ended 31 March 2020, the financial services segment recorded revenue of approximately HK$12.2 million. The revenue from financial service segment represents interest income from loan receivable.

In respect of money lending services, the Group offers a personal loan and corporate loan to fulfill different financing needs of the clients for return of interest income. Currently, the Group only solicits its customers from business referrals of existing clients or business connections of the management team, and does not actively seek new clients.

(iii) e-Commerce and e-Payment Business

The Group is designated by UnionPay International Co., Ltd as its overseas UnionPay card acquiring institution and has granted the authorisation to conduct offline acquiring business in Hong Kong, Italy, France, Korean and Japan. At present, the Group actively seeks the suitable merchant to install the point-of-sale terminals to develop the offline acquiring business. This business runs through two major payment methods – traditional UnionPay credit card method and the newer QR Code method. The Group consistently solicits new customers through referrals and local agencies, and has accumulated over 200 customers.

The Board is confident that QR code payment will gain mainstream prominence, therefore plans to further promote the QR code payment to attract a wider customer base. The Group intends to strengthen the referral network as it allows the Group to target potential customers more precisely and procure new customers in a cost-effective manner.

As at the Latest Practicable Date, the Company has no intention, understanding, negotiation or arrangement (concluded or otherwise) to downsize, cease or dispose of any of the Existing Businesses, nor to inject new businesses and/or assets to the Group save for the Acquisition. In light of the ongoing business development and funding needs of the Company in the future, the Company may consider to inject new business to the Group when such opportunities arise. In the event that any potential acquisition(s) and/or investment(s) materializes, the Company will make further announcement in this regard in accordance with the Listing Rules as and when appropriate.

Alongside with the development of the Existing Business, the Acquisition represents the Group's business strategy in expanding into the Acquired Business with growth potential for generating diversified income and additional cashflow. The Group intends to enhance its operation scale and profitability through the development of both the Existing Business and the Acquired Business. Based on the foregoing, the Board is of the view that the Acquisition would not result in a fundamental change in the Group's business.

FINANCIAL EFFECT OF THE ACQUISITION

Based on the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to this circular and the bases and assumptions taken into account in preparing such unaudited pro forma financial information, the Group's total assets and liabilities would be increased by approximately HK$154.2 million and approximately HK$100.8 million respectively as a result of the Acquisition. The details of the financial effect of the Acquisition on the financial position of the Group together with the bases and assumptions taken into account in preparing the unaudited pro forma financial information are set out, for illustration purpose only, in Appendix IV to this circular.

According to the accountants' report of the Target Group as set out in Appendix II to this circular, the Target Group recorded an audited profit for the year of approximately HK$8.7 million for the year ended 31 December 2020. Upon Completion, the entities comprising the Target Group will become subsidiaries of the Company and results of the Target Group will be consolidated into the results of the Enlarged Group. The Directors consider that the Acquisition will bring positive contribution to the earnings of the Enlarged Group but the quantification of such contribution will depend on the future performance of the Target Group.

LISTING RULES IMPLICATIONS

As some of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Acquisition are more than 25% but all applicable percentage ratios are less than 100% under the Listing Rules, the Acquisition constitutes a major transaction of the Company and is therefore subject to reporting, announcement and shareholder's approval requirements under Chapter 14 of the Listing Rules.

The EGM will be convened and held for the Shareholders to consider and, if thought fit, approve, among other things, the relevant resolution in relation to (i) the Agreement and the transactions contemplated thereunder; and (ii) the grant of the Specific Mandate to issue and allot the Consideration Shares. To the best of the Directors' knowledge, information and belief, as at the Latest Practicable Date, no Shareholder has a material interest in the Acquisition which is different from the other Shareholders. Therefore, no Shareholder would be required to abstain from voting on the proposed resolution in relation to the Acquisition at the EGM.

GENERAL

A notice convening the EGM is set out on pages EGM-1 to EGM-3 of this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish, and in such event, the form of proxy shall be deemed to be revoked.

RECOMMENDATION

The Directors consider that the terms of the Agreement are on normal commercial terms, are fair and reasonable and that the entering into of the Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolution to be proposed at the EGM.

ADDITIONAL INFORMATION

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

The English text of this circular, the notice of the EGM and the form of proxy for use at the EGM shall prevail over the Chinese text in case of inconsistency.

By Order of the Board
Vestate Group Holdings Limited
ZHU Xiaojun
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2020 are disclosed in the annual report of the Company for the year ended 31 March 2018 (pages 56 to 169), 2019 (pages 63 to 172) and 2020 (pages 54 to 184) and in the interim report of the Company for the six months ended 30 September 2020 (pages 10 to 28) respectively, which are published on the website of the Company (www.vestategroup.com) and the website of the Stock Exchange (www.hkexnews.hk). Please refer to the hyperlinks as stated below:

2018 annual report:

https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0713/ltn20180713454.pdf

2019 annual report:

https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0731/ltn20190731267.pdf

2020 annual report:

https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0814/2020081400864.pdf

2020 interim report:

https://www1.hkexnews.hk/listedco/listconews/sehk/2020/1224/2020122401255.pdf

2. INDEBTEDNESS STATEMENT

As at the close of business on 31 May 2021, being the latest practicable date for the purpose of this indebtedness statement prior to the publication of the circular, the Enlarged Group had the following outstanding indebtedness:

(a) Bank loans, and overdrafts, debt securities and other borrowings

(i) unsecured 6% convertible bond with the principal amount of HK$30 million ("**CB I**") due for repayment at 116% of the principal amount on 4 July 2020. As the right of conversion of the bond into the Company's shares lapsed on the date of maturity of the CB I, the CB I was reclassified as borrowings payable to the holder of CB I. The outstanding balance of payable to holder of the CB I amounted to approximately HK$41.5 million as at 31 May 2021;

(ii) unsecured 10.5% convertible bond with the principal amount of HK$150 million ("**CB II**") due for repayment on 23 August 2019, which is guaranteed by Mr. Zhu Xiaojun, the Chairman of the Company, and China Consume Elderly Care Holdings Limited, the ultimate holding company of the Company, and can be converted into the Company's shares at the bondholder's option at a conversion price of HK$1.845 per share, and the outstanding balance of payable to holder of the CB II amounted to approximately HK$205.2 million as at 31 May 2021;

(iii) secured and guaranteed corporate bond with the principal amount of HK$350 million (the "**Corporate Bond**"), which bear interest at 12% per annum for the first year and 13% per annum for the second year and was due for payment on 7 May 2019. The Corporate Bond, which is guaranteed by Mr. Zhu Xiaojun, the Chairman of the Company, is secured by the pledge of the shares of China Consume Financial Holdings Company Limited, a wholly owned subsidiary of the Company, and China Investment S.p.A., an entity in which one of the Company's director has beneficial interest, and the outstanding balance payable to holder of corporate bond amounted to approximately HK$542.2 million as at 31 May 2021;

(iv) bank borrowings with the outstanding balances of RMB1.7 million and RMB0.7 million at 31 May 2021, which carried interests at 4.5025% and 18.5% per annum and are secured by guaranteed given by a director of the Target Company, and was due for repayment on 2 April 2021 and 26 October 2023 respectively;

(v) amount due to a related company, China Investment S.p.A, of Euro 15 million (equivalent to HK$140 million) outstanding at 31 May 2021, which is unsecured, non-interest bearing and repayable on demand.

(b) Lease payables

(i) The Enlarged Group leased certain premises for office and production purpose. At 31 May 2021, the Enlarged Group have outstanding payment for these lease payables amounted to HK$3.56 million.

(c) Contingent liabilities

(i) A petition (the "**Petition**") was filed on 11 September 2020 by Mr. Lo Wing Hong Patrick (the "**Petitioner**") against the Company in the High Court of the Hong Kong Special Administrative Region (the "**Court**") for an order that the Company be wound up by the Court. The Petition was filed against the Company for the Company's failure to settle the outstanding principal payment and the accrued interest of the CB I in the sum of HK$36,256,000 which was included in item (a)(i) above. The Petition is adjourned to be heard on 26 July 2021.

As at 31 May 2021, repayment of the CB I, CB II and the Corporate Bond have been overdue, while CB I and CB II contained cross-default terms and became immediately payable. Total overdue interest payable by the Group is estimated to be HK$58,292,000 as at 31 May 2021. As at the close of business on 31 May 2021, the Group had not obtained waivers to comply with these cross-default terms from the relevant bondholders nor have these bondholders taken any action against the Group to demand immediate repayment.

Save as disclosed above and apart from intra-group liabilities, the Group did not have any bank loans, bank overdrafts and liabilities under acceptance (other than normal trade bills) or other similar indebtedness, debenture or other loan capital, mortgages, charges, finance lease or hire purchase commitments, guarantees or other material contingent liabilities at the close of business on 31 May 2021.

3. WORKING CAPITAL

As at 30 September 2020, the Group had net current liabilities and net liabilities of approximately HK$681,326,000 and HK$560,753,000 respectively. The Directors, after due and careful consideration, are of the opinion, taking into account the internal resources, refinance its operations and to restructure its debts, the Group will not have sufficient working capital for at lease twelve months from the date of this circular.

However, if the following events are materialized, the Group's liquidity and financial position will be improved and the Group may have sufficient working capital for at least twelve months from the date of this circular:

(i) receipts by the Group arising from the settlement of the Group's loans receivable with an aggregate sum of HK$206.23 million at their respective maturity dates.

(ii) receipts by the Group totalled approximately HK$81.65 million arising from repayment of the Group's refundable advance payments repayable by three instalments in July, October and December 2021.

(iii) no demand for repayment of the secured and guaranteed corporate bond payable by the Group with the outstanding overdue balance of HK$542.2 million at 31 May 2021.

(iv) no demand for immediate repayment of amount due by the Group to a related company with the outstanding balance of HK$140 million at 31 May 2021.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 March 2020, being the date to which the latest published audited financial statements of the Group was made up.

5. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

The Group is principally engaged in (i) the retailing business; (ii) financial services business; and (iii) e-Commerce and e-Payment business.

(a) Retailing business

As a continuing result of the fallout from the Sino-US trade war, social issues and the spread of COVID-19 virus, the retail sector in both Hong Kong and China has proven to be very challenging. As all footwear retail stores in Hong Kong and the PRC had been closed in early 2020, the Group has taken the approach to concentrate its resources to develop its e-commerce business and shifted the sale of footwear products to online sale. The operations of convenience stores in PRC continue to provide a wide range of everyday consumer products, and also offer a range of other services, such as: 5G Smart Services, breakfast and supper sets, courier services, simple home repairing services, etc.

(b) Financial services business

The Group is engaged in the financial services to institutional and retail clients in Hong Kong and PRC. The Group possesses licenses for a various range of financial services in Hong Kong including money lending and other financial services. The Group will continue to invest further resources to enhance its overall customer service in expanding its customer base in the future.

(c) e-Commerce and e-Payment business

This sector is operated under the company Chine Consume Financial Holdings Company Limited ("**China Consume**") and focuses entirely on the Business to Business (B2B) model, in which it revolves around the POSP system that is responsible for accessing various payment channels of UnionPay International and providing POS acquiring technical services for customers. This business runs through two major payment methods, through traditional Unionpay credit card method and the newer QR code method. The method of paying through credit card is similar to QR code. When the total transaction amount is set in the retailer's POS system at a retail check out, the customer will open China Consume's application on their device and display the QR code. This QR code is a unique code that identifies the customer's details, and once the shop scans this code with a QR code scanner, the transaction is finalised and sent to China Consumer's bank account for settlement, in which the amount upon deduction of processing fee (profit), will then be transferred back to the merchant.

The e-Commerce and e-Payment business segment currently has over 200 retail customers, in which they are solicited through referrals and local agencies. The target clients of this sector varies greatly as it welcomes business opportunities from all types of businesses that embraces QR code payment.

It has been the business strategy of the Group to explore opportunities in soliciting new business partners and investors with the aim to diversify the Group's business scope. As disclosed in the paragraph headed "Reasons for and Benefits of the Acquisition" in the Letter from the Board, having considered the future prospect of plastics materials manufacturing industry and the capability of the OPCO in providing comprehensive solutions for the automated production of plastic materials, the Directors consider that the operation of the OPCO will contribute positively to the Group. In this regard, the Directors consider that the Acquisition is in line with the Group's business diversification strategy and it represents an attractive investment opportunity of the Group to expand in the business with growth potential and to generate diversified income and additional cashflow through the Acquisition.

The following is the text of a report received from CCTH CPA Limited, the reporting accountants of the Company, for the purpose of incorporation into this circular.

CCTH CPA LIMITED
中正天恆會計師有限公司

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

Introduction

We report on the historical financial information of Scape Bliss Limited (the "**Target Company**") and its subsidiaries (collectively referred to as the "**Target Group**") set out on pages II-4 to II-38, which comprises the combined statements of financial position as at 31 December 2018, 2019 and 2020, the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the years ended 31 December 2018, 2019 and 2020 (together the "**Relevant Periods**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-4 to II-38 forms an integral part of this report, which has been prepared for inclusion in the circular of Vestate Group Holdings Limited (the "**Company**") dated 30 June 2021 (the "**Circular**") in connection with the proposed acquisition (the "**Acquisition**") by the Company of 51% issued share capital in the Target Company.

Director's responsibilities for the historical financial information

The sole director of the Target Company is responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the sole director of the Target Company determines is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The financial statements of the Target Group for the Relevant Periods (the "**Underlying Financial Statements**"), on which the Historical Financial Information is based, were prepared by the sole director of the Target Company. The sole director of the Target Company is responsible for the preparation of the Underlying Financial Statements in accordance with the basis of presentation and preparation set out therein which conform with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), and for such internal control as the sole director determines is necessary to enable the preparation of Underlying Financial Statements that are free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the HKICPA. This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the sole director of the Target Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the combined financial position of the Target Group as at 31 December 2018, 31 December 2019, 31 December 2020 and of its combined financial performance and its combined cash flows for the Relevant Periods in accordance with the basis of presentation and preparation set out in Note 2 to the Historical Financial Information.

Report on Matters Under the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange of Hong Kong Limited and The Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

Dividends

We refer to Note 12 to the Historical Financial Information which states that no dividends have been paid by the Target Company in respect of the Relevant Periods.

CCTH CPA Limited
Certified Public Accountants
Hong Kong

Lee Chi Hang
Practising certificate number: P01957

30 June 2021

HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of the Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The combined financial statements of the Target Group for the Relevant Periods (the "**Underlying Financial Statements**"), on which the Historical Information is based, were audited by CCTH CPA Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in Hong Kong dollars ("**HK$**") and all values are rounded to the nearest thousand ("**HK$'000**") except when otherwise indicated.

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		
	Notes	**2018**	**2019**	**2020**
		HK$'000	*HK$'000*	*HK$'000*
Revenue	6	14,050	13,490	30,650
Cost of sales	7	(12,089)	(11,459)	(17,373)
Gross profit		1,961	2,031	13,277
Other income	8	–	–	5,365
Selling and distribution expenses	7	(356)	(2)	(1,979)
Administrative expenses	7	(289)	(709)	(4,454)
Research and development expenses	7	(789)	(948)	(1,494)
Operating profit		527	372	10,715
Finance income	9	2	–	–
Finance costs	9	–	–	(92)
Profit before tax		529	372	10,623
Income tax expense	10	(59)	(27)	(1,967)
Profit for the year		470	345	8,656
Other comprehensive (loss)/income				
Item that may be subsequently reclassified to profit or loss:				
Exchange differences arising on translation of foreign operations		(63)	(30)	413
Total comprehensive income for the year		407	315	9,069

COMBINED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2018 HK$'000	2019 HK$'000	2020 HK$'000
Non-current assets				
Property, plant and equipment	14	10	15	5,379
Right-of-use assets	15	–	241	1,522
Deposits paid for acquisition of property, plant and equipment		–	–	1,967
		10	256	8,868
Current assets				
Inventories	16	3	22	7,378
Trade and bills receivables	17	3,917	7,251	20,234
Deposits, prepayments and other receivables	18	4,028	6,458	10,441
Amount due from a shareholder	19	356	–	–
Cash and cash equivalents	20	1,073	6,290	443
		9,377	20,021	38,496
Current liabilities				
Trade payables	21	5,448	6,044	9,522
Accruals and other payables	21	80	94	2,417
Contract liabilities	22	2,178	10,606	13,995
Amount due to a director	23	–	469	1,241
Borrowings	24	–	1,081	2,055
Lease liabilities	25	–	–	1,019
Income tax payable		20	7	2,233
		7,726	18,301	32,482
Net current assets		1,651	1,720	6,014
Total assets less current liabilities		1,661	1,976	14,882
Non-current liabilities				
Lease liabilities	25	–	–	332
Net assets		1,661	1,976	14,550
Capital and reserves				
Share capital	26	989	989	4,494
Reserves		672	987	10,056
Total equity		1,661	1,976	14,550

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Share capital *HK$'000*	Foreign currency translation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2018	599	–	265	864
Profit for the year	–	–	470	470
Other comprehensive loss				
Exchange differences on translation of foreign operations	–	(63)	–	(63)
Total comprehensive (loss)/income for the year	–	(63)	470	407
Capital injection	390	–	–	390
At 31 December 2018 and 1 January 2019	989	(63)	735	1,661
Profit for the year	–	–	345	345
Other comprehensive loss				
Exchange differences on translation of foreign operations	–	(30)	–	(30)
Total comprehensive (loss)/income for the year	–	(30)	345	315
At 31 December 2019 and 1 January 2020	989	(93)	1,080	1,976
Profit for the year	–	–	8,656	8,656
Other comprehensive income				
Exchange differences on translation of foreign operations	–	413	–	413
Total comprehensive income for the year	–	413	8,656	9,069
Capital injection	3,505	–	–	3,505
At 31 December 2020	4,494	320	9,736	14,550

COMBINED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*
Operating activities			
Profit before tax	529	372	10,623
Adjustments for:			
Depreciation of property, plant and equipment	1	3	154
Depreciation of right-of-use assets	–	82	720
Finance costs	–	–	92
Finance income	(2)	–	–
Operating cash flows before movements in working capital	528	457	11,589
Increase in inventories	(3)	(19)	(7,356)
Increase in trade receivables	(2,991)	(3,334)	(12,983)
Increase in deposits, prepayments and other receivables	(1,677)	(2,757)	(3,983)
Increase/(decrease) in amount due from a director	(356)	–	–
Increase in trade payables	3,599	596	3,478
Increase/(decrease) in accruals and other payables	(469)	14	1,398
Increase in amount due to a director	–	825	772
Increase in contract liabilities	1,254	8,428	3,389
Cash (used in)/generated from operations	(115)	4,210	(3,696)
Income tax (paid)/refunded	(57)	(40)	259
Net cash (used in)/generated from operating activities	(172)	4,170	(3,437)
Cash flows from investing activities			
Interest received	2	–	–
Purchases of property, plant and equipment	(12)	(9)	(5,229)
Increase in deposits paid for acquisition of property, plant and equipment	–	–	(1,967)
Net cash used in investing activities	(10)	(9)	(7,196)

	Year ended 31 December		
	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*
Cash flows from financing activities			
Proceeds from capital injections	390	–	3,713
Proceeds from borrowings	–	1,081	916
Repayment of borrowings	–	–	(14)
Repayment of lease liabilities	–	–	(342)
Interest paid	–	–	(41)
Net cash generated from financing activities	390	1,081	4,232
Net increase/(decrease) in cash and cash equivalents	208	5,242	(6,401)
Cash and cash equivalents at beginning of the year	927	1,073	6,290
Effect on foreign exchange rate changes	(62)	(25)	554
Cash and cash equivalents at end of the year	1,073	6,290	443
Analysis of cash and cash equivalents at the end of the year			
Cash at banks and on hand	1,073	6,290	443

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL, REORGANISATION AND BASIS OF PREPARATION

General information

Scape Bliss Limited (the "**Target Company**") was incorporated in the British Virgin Islands on 5 September 2018 as an exempted company with limited liability. Sunrise IVF (HK) Service Limited ("**Sunrise IVF**"), a wholly-owned subsidiary of the Target Company, was incorporated in Hong Kong on 12 September 2018 with limited liability. 深圳市曦蕾試管國際諮詢有限公司 ("**SZ Company**"), an indirect subsidiary of the Target Company, was incorporated in the People's Republic of China (the "**PRC**") on 15 February 2019 as a wholly foreign owned enterprise and 廣東明大智能設備科技有限公司 incorporated in the PRC on 2 January 2014.

The Target Company, Sunrise IVF and SZ Company are all engaged in investment holding, and each of them has not recorded any profits as they have no business operation since incorporation. The ultimate controlling shareholder (the "**Controlling Shareholder**") of the Target Company is Mr. Cheng Zhengwei ("**Mr. Cheng**").

These combined financial statements of the Target Company and its subsidiaries (collectively referred to as the "**Target Group**") for the Relevant Periods is presented in Hong Kong dollars and all values are rounded to the nearest thousand except otherwise indicated. The functional currency of the Target Group is Renminbi ("**RMB**") as the operations of the Target Group are mainly carried out in the PRC.

Reorganisation

In preparation for the proposed acquisition (the "**Acquisition**") of the Target Group by Vestate Group Holdings Limited (the "**Company**"), the Target Group underwent a reorganisation (the "**Reorganisation**").

Upon completion of the Reorganisation on 3 March 2021, the Target Company became the holding company of the companies now comprising the Target Group.

Upon completion of the Reorganisation and as at the date of this report, the Target Company had direct or indirect interests in the following subsidiaries:

Company name	Place and date of incorporation and nature of legal entity	Issued and paid up capital/registered capital	Percentage of equity interest held	Principal activities
Direct held:				
Sunrise IVF *(Note (a))*	Hong Kong, 12 September 2018, limited liability company	HK$1	100%	Investment holding
Indirect held:				
SZ Company *(Notes (a) and (c))*	The PRC, 15 February 2019, limited liability company	–	100%	Investment holding
廣東明大智能設備科技有限公司 *(Notes (b) and (d))*	The PRC, 2 January 2014, limited liability company	RMB4,104,000	100%	Establishing solutions for automated transportation in the production process of materials in the PRC

Notes:

(a) No audited financial statements have been issued for Sunrise IVF and SZ Company since their respective dates of incorporation.

(b) The statutory auditor for the years ended 31 December 2018 and 2019 was 廣東維德會計師事務所. The statutory auditor for the year ended 31 December 2020 was 利安達會計師事務所(特殊普通合夥)深圳分所.

(c) The English translation of the SZ Company is for identification purpose only. This entity does not have official English name.

(d) 廣東明大智能設備科技有限公司 was formerly known as 東莞市明大機械有限公司.

Basis of presentation

The companies now comprising the Target Group, were under common control of the Controlling Shareholder, Mr. Cheng, immediately before and after the Reorganisation. Accordingly, the Reorganisation is regarded as a business combination under common control, and for the purpose of this report, the Historical Financial Information has been prepared on a combined basis.

The Historical Financial Information has been prepared by including the historical financial information of the companies now comprising the Target Group, under the common control of Mr. Cheng, immediately before and after the Reorganisation as if the current group structure had been in existence throughout the Relevant Periods, or since the date when the combining companies first came under the control of Mr. Cheng, whichever is a short period.

2. BASIS OF PREPARATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information of the Target Group has been prepared for inclusion in the Circular in connection with the Acquisition.

The Historical Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institution of Certified Public Accountants (the "**HKICPA**"). Further details of the significant accounting policies are set out in note 3.

HKICPA has issued certain new and revised HKFRSs. For the purpose of preparing this Historical Financial Information, the Target Group has adopted all applicable new and revised HKFRSs for the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting periods beginning on 1 January 2021. The revised and new accounting standard and interpretations issued but not yet effective for accounting period beginning on 1 January 2020 are set out in note 29.

The accounting policies set out in note 3 have been applied consistently to all periods presented in the Historical Financial Information.

3. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes all applicable disclosures required by The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Target Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Target Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

– Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

– Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

– Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted by are as follows:

Basic of consolidation

(i) Subsidiaries

The Historical Financial Information includes the financial information of the Target Company and its subsidiaries.

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Target Company. Control is achieved when the Target Company (i) has power over the investee; (ii) is exposed, or has rights, to variable returns from its involvement with the investee; and (iii) has the ability to affect those returns through its power over the investee.

Consolidation of a subsidiary begins when the Target Company obtains control over the subsidiary and ceases when the Target Company loses control of the subsidiary.

Business combinations of entities under common control

The Historical Financial Information incorporates the financial statement items of the entities or businesses in which the common control combination occurs as if they had been combined from the date when the entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquirer's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined statements of profit and loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the director of the Target Company, the chief operating decision-maker who is responsible for allocating resources and assessing performance of the operating segments that makes strategic decisions.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

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

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis at the following annual rates:

Motor vehicles	25%
Furniture, fixtures and equipment	20%
Computer equipment	20%

The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets commences when the assets are ready for their intended use and depreciates on the same basis as other property assets.

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

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

Financial instruments

Financial assets and financial liabilities are recognised when a entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 "Revenue from Contracts with Customers" ("**HKFRS 15**"). Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income which is derived from the Target Group's ordinary course of business are presented as revenue.

Financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payment of principal and interest ("**SPPI**").

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("**FVTOCI**"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are SPPI.

All other financial assets are subsequently measured at fair value through profit or loss, except that at initial recognition of a financial asset the Target Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Impairment of financial assets

The Target Group performs impairment assessment under expected credit loss ("**ECL**") model on financial assets (including trade receivables, deposits and other receivables, amount due from a director and cash and cash equivalents) which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Target Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Target Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Target Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Target Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Target Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Target Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Target Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Target Group has reasonable and supportable information that demonstrates otherwise.

The Target Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Target Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Target Group, in full (without taking into account any collaterals held by the Target Group).

Irrespective of the above, the Target Group considers that default has occurred when a financial asset is more than 90 days past due unless the Target Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Target Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Target Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Target Group in accordance with the contract and the cash flows that the Target Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Target Group's trade receivables are each assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Target Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Target Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Target Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Target Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Target Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities (including trade payables, accruals and other payables, amount due to a director, borrowings and lease liabilities) are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Target Group derecognises financial liabilities when, and only when, the Target Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit of loss.

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Impairment of non-financial assets

At the end of each reporting period, the Target Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment; and

- right-of-use assets

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Value in use is based on the estimated future cash flows expected to be derived from the asset or cash-generating unit, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturity of three months or less.

Income tax

Income tax expense comprises current tax and deferred tax.

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

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

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

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

Current and deferred tax are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly to equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

In assessing any uncertainty over income tax treatments, the Target Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be used by individual group entities in their income tax filings. If it is probable, the current and deferred taxed are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Foreign currencies

Transactions entered into by the Target Group in currencies other than the functional currency are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Historical Financial Information, the assets and liabilities are translated into the presentation currency of the Target Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve.

Employee benefits

(a) Short term employee benefit

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(b) Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(c) Termination benefits

Termination benefits are recognised on the earlier of when the Target Group can no longer withdraw the offer of those benefits and when the Target Group recognises restructuring costs involving the payment of termination benefits.

Provisions and contingent liabilities

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

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

Revenue recognition

The Target Group recognise revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents goods or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Target Group's performance as the Target Group performs;
- the Target Group's performance creates and enhances an asset that the customer controls as the Target Group performs; or
- the Target Group's performance does not create an asset with an alternative use to the Target Group and the Target Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at point in time when the customer obtains control of the distinct goods or service.

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Target Group's performance in transferring control of goods or services.

A contract asset represents the Target Group's right to consideration in exchange for goods or services that the Target Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Target Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Target Group's obligation to transfer goods or services to a customer for which the Target Group has received consideration (or an amount of consideration is due) from the customer.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Target Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, except for the allocation of discounts.

The stand-alone selling price of the distinct goods or service underlying each performance obligation is determined at contract inception. It represents the price at which the Target Group would sell promised goods or service separately to a customer. If a stand-alone selling price is not directly observable, the Target Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance, obligation reflects the amount of consideration to which the Target Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Government grants and subsidies

Grants and subsidies from the government are recognised at their fair value where there is a reasonable assurance that the grant and subsidies will be received and the Target Group will comply with all attached conditions.

Lease

Definition of a lease (upon application of HKFRS 16 from 1 January 2019, date of initial application)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Target Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date of acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Target Group as a lessee (upon application of HKFRS 16 from 1 January 2019, date of initial application)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Target Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate standalone price of the non-lease components, including contract for acquisition of ownership interests of a property which includes both leasehold land and non-lease building components, unless such allocation cannot be made reliably.

The Target Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Target Group reasonably expects that the effects would not differ materially from individual leases within the portfolio.

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liabilities;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Target Group; and
- an estimate of costs to be incurred by the Target Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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

When the Target Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property, plant and equipment.

The Target Group presents right-of-use assets as a separate line item on the combined statements of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("**HKFRS 9**") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right of use assets.

Lease liabilities

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

The lease payments includes:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Target Group under residual value guarantees;
- the exercise price of a purchase option if the Target Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Target Group exercising an option to terminate the lease.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

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

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

- the lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Target Group presents lease liabilities as a separate line item on the combined statements of financial position.

Lease modifications

The Target Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Target Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Target Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use assets. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Target Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Target Group as a lessee (prior to 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Lease incentives relating to operating leases are considered as integral part of lease payments, the aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Research and development expense

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Target Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In the application of the Target Group's accounting policies, which are described in note 3, the sole director of the Target Company is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments, apart from those involving estimations, that the director of the Target Company has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the Historical Financial Information.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next 12 months.

Useful lives and impairment of property, plant and equipment

In accordance with HKAS 16, the Target Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Target Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid. The Target Group tests annually whether the assets have suffered any impairment. The recoverable amount of an asset or a cash generating unit is determined based on value in use calculations which require the use of assumptions and estimates.

Income tax

Determining income tax provisions involve judgment on the future tax treatment of certain transactions. The Target Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Impairment of receivables

The Target Group applies the simplified approach to provide for expected credit loss in respect of trade receivables. The provision rates are based on groupings of various debtors that have similar loss patterns and the Target Group's historical default rates taking into consideration forward-looking information that is receivable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, the Target Group's receivables with significant balances and credit impaired are assessed for expected credit loss individually. The provision for expected credit loss is sensitive to changes in estimates.

For the assessment of expected credit loss of other financial assets at amortised costs, the Target Group uses three categories for those financial assets, including other receivables, which reflect their credit risk and how the loss provision is determined for each of those categories. These internal credit risk ratings are aligned to external credit ratings, where possible.

The information about the expected credit loss of the Target Group's receivables are disclosed in note 27.

5. SEGMENT INFORMATION

The Target Group is principally engaged in establishing solutions for automated transportation in the production process of materials in the PRC. The director of the Target Company is identified as the chief operating decision maker for the purposes of resource allocation and performance assessment and considered the establishing solutions for automated transportation in the production process of material business to be a single operating segment. Accordingly, no segment information is reported. For the Relevant Periods, all non-current non-financial assets of the Target Group were located in the PRC.

No geographical segment information of the Target Group is shown as all the assets are located in the PRC.

6. REVENUE

An analysis of revenue from contracts with customers is as follows:

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Revenue from contracts with customers			
Recognised at point in time			
Sales of products	14,050	13,490	30,650

7. EXPENSES BY NATURE

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Costs of inventories sold in inventories	12,089	11,459	17,373
Auditors' remuneration	–	–	–
Depreciation of property, plant and equipment	1	3	154
Depreciation of right-of-use assets	–	82	720
Employee benefit expenses	614	660	2,573
Other expenses	819	914	4,480
Total cost of sales, selling and distribution expenses, administrative expenses and research and development expenses	13,523	13,118	25,300

Expenses by nature of the Target Group have been presented in the combined statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Cost of sales	12,089	11,459	17,373
Selling and distribution expenses	356	2	1,979
Administrative expenses	289	709	4,454
Research and development expenses	789	948	1,494
	13,523	13,118	25,300

8. OTHER INCOME

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Government subsidies	–	–	79
Income from grant of patent right	–	–	5,286
	–	–	5,365

During the year ended 31 December 2020, the Target Group entered into an agreement with a third party under which a patent owned by the Target Group in connection with manufacture the of dehumidification dryer are granted to and used by the third party for a consideration of RMB4,980,000 (equivalent to HK$5,286,000) for the period from 1 January 2020 to 31 December 2020.

Income from grant of the patent right is recognised over time using the output method.

9. FINANCE INCOME/FINANCE COSTS

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Finance income			
Bank interest income	2	–	–
Finance costs			
Interest on bank and other borrowings	–	–	41
Interest on lease liabilities	–	–	51
Finance costs	–	–	92

10. INCOME TAX EXPENSE

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Current tax – The PRC	59	27	1,967

Hong Kong profits tax has not been provided for as the Target Group has no assessable profits for the Relevant periods.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for Relevant periods.

Pursuant to the laws and regulations of the British Virgin Islands ("**BVI**"), the Target Group is not subject to any income tax in the BVI.

The income tax expense for the year can be reconciled to the profit before taxation per the combined statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Profit before tax	529	372	10,623
Tax calculated at domestic tax rates	135	93	2,656
Income not subject to tax	–	–	(6)
Expenses not deductible for tax purposes	9	105	156
Deductible temporary differences not recognised	(85)	(171)	(839)
	59	27	1,967

11. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Salaries, wages and bonuses	519	523	2,378
Pension costs – defined contribution plans	–	–	–
Welfare and other expenses	95	137	195
	614	660	2,573

No directors of the Target Group received any fees or emoluments in respect of their services rendered to the Target Group during the Relevant Periods.

12. DIVIDENDS

No dividend has been paid or declared by the Target Company during the Relevant Periods.

13. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of Historical Financial Information, is not considered meaningful.

14. PROPERTY, PLANT AND EQUIPMENT

	Computers equipment	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Costs					
At 1 January 2018	1	–	–	–	1
Additions	–	12	–	–	12
Exchange realignments	–	(1)	–	–	(1)
At 31 December 2018 and 1 January 2019	1	11	–	–	12
Additions	–	8	–	–	8
Exchange realignments	–	–	–	–	–
At 31 December 2019 and 1 January 2020	1	19	–	–	20
Additions	128	2,808	363	1,930	5,229
Exchange realignments	8	168	22	115	313
At 31 December 2020	137	2,995	385	2,045	5,562
Accumulated depreciation					
As at 1 January 2018	1	–	–	–	1
Charge for the year	–	1	–	–	1
Exchange realignments	–	–	–	–	–
At 31 December 2018 and 1 January 2019	1	1	–	–	2
Charge for the year	–	3	–	–	3
Exchange realignments	–	–	–	–	–
At 31 December 2019 and 1 January 2020	1	4	–	–	5
Charge for the year	3	133	18	–	154
Exchange realignments	1	22	1	–	24
At 31 December 2020	5	159	19	–	183
Carrying amount					
At 31 December 2018	–	10	–	–	10
At 31 December 2019	–	15	–	–	15
At 31 December 2020	132	2,836	366	2,045	5,379

15. RIGHT-OF-USE ASSETS

	Leased properties
	HK$'000
Carrying amount at 1 January 2019	–
Additions	327
Depreciation provided for the year ended 31 December 2019	(82)
Exchange differences	(4)
Carrying amount at 31 December 2019	241
Additions	1,913
Depreciation provided for the year ended 31 December 2020	(720)
Exchange differences	88
Carrying amount at 31 December 2020	1,522
Expense relating to short-term leases and other leases with lease terms end within twelve months of the date of 1 January 2019, date of initial application of HKFRS 16	22
Total cash outflow for leases for the year ended 31 December 2019	327
Total cash outflow for leases for the year ended 31 December 2020	342

The Target Group leases office and factories spaces under non-cancellable operating lease for its operations. Lease contracts are entered into for fixed terms of two years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Target Group applies the definition of a contract and determines the period for which the contract is enforceable.

16. INVENTORIES

		As at 31 December	
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	–	–	3,323
Work in progress	–	–	4,055
Finished goods	3	22	–
	3	22	7,378

17. TRADE AND BILLS RECEIVABLES

	As at 31 December		
	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables arose from sales of goods:			
– during the current year	3,182	7,055	20,233
– prior to current years	735	196	1
	3,917	7,251	20,234

An aged analysis of trade receivables at the end of the Relevant Periods by invoice date are as follows:

	As at 31 December		
	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*
0–30 days	243	1,348	971
31–60 days	1,118	3,664	6,069
61–90 days	52	1,323	5,427
Over 90 days	2,504	916	7,767
	3,917	7,251	20,234

The Target Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 days to 90 days for the Relevant Periods.

An aged analysis of trade receivables at the end of the Relevant Periods are as follows:

	As at 31 December		
	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*
Neither past due nor impaired	1,413	6,335	20,234
Past due but not impaired			
– over 90 days	2,504	916	–
	3,917	7,251	20,234

Trade receivables that were neither past due nor impaired mainly represent unsettled trades receivables at the end of each reporting period and it also relate to a wide range of independent clients for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to an independent client that has a good track record with the Target Group. Based on past experiences, the management believes that no impairment allowance is necessary in respect of this balance as there has not been a significant change in credit quality and the balance is considered recoverable.

The trade receivables amounted to approximately of HK$20,234,000 at 31 December 2020 were settled to the extent of approximately HK$10,609,000 subsequent to that date.

Details of impairment assessment of accounts receivable for the Relevant Periods are set out in Note 27 to the Historical Financial Information.

18. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Advance payments to third parties for purchase of goods	4,028	6,458	8,344
Prepayments	–	–	1,513
Other receivables	–	–	584
	4,028	6,458	10,441

19. AMOUNT DUE FROM A SHAREHOLDER

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Amount due from Mr. Cheng Zhengwei	356	–	–

	Maximum balances outstanding during the period		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Amount due from Mr. Cheng Zhengwei	356	356	–

The amount due from a shareholder is non-trade, unsecured, interest-free and repayable on demand.

20. CASH AND CASH EQUIVALENTS

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Cash at banks and on hand	1,073	6,290	443

All the Target Group's cash and bank balances were denominated in Renminbi. The conversion of these Renminbi into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

21. TRADE AND OTHER PAYABLES

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	5,448	6,044	9,522
Accruals and other payables	80	94	2,417
	5,528	6,138	11,939

An aged analysis of trade payables at the end of the Relevant Periods by invoice date are as follows:

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
0–30 days	284	1,120	3,144
31–60 days	749	1,617	2,822
61–90 days	1,943	1,051	2,196
Over 90 days	2,472	2,256	1,360
	5,448	6,044	9,522

The trade payables are non-interest-bearing and are normally settled on terms ranging from 30 to 90 days.

22. CONTRACT LIABILITIES

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Contract liabilities	2,178	10,606	13,995

As at 1 January 2018, contract liabilities amounted to HK$924,000.

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Revenue recognised that was included in the contract liability balance at the beginning of the year	924	2,178	10,606

Contract liabilities of the Target Group represents advance receipts from customers, being third parties, for sales of goods in the ordinary course of the Target Group's business. The contract liabilities are expected to be settled within the Target Group's normal operating cycle and are classified as current.

23. AMOUNTS DUE TO A DIRECTOR

The amounts due to a director is interest free, unsecured and repayable on demand.

24. BORROWINGS

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Unsecured bank borrowings, at fixed interest rates	–	1,081	2,055

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Borrowings repayable on demand or within one year	–	1,081	2,055

As the lenders are given unconditional right to call the loans at any time, the borrowing are classified as current liabilities of the Target Group.

The interest rates on the Group's bank borrowings at the end of the reporting periods are as follows:

	Outstanding bank borrowings	
	RMB800,000	*RMB1,000,000*
Interest rate as at:		
31 December 2018	N/A	N/A
31 December 2019	N/A	4.5%
31 December 2020	18.5%	4.5%

As the bank borrowings with the outstanding balances of RMB800,000 at 31 December 2020 were borrowed from a non-local bank that are repayable by fixed monthly instalments under the relevant bank loan agreement, such bank borrowings carried interest at the interest rate which is above the average borrowing rates of the Target Group.

25. LEASE LIABILITIES

	As at 31 December	
	2019	**2020**
	HK$'000	*HK$'000*
Lease liabilities payable:		
Within one year	–	1,019
Within a period of more than one year but not more than two years	–	332
Total lease liabilities	–	1,351
Less: Amount due for settlement within twelve months	–	(1,019)
Amount due for settlement after twelve months shown under non-current liabilities	–	332

26. SHARE CAPITAL

Share capital represents the paid up capital of the Target Company and 廣東明大智能設備科技有限公司, as follows:

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Paid up capital			
– Target Company	599	599	4,104
– 廣東明大智能設備科技有限公司	390	390	390
	989	989	4,494

27. FINANCIAL RISK MANAGEMENT

Categories of financial instruments

The Target Group's financial assets and financial liabilities can be categorised into the following:

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Financial assets			
Financial assets at amortised cost			
Trade receivables	3,917	7,251	20,234
Deposits and other receivables	–	–	584
Amount due from a director	356	–	–
Cash and cash equivalents	1,073	6,290	443
	5,346	13,541	21,261
Financial liabilities			
Financial liabilities at amortised cost			
Trade payables	5,448	6,044	9,522
Accruals and other payables	80	94	2,417
Amount due to a director	–	469	1,241
Borrowings	–	1,081	2,055
Lease liabilities	–	–	1,351
	5,528	7,688	16,586

Financial risk factors

The Target Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Target Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance.

Management regularly manages the financial risks of the Target Group. Because of the simplicity of the financial structure and the current operations of the Target Group, no major hedging activities are undertaken by management.

(a) Foreign currency risk

The Target Group operates principally in the PRC. Transactions are mainly conducted in the functional currency of each group entity and therefore the foreign currency risk is considered to be minimal. The conversion of Renminbi into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(b) Interest rate risk

The Target Group has no significant floating interest-bearing assets and liabilities. Any change in interest rates in respect of the bank balances of the Target Group is regarded insignificant as these bank balances are short-term in nature. Accordingly, no sensitivity analysis to interest rate risk is presented. The Target Group has not used interest rate swaps to hedge its exposure to interest rate risk.

(c) Credit risk

The Target Group is exposed to credit risk and the Target Group's maximum exposure to credit risk in relation to financial assets is the carrying amount of the respective recognised financial assets as stated in the combined statements of financial position.

The Target Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Target Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition, having considered available reasonable and supportive forwarding looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtor/customer;
- significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customer in the Group and changes in the operating results of the customer.

(i) Trade receivables

The Target Group applies the simplified approach to provide for expected credit losses for trade receivables prescribed HKFRS 9, which permits the use of the lifetime expected loss provision for these receivables.

The sole director of the Target Company considers that no loss allowance for trade receivables has to be recognised as management is of the view that most of the customers are in good quality and the trade receivables are substantially settled within a short period.

(ii) Bank deposits

The table below shows the bank deposits balances included in cash and cash equivalents:

		As at 31 December		
	Rating	**2018**	**2019**	**2020**
		HK$'000	*HK$'000*	*HK$'000*
Bank deposits	A	72	23	443

The rating represents long-term credit rating provided by Moody's, an internationally recognised credit rating agency. A rating within the "A" category is judged to be upper medium grade and are subject to low credit risk under the rating regime of Moody's. Given that significant portion of the bank deposits are placed with banks that are independently rated with high credit rating with no default history in past years, management of the Target Group considers that the credit risk on the bank balances and bank deposits is limited.

(d) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the director of the Target Company. The Target Group manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below analyses the Target Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of reporting date to the contractual maturity date. The accounts disclosed in the table are the contractual undiscounted cash flows based on the earliest date on which the Group can be required to pay:

	As at 31 December 2018		
	Within one year	**Total undiscounted cash flows**	**Carrying amount**
	HK$'000	*HK$'000*	*HK$'000*
Non-derivative financial liabilities			
– Trade payables	5,448	5,448	5,448
– Accruals and other payables	80	80	80
	5,528	5,528	5,528

	As at 31 December 2019		
	Within one year	**Total undiscounted cash flows**	**Carrying amount**
	HK$'000	*HK$'000*	*HK$'000*
Non-derivative financial liabilities			
– Trade payables	6,044	6,044	6,044
– Accruals and other payables	94	94	94
– Amount due to a director	469	469	469
– Borrowings	1,138	1,138	1,081
	7,745	7,745	7,688

	As at 31 December 2020			
	Within one year	**Between one to five years**	**Total undiscounted cash flows**	**Carrying amount**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities				
– Trade payables	9,522	–	9,522	9,522
– Accruals and other payables	2,417	–	2,417	2,417
– Amount due to a director	1,241	–	1,241	1,241
– Borrowings	2,273	–	2,273	2,055
– Lease liabilities	1,072	339	1,411	1,351
	16,525	339	16,864	16,586

Capital risk management

The Target Group's objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Target Group may adjust the amount of dividends paid to shareholders, issue new shares of the Target Company, raise new debts or sell assets to reduce debt.

The Target Group's capital structure is being reviewed annually to ensure these objectives are to be achieved.

The gearing ratios at the end of the reporting periods were as follows:

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Borrowings	–	1,081	2,055
Lease liabilities	–	–	1,351
Total debts	–	1,081	3,406
Total assets	9,387	20,277	47,364
Gearing ratio	N/A	5.33%	7.19%

Fair value measurements of financial instruments

The financial assets and financial liabilities are not measured at fair value at the end of the reporting periods.

There were no transfer in or out of level 3 fair value and no transfer between Level 1 and Level 2 in the years.

The director of the Company considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate their fair value. The fair values of financial assets and financial liabilities have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

28. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Borrowings *HK$'000*	Lease liabilities *HK$'000*	Total *HK$'000*
At 1 January 2018, 31 December 2018 and 1 January 2019	–	–	–
Financing cash inflows	1,081	–	1,081
Financing cash outflows	–	–	–
At 31 December 2019 and 1 January 2020	1,081	–	1,081
Proceeds from borrowings	916	–	916
Financing cash outflows	(67)	(689)	(756)
Recognition upon new leases entered by the Target Group	–	1,913	1,913
Finance costs for the year	41	51	92
Exchange realignments	84	76	160
At 31 December 2020	2,055	1,351	3,406

29. POSSIBLE IMPACT OF AMENDMENTS NEW STANDARDS AND INTERPRETATIONS

Up to the date of issue of this report, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the annual period beginning on 1 January 2020 and have not been early adopted in this Historical Financial Information.

HKFRS 17	Insurance Contracts and the related Amendments[1]
HKFRS 16 (Amendment)	Covid-19-Related Rent Concessions[4]
HKFRS 3	Reference to the Conceptual Framework[2]
HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 (Amendments)	Interest Rate Benchmark Reform – Phase 2[5]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 1 (Amendments)	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1]
HKAS 16 (Amendments)	Property, Plant and Equipment – Proceeds before Intended Use[2]
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract[2]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2018–2020[2]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning or after a date to be determined.
4 Effective for annual periods beginning on or after 1 June 2020.
5 Effective for annual periods beginning on or after 1 January 2021.

The Target Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application.

30. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31 December 2020 and up to the date of this report.

Set out below is the management discussion and analysis of the Target Group for the three years ended 31 December 2018, 2019 and 2020 (the "**Track Record Period**") based on the Accountants' Report of the Target Group as set out in Appendix II to the circular.

BUSINESS REVIEW

The principal activity of the Target Company is investment holding. The Target Group, through the operation of the OPCO, is principally engaged in providing customized automated production solutions in the PRC deploying advanced production equipment and techniques.

FINANCIAL REVIEW

Revenue

The Target Group had recorded a total revenue of approximately HK$14,050,000, HK$13,490,000 and HK$30,650,000 for the years ended 31 December 2018, 2019 and 2020 respectively. The revenue remained relatively stable for the years ended 31 December 2018 and 2019.

The increase in revenue for the year ended 31 December 2020 as compared with the corresponding period in 2019 was mainly attributable to (i) increase in customer demand for factory automation after the pandemic; (ii) increase in exports, such as the explosive growth in demand from the home appliance industry and anti-epidemic supplies; and (iii) the OPCO has expanded its customer base by offering wider service scope from only processing and modifying components to provide overall automatic solution from design, procurement, customized system applications to installation and maintenance of systems.

Other income and gains, net

There were no other income for the year ended 31 December 2018 and 2019. The other income for the year ended 31 December 2020 amounted to HK$5,365,000.

The increase in other income and gains for the year ended 31 December 2020 as compared with the corresponding period in 2019 was mainly attributable to the grant of patent right.

Administrative and operating expenses

The administrative and other operating expenses amounted to approximately HK$1,434,000, HK$1,659,000 and HK$7,927,000 for the years ended 31 December 2018, 2019 and 2020 respectively.

There are no significant change in the administrative and operating expenses for the year ended 31 December 2018 and 2019, while there was an increase in administrative and other operating expenses for the year ended 31 December 2020 as compared with the corresponding period in 2019, mainly attributable to (i) the significant increase in staff, with twice more employees than in 2019; (ii) commencement of operation of the new plant which is five times as large as the original area and use of the new office; (iii) addition of new processing equipment; (iv) allocation of expense for research and development; and (v) increase in business expenditure.

Profit for the year

The Target Group recorded profit for the year of approximately HK$470,000, HK$345,000 and HK$8,656,000 for the years ended 31 December 2018, 2019 and 2020 respectively.

Dividend

No dividend has been paid or declared by the Target Company during the Track Record Period.

Liquidity and financial resources

(i) As at 31 December 2018, 2019 and 2020, cash and cash equivalents of the Target Group comprise of bank balances and cash of approximately HK$1,073,000, HK$6,290,000 and HK$443,000 respectively.

(ii) As at 31 December 2018, 2019 and 2020, the current ratio (defined as total current assets divided by total current liabilities) of the Target Group were approximately 1.21 times, 1.09 times and 1.19 times respectively.

(iii) As at 31 December 2018, 2019 and 2020, the total equity attributable to owners of the Target Company were approximately HK$1,661,000, HK$1,976,000 and HK$14,550,000 respectively. The increase in total equity attributable to owners of the Target Company was mainly due to the profit attributable to the owners during the years.

Borrowings and gearing ratio

(i) As at 31 December 2018, 2019 and 2020, the total bank borrowings of the Target Group were nil, approximately HK$1,081,000 and HK$2,055,000 respectively.

(ii) The gearing ratio (being the ratio of total borrowing to total asset) were N/A, approximately 5.33% and 7.19% as at 31 December 2018, 2019 and 2020.

Pledge of assets

There were no pledge of assets during the Track Record Period.

Commitments

As at 31 December 2018, 2019 and 2020, the Target Group did not have any capital commitment.

Contingent liabilities

The Target Group had no material contingent liabilities as at 31 December 2018, 2019 and 2020.

Treasury policy

The Target Group had no formal treasury policy and did not enter into any form of financial arrangement for hedging for the three years ended 31 December 2018, 2019 and 2020.

Foreign exchange exposure

The business transactions, assets and liabilities of the Target Group were denominated in RMB. Therefore, the Target Group has minimal exposure to currency exchange risk.

Significant investments held and material acquisitions or disposals of subsidiaries, associates and affiliated companies

The Target Group did not hold any significant equity investment as at 31 December 2018, 2019 and 2020, and the Target Group did not conduct any material acquisition or disposal of subsidiaries and associates for the three years ended 31 December 2018, 2019 and 2020.

Employees numbers and remuneration policy

As at 31 December 2018, 2019 and 2020, the Target Group had 13, 14 and 35 employees respectively (excluding the directors of the Target Group). The total staff costs of the Target Group for the years ended 31 December 2018, 2019 and 2020 were approximately HK$614,000, HK$660,000 and HK$2,573,000 respectively.

In order to attract and retain high quality staff and to enable smooth operation, the Target Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house training courses. The remuneration packages are subject to review on a regular basis.

I. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

A. Basis of Preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group

In connection with the Acquisition, the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group, comprising the Company and its subsidiaries, (together the "**Group**") and the Target Group, has been prepared to illustrate the effect of the Acquisition on the Group's financial position as at 30 September 2020 as if the Acquisition had taken place on 30 September 2020.

The unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the "**Unaudited Pro Forma Financial Information**") is prepared based on (i) the unaudited consolidated assets and liabilities of the Group as at 30 September 2020 which has been extracted from the published interim report of the Group for the six months ended 30 September 2020; and (ii) the audited combined assets and liabilities of the Target Group as at 31 December 2020, which has been extracted from the accountants' report set out in Appendix II to this circular.

The Unaudited Pro Forma Financial Information has been prepared by the Directors in accordance with Rule 4.29 of the Listing Rules and is solely for the purpose to illustrate the assets and liabilities of the Enlarged Group as if the Acquisition had taken place on 30 September 2020.

The Unaudited Pro Forma Financial Information is prepared based on the aforesaid historical data after giving effect to the pro forma adjustments described below in the accompanying notes that are (i) directly attributable to the Acquisition; and (ii) factually supportable.

The Unaudited Pro Forma Financial Information has been prepared by the Directors based on certain assumptions and estimates and for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the assets and liabilities of the Enlarged Group had the Acquisition been completed as at 30 September 2020 or at any future dates.

B. Unaudited Pro Forma Financial Information of the Enlarged Group

Unaudited Pro Forma Financial Information as at 30 September 2020

			Pro forma adjustments			
	The Group at 30 September 2020	The Target Group at 31 December 2020	To record consideration for the Acquisition	To eliminate investment costs	To record other cost of acquisition	Unaudited pro forma of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	
Non-current assets						
Property, plant and equipment	706	5,379				6,085
Right-of-use assets	4,289	1,522				5,811
Goodwill	–	–		96,731		96,731
Other intangible assets	122,425	–		10,060		132,485
Interests in associates	10,917	–				10,917
Investment in subsidiary	–	–	108,000	(108,000)		–
Deposits and prepayments	276	–				276
Deposits paid for acquisition of property, plant and equipment	–	1,967				1,967
	138,613	8,868				254,272
Current assets						
Inventories	–	7,378				7,378
Trade receivables	1,611	20,234				21,845
Deposits, prepayments and other receivables	106,132	10,441				116,573
Loans receivable	169,988	–				169,988
Amounts due from associates	7,038	–				7,038
Cash and cash equivalents	10,713	443				11,156
	295,482	38,496				333,978

			Pro forma adjustments			
	The Group at 30 September 2020	The Target Group at 31 December 2020	To record consideration for the Acquisition	To eliminate investment costs	To record other cost of acquisition	Unaudited pro forma of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	
Current liabilities						
Trade payables	54,690	9,522				64,212
Accruals and other payables	321,962	2,417			1,166	325,545
Borrowings	–	2,055				2,055
Convertible bonds	190,842	–				190,842
Corporate bond payable	404,000	–				404,000
Amounts due to associates	1,558	–				1,558
Amounts due to a director	–	1,241				1,241
Contract liabilities	–	13,995				13,995
Lease liabilities	2,704	1,019				3,723
Contingent consideration payable	–	–	64,275			64,275
Income tax payable	1,052	2,233				3,285
	976,808	32,482				1,074,731
Net current (liabilities)/assets	(681,326)	6,014				(740,753)
Total assets less current liabilities	(542,713)	14,882				(486,481)
Non-current liabilities						
Lease liabilities	1,722	332				2,054
Deferred income tax liabilities	16,318	–		2,515		18,833
	(18,040)	(332)				(20,887)
Net (liabilities)/assets	(560,753)	14,550				(507,368)

C. Notes to the Unaudited Pro Forma Financial Information

1. The assets and liabilities of the Group as at 30 September 2020 are extracted from the Group's unaudited condensed consolidated statement of financial position at 30 September 2020 set out in the published interim report of the Company for the six months ended 30 September 2020.

2. The assets and liabilities of the Target Group as at 31 December 2020 are extracted from the Target Group's audited combined statement of financial position set out in the Accountants' Report contained in Appendix II to this circular.

3. On 9 March 2021 and 12 March 2021, the Company entered into the sale and purchase agreement (the "**Agreement**") and the supplemental agreement to the Agreement ("**Supplemental Agreement**") with Ease Beacon Limited, an entity which is beneficially owned by Mr. Cheng Zhengwei, a director and chairman of the Target Company. Pursuant to the Agreement and the Supplemental Agreement, the Company has agreed to acquire 51% issued share capital of the Target Company for a consideration of HK$104,490,000 (the "**Consideration**"), which shall be satisfied by (i) allotment and issuance of 82,500,000 Consideration Shares at the issue price of HK$0.51 per Consideration Share upon completion of the acquisition (the "**First Tranche Consideration Shares**"); and (ii) subject to the Guaranteed Profits, as defined below, is being satisfied, allotment and issuance of 122,382,352 Consideration Shares (the "**Second Tranche Consideration Shares**") at the issue price of HK$0.51 per Consideration Share.

   Under the terms of the Supplemental Agreement for the acquisition, the consideration payable of the Second Tranche Consideration Shares to be allotted and issued is contingent and will be settled if the profit after tax of the Target Group for the year ending 31 December 2021 ("**Profit Guaranteed Period**") as shown in its audited consolidated financial statements is not less than RMB10,000,000 ("**Guaranteed Profits**").

   In the event that the Target Group is not able to meet the Guaranteed Profits, the Vendor shall compensate the Company with an amount in respect of the shortfall calculated according to the following formula (the "**Compensation Sum**"):

$$\text{Compensation Sum} = \frac{(\text{Guaranteed Profits} - \text{Actual Profits})}{\text{Guaranteed Profits}} \times \text{Consideration}$$

   The Compensation Sum shall be settled by the Vendor by way of set off against the Second Tranche Consideration (the "**Set Off**"), in the event that the Compensation Sum is less than the Second Tranche Consideration, the remaining balance of the Second Tranche Consideration after the Set Off shall be payable by way of allotment and issuance of the relevant number of Consideration Shares at the issue price of HK$0.51 per Consideration Share. In the event that the Second Tranche Consideration is less than the Compensation Sum, the shortfall of the Compensation Sum over the Second Tranche Consideration shall be paid by the Vendor in cash.

   The Unaudited Pro Forma Financial Information has been prepared as if completion of the Acquisition had taken place on 30 September 2020. The consideration payable by the Group for the acquisition pursuant to the Agreement and the Supplemental Agreement is calculated as follows:

	HK$'000
Consideration payable by the Group for the Acquisition	
– 82,500,000 shares of the Company to be issued	43,725
– Contingent consideration payable, at fair value	64,275
Total consideration payable by the Company *(Note)*	108,000

Note: For the purpose of preparing the Unaudited Pro Forma Financial Information, the fair value of the consideration payable by the Company is estimated by the Directors to be HK$108,000,000 with reference to the business valuation of the Target Group on market value approach set out in the valuation report issued by an independent qualified professional valuer not connected with the Group, and contained in Appendix V of the Circular. On Completion, the fair value of the Consideration Shares to be allotted and issued by the Company will be estimated by reference to the market price of the shares of the Company at the date of issue.

The fair value of 82,500,000 shares of the Company to be issued at the completion of the Acquisition is estimated by reference to the closing share price of the Company at 30 September 2020. The contingent consideration payable is calculated as the excess of the fair value of the Consideration Payable amounted to HK$108,000,000 over the fair value of 82,500,000 shares of the Company (the First Tranche Consideration Shares). The fair value of the derivative component of the Guaranteed Profits is insignificant as the Directors are of the view that the Target Group is able to achieve the Guaranteed Profits. Such derivative component of the Guaranteed Profits has not been included in the calculation of goodwill arising from the Acquisition.

The fair value of the contingent consideration payable, the Second Tranche Consideration and Compensation Sum, if any, is based on the Directors' estimation as to whether the Target Group is able to meet the Guaranteed Profits. On Completion, the fair value of the contingent consideration payable will have to be reassessed at the Completion Date.

4. Upon completion of the Acquisition, 51% issued share capital of the Target Company will be held by the Company. The fair value of identifiable assets and liabilities of the Target Group at the Completion Date will be accounted for in the consolidated financial statements of the Company under the acquisition method of accounting.

The goodwill arising from the Acquisition is calculated as follows:

	Notes	*HK$'000*	*HK$'000*
Total consideration	(a)		108,000
Fair value of assets and liabilities of the Target Group			
Property, plant and equipment		5,379	
Right-of-use assets		1,522	
Other intangible assets	(b)	10,060	
Deposits paid for acquisition of property, plant and equipment		1,967	
Inventories		7,378	
Trade receivables		20,234	
Prepayments and other receivables		10,441	
Cash and cash equivalents		443	
Trade payables		(9,522)	
Accruals and other payables		(2,417)	
Contract liabilities		(13,995)	
Amount due to a director		(1,241)	
Borrowings		(2,055)	
Lease liabilities		(1,351)	
Income tax payable		(2,233)	
Deferred income tax liabilities	(c)	(2,515)	(22,095)
Non-controlling interests of the Target Group	(d)		10,826
Goodwill	(e)		96,731

For the purposes of the calculation of the goodwill arising from the Acquisition, the following bases and assumptions are adopted:

(a) Details of the total consideration are set out in Note (3) above.

(b) The pro forma adjustments to intangible assets mainly relate to the fair value recognition, on a pro forma basis, of the patents amounting to approximately HK$10,060,000.

The fair values of the intangible assets of patents as at 31 December 2020 are estimated by the Directors, with reference to a valuation carried out by an independent qualified professional valuer not connected with the Group, using the cost-based approach under which the fair value is determined as the cost of to reproduce or replace the intangible assets as their existing state and usage.

For the purpose of preparing the Unaudited Pro Forma Financial Information, the Directors expect that, other than the other intangible assets, the carrying amounts of identifiable assets and liabilities of the Target Group approximate their respective fair values at the completion date of the Acquisition.

(c) The deferred income tax liabilities arising from pro forma fair value adjustment of the other intangible assets, amounted to approximately HK$2,515,000 which is calculated at the PRC Corporate Income Tax rate of 25%.

(d) The non-controlling interests of the Target Group is measured at their proportionate share in the recognised fair value of the Target Group's identifiable net assets.

(e) The Acquisition is accounted for using the acquisition method of accounting in accordance with Hong Kong Financial Reporting Standard ("**HKFRS**") 3 "Business Combinations". The Directors believe that the Target Group constitute a business in accordance with HKFRS 3. The recognition of goodwill of HK$96,731,000 arose from the Acquisition as if the Acquisition was completed on 30 September 2020.

The Group's accounting policies for goodwill are in accordance with the applicable accounting standards. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets and liabilities of the Group are assigned to those units or groups of units.

The Directors confirm that the basis used in the preparation of the Unaudited Pro Forma Financial Information is consistent with the accounting policies of the Group. The Group will adopt accounting policies for goodwill, to perform impairment test of the Enlarged Group's goodwill during the future accounting periods of the Enlarged Group. If the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit will be tested for impairment before the end of the current annual period. The Directors consider that the Group's accounting treatment and principal assumptions used to assess the impairment of such goodwill will be the same as other acquisitions of similar nature. To the best knowledge of the Directors, the Group's independent auditors will conduct the audit in accordance with Hong Kong Standards on

Auditing issued by the HKICPA to perform the impairment assessment of the Enlarged Group's goodwill during the future annual audit of the Enlarged Group.

Even though the impairment test will be carried out in future accounting periods, for the purpose of the Unaudited Pro Forma Financial Information, the Group has assessed if there is any impairment indication of the goodwill and other intangible assets arising from the proposed acquisition of the Target Group in accordance with HKAS 36 "Impairment of Assets" which is consistent with the Group's accounting policies. The Group has adopted the market-based approach in arriving at the recoverable amount. The market-based approach values a business entity by comparing prices at which other business entities in a similar nature changed hands in arm's length transactions and the recoverable amount represents the business valuation set out in the valuation report contained in Appendix V of the Circular.

The Directors are of the view that, after performing the impairment assessment based on the recoverable amount being the business valuation contained in Appendix V of the Circular, there is no impairment indication of the goodwill and other intangible assets arising from the proposed acquisition of the Target Company as set out in the Unaudited Pro Forma Financial Information. The Group will consider prevailing business circumstances and may not adopt the same key assumptions, accounting principal and valuation method to assess the impairment in the future.

Upon completion of the Acquisition, the actual goodwill of the Enlarged Group, for accounting purpose, will need to be recalculated based on the fair value of the purchase consideration and the fair value of the net identifiable assets and liabilities of the Target Group at the date of completion of the Acquisition. The actual financial effects may be different from the amounts presented above.

5. The adjustment represents the recognition of other acquisition costs amounting to approximately HK$1,166,000 as estimated by the Directors which mainly comprises legal and professional fees.

6. No other adjustments have been made to reflect any trading results or other transactions of the Group and of the Target Group subsequent to 30 September 2020.

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

The following is the text of a report, received from the Company's reporting accountants, CCTH CPA Limited, Certified Public Accountants, Hong Kong, in respect of the Enlarged Group's pro forma financial information for the purpose of this circular.

CCTH CPA LIMITED
中正天恆會計師有限公司

To the Directors of Vestate Group Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Vestate Group Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 30 September 2020 and related notes (the "**Unaudited Pro Forma Financial Information**") in section I of Appendix IV of the circular issued by the Company dated 30 June 2021 (the "**Circular**"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described in section I of Appendix IV of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed acquisition of 51% issued share capital of Scape Bliss Limited (the "**Acquisition**") on the Group's financial position as at 30 September 2020 as if the Acquisition had taken place at 30 September 2020. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's unaudited condensed consolidated statements of financial position as at 30 September 2020 set out in the Company's published interim report for the six months ended 30 September 2020.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have complied the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Acquisition on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 September 2020 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

– the related pro forma adjustments give appropriate effect to those criteria; and

– the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

CCTH CPA Limited
Certified Public Accountants
Hong Kong

30 June 2021

Unit 1510–1517, 15/F.
Tower 2, Kowloon Commerce Centre
51 Kwai Cheong Road, Kwai Chung
New Territories, Hong Kong

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30 June 2021

Vestate Group Holdings Limited
Unit E, 22/F, Tower A
Billion Centre
1 Wang Kwong Road
Kowloon Bay, Kowloon
Hong Kong

For the Attention of the Directors

Dear Sir/Madam,

Re: Valuation of 51% Equity Interest in 廣東明大智能設備科技有限公司

We refer to recent instructions from Vestate Group Holdings Limited (hereinafter referred to as the "**Company**") to us to conduct a business valuation on the 51% equity interest in 廣東明大智能設備科技有限公司 (Guangdong Mingda Intelligent Equipment Technology Co., Ltd., hereinafter referred to as the "**OPCO**"), we are pleased to report that we have made relevant enquiries and obtained other information which we considered relevant for the purpose of providing our valuation as at 31 January 2021 (hereinafter referred to as the "**Date of Valuation**").

This report states the purpose of valuation, scope of work, an overview of the OPCO, economic overview, industry overview, basis of valuation, investigation and analysis, valuation methodology, assumptions and sources of information, limiting conditions, remarks and presents our opinion of value.

PURPOSE OF VALUATION

This report is prepared solely for the use of the directors and management of the Company. The Company is a public company listed on the Main Board of the Stock Exchange of Hong Kong Limited (Stock Code: 1386.HK). In addition, B.I. Appraisals Limited (hereinafter referred to as "**BI Appraisals**") acknowledges that this report may be made available to the Company for public documentation purpose only.

B.I. Appraisals assumes no responsibility whatsoever to any person other than the Company in respect of, or arising out of, the contents of this report. If others choose to rely in any way on the contents of this report they do so entirely at their own risk.

SCOPE OF WORK

Our valuation conclusion is based on the assumptions stated herein and information provided by the management of the Company, the management of the OPCO and/or its representative(s) (hereinafter referred to as the "**Management**").

In preparing this report, we have had discussions with the Management in relation to the development, operations and other relevant information of the OPCO. As part of our analysis, we have reviewed such information and other pertinent data concerning the OPCO provided to us by the Management and have considered such information and data as accurate and reasonable.

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

THE OPCO

The OPCO is established in the PRC with limited liability, and is principally engaged in establishing solutions for automated transportation in the production process of materials. In addition, the OPCO creates logic control programs and special controllers for customers' production lines, and through utilizing 5G IoT technology to collect real-time data to increase production line efficiency and reduce production cost and loss.

ECONOMIC OVERVIEW

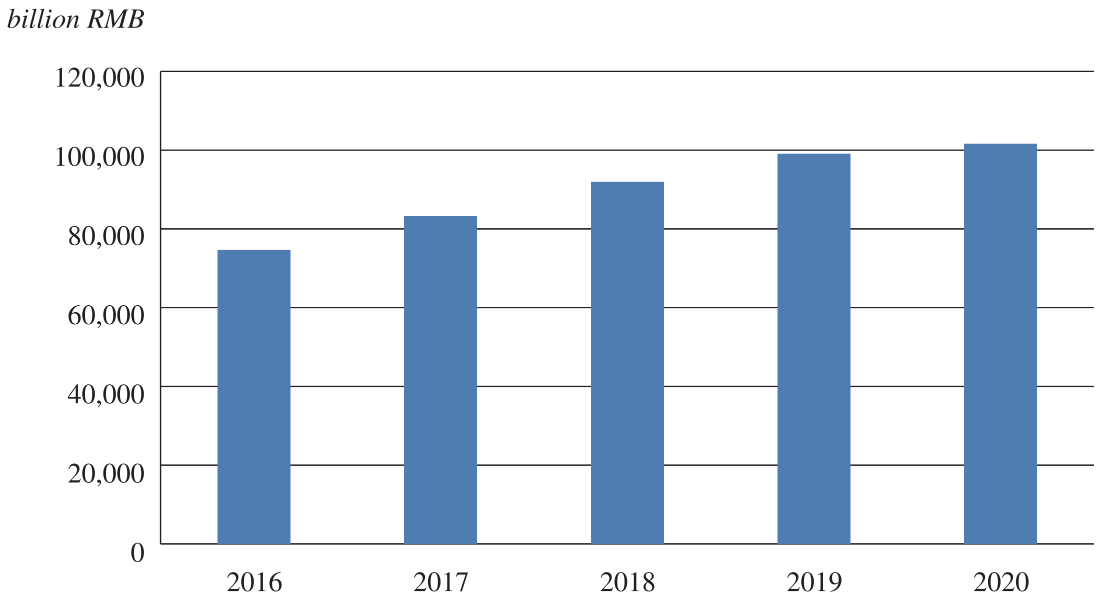
Overview of the Economy in China

According to the National Bureau of Statistics of China, the nominal gross domestic product ("**GDP**") of China in 2020 Q2 was RMB45,661 billion, a year-over-year nominal decrease of 0.87% compared to 2019 Q2. China was the largest economy in the world, in terms of nominal GDP measured by the International Monetary Fund ("**IMF**") in 2019. Despite the global financial crisis in late 2008, the Chinese economy continued to be supported by the Chinese government through spending in infrastructure and real estates.

Throughout 2009, the global economic downturn reduced foreign demand for Chinese exports for the first time in many years. The government vowed to continue reforming the economy and emphasized the need to increase domestic consumption in order to make China less dependent on foreign exports. China's economy rebounded quickly in 2010, outperforming all other major economies with robust GDP growth and the economy remained in strong growth since 2011.

Over the past five years from 2016 to 2020, compound annual growth rate of China's nominal GDP was 8.0%. An upward trend of China's nominal GDP was observed from 2016 to 2020. Figure 1 illustrates the nominal GDP of China from 2016 to 2020.

Figure 1 – China's Nominal GDP from 2016 to 2020

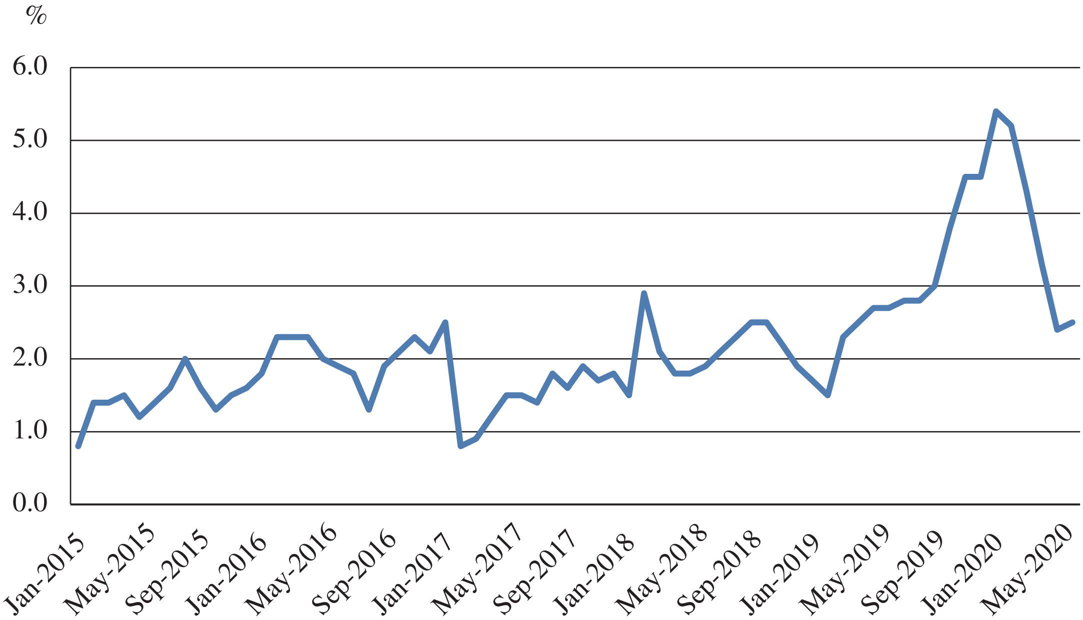


Source: National Bureau of Statistics of China

Inflation in China

Tackling inflation problem has long been the top priority of the Chinese government as high prices are considered as one of the causes of social unrest. For such a fast-growing economy, the middle-class' demand for food and commodities has been rising continuously. Inflation in China has been driven mainly by food prices, which have been stayed high in 2011. According to the National Bureau of Statistics of China, the consumer price index ("**CPI**") demonstrated an uptrend in the first half of 2011. During first half of 2015, the year-over-year change in CPI maintained at around 0.8% to 1.5%, and fluctuated around 1.3% to 2.0% in second half of 2015. In 2016, the year-over-year change in CPI dropped from 2.3% in January to 1.3% in August, but rose in the later months and arrived at 2.1% in December. In 2017, the year-over-year change in CPI dropped from 2.5% in January to 0.8% in February and increased to 1.8% in December. In 2018, the year-over-year change in CPI reached its peak at 2.9% in February but fluctuated around 1.8% to 2.1% in the middle of the year, it then rose again to 2.5% in September and fell back to 1.9% in December. In 2019, the year-over-year change in CPI increased from 1.7% in January to 4.5% in December. In 2020, the year-over-year change in CPI started out high at 5.4% in January, yet it gradually decreased down to 2.5% in June. Figure 2 shows the year-over-year change in CPI of China from January 2015 to May 2020.

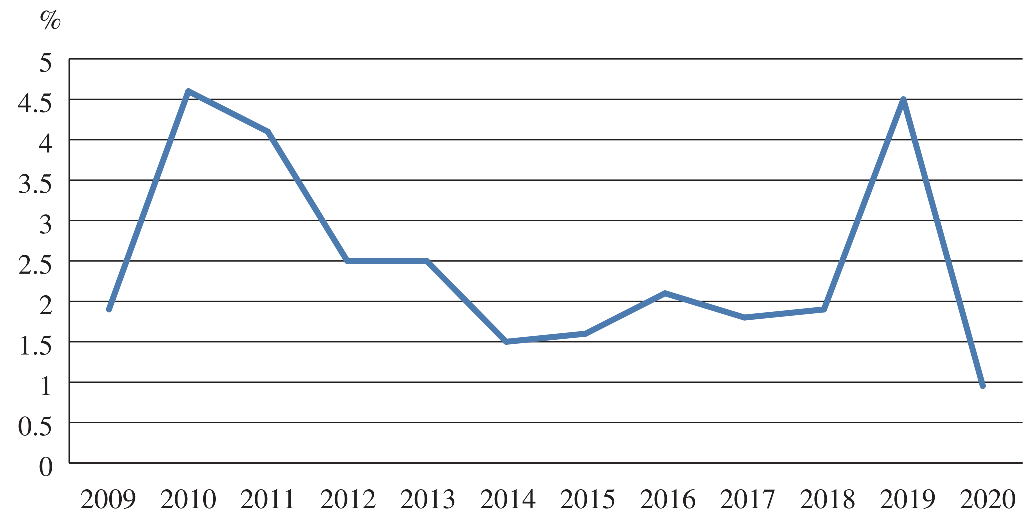
Figure 2 – Year-over-year Change in China's CPI from January 2015 to May 2020



Source: Bloomberg

China's inflation rate was volatile during the past decade. According to the IMF, the inflation rate in China increased from 2.8% in 2006 to 6.5% in 2007, and then dropped to 1.2% and 1.9% in 2008 and 2009 respectively. The inflation rate increased to 4.6% in 2010 and maintained at 4.1% in 2011. The inflation rate dropped again to 2.5% in 2012 and 2013, and further to 1.5% in 2014. The inflation rate has been fluctuating in recent years. It started to climb in 2015 and 2016 from 1.6% to 2.1%, then decreased in 2017 to 1.8%, eventually rose again to 1.9% in 2018. In 2019, the inflation rate increased to 2.2%. The yearly inflation rate in China's was 1.0% in 2020 Q2. According to IMF's forecast, the long-term inflation rate of China is expected to be around 3.0%. Figure 3 shows the historical trend of China's inflation rate from 2009 to 2020 Q2.

Figure 3 – China's Inflation Rate from 2009 to 2020 Q2



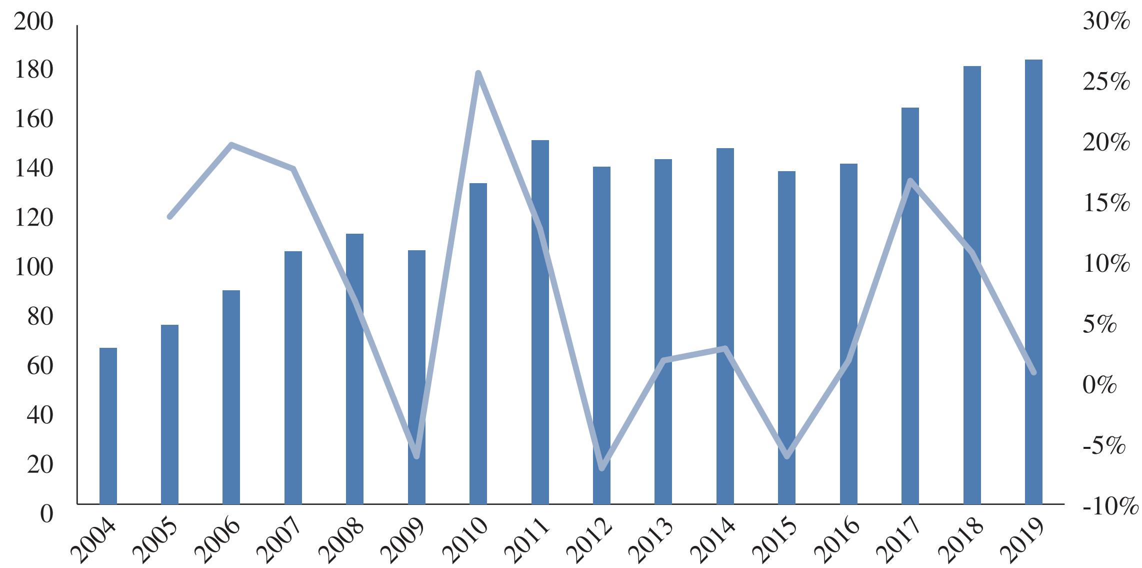
Source: International Monetary Fund

INDUSTRY OVERVIEW

The scale of PRC's automation and industrial control market has fluctuated and increased from 2004 to 2019. The market size has increased from RMB65.2 billion in 2004 to RMB185.6 billion in 2019, with a compound annual growth rate of 7.69%. In 2019 PRC's industrial automation market reached RMB185.6 billion, of which the product market scale was basically the same year-on-year, about RMB130 billion, and the service market scale increased slightly to RMB55.6 billion.

Note: The scope of statistics covers the mainland China market, and does not include the business of manufacturing in the PRC and exporting overseas.

Figure 4 – China's Industrial Automation Market Size and YoY Growth Rate from 2004 to 2019



Source: China Gongkong.com

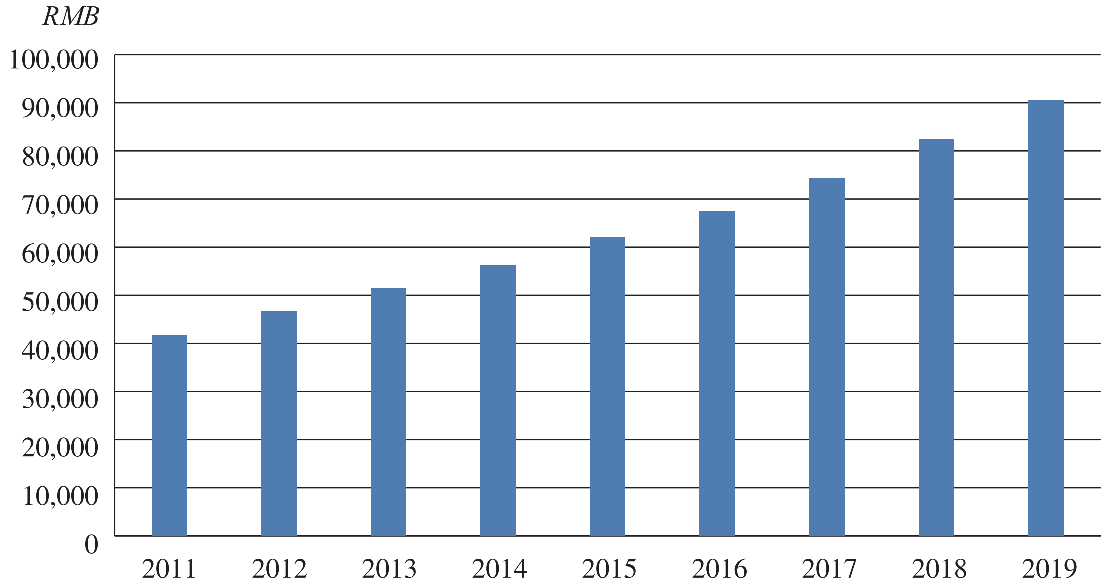
The PRC's industrial automatic control system device manufacturing industry is still dominated by foreign capital, but the market share of domestic enterprises is constantly increasing, and import substitution is in an accelerated stage.

According to China Gongkong.com data, from 2010 to 2018, the market share of local companies in the domestic industrial control industry has increased from 27.1% to 35.7%. China companies already have a very strong competitive advantage in some areas of the industry.

With the continuous and stable development of the PRC's economy and the continuous improvement of resident income level, the labor costs in the PRC have gradually increased. According to statistics from the National Bureau of Statistics, the average salary of employed persons in urban units reached RMB90,501 in 2019, an increase of 9.81% over 2018.

The increase in labor costs will boost the automation level of the PRC's manufacturing industry, and the pace of "machine substitution" will gradually accelerate.

Figure 5 – Average Salary of Employed Persons in Urban Units from 2011 to 2019



Source: National Bureau of Statistics

In summary, the development of the PRC's economy, the improvement of resident income level, the transformation of the demographic structure and the increase in labor costs have boosted the automation level of the PRC's manufacturing industry. In addition, modern manufacturing has higher and higher requirements for production consistency and accuracy, the process of replacing labor with machines has accelerated, and the demand for industrial control in the manufacturing industry has continued to increase.

According to China Gongkong.com forecast data, the market size growth rate of China's industrial automatic control system device manufacturing industry will be 1.6%, 4.3% and 5.6% in 2020, 2021, and 2022. On this basis, it is further predicted that with the steady progress of "Made in China 2025", a major policy of State Council of the PRC, by 2025, the market size of China's industrial automatic control system device manufacturing industry will reach about RMB234.7 billion.

BASIS OF VALUATION

Our valuation is conducted on market value basis defined as follows. According to the International Valuation Standards established by the International Valuation Standards Council in 2020, market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

INVESTIGATION AND ANALYSIS

Our investigation included discussions with members of the Management in relation to the development, operations and other relevant information of the OPCO. In addition, we have made relevant enquiries and obtained further information and statistical figures regarding the economy of China as we considered necessary for the purpose of the valuation. As part of our analysis, we have reviewed such financial information and other pertinent data concerning the OPCO provided to us by the Management and have considered such information and data as attainable and reasonable.

The valuation of the OPCO requires consideration of all pertinent factors, which may or may not affect the operation of the business and its ability to generate future investment returns. The factors considered in our valuation include, but are not necessarily limited to, the following:

- The nature and prospect of the OPCO;
- The financial condition of the OPCO;
- The economic outlook in general and the specific economic environment and market elements affecting the business, industry and market;
- Relevant licenses and agreements;
- The business risks of the OPCO such as the ability in maintaining competent technical and professional personnel; and
- Investment returns and market transactions of entities engaged in similar lines of business.

VALUATION METHODOLOGY

There are three generally accepted approaches to obtain the market value of the OPCO, namely the Market-Based Approach, Income-Based Approach and Asset-Based Approach. Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted practice in valuing business entities that are similar in nature.

Market-Based Approach

The Market-Based Approach values a business entity by comparing prices at which other business entities in a similar nature changed hands in arm's length transactions. The underlying theory of this approach is that one would not pay more than one would have to for an equally desirable alternative. By adopting this approach, the valuer will first look for valuation indication of prices of other similar business entities that have been sold recently.

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

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

Income-Based Approach

The Income-Based Approach focuses on the economic benefits due to the income producing capability of the business entity. The underlying theory of this approach is that the value of the business entity can be measured by the present worth of the economic benefits to be received over the useful life of the business entity. Based on this valuation principle, the Income-Based Approach estimates the future economic benefits and discounts them to their present values using a discount rate appropriate for the risks associated with realizing those benefits.

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

Asset-Based Approach

The Asset-Based Approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business entity and equals to the value of its invested capital ("**equity and long-term debt**").

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

VALUATION OF THE OPCO

Adopted Valuation Methodology

In the process of valuing the OPCO, we have taken into consideration the business nature, specialty of its operation and the industry in which it participates. Also, we have considered the accessibility to available data and relevant market transactions in choosing among the valuation approaches.

The Income-Based Approach was not adopted because a lot of assumptions would have to be made and the valuation could be largely influenced by any inappropriate assumptions made. The Asset-Based Approach was also not adopted because it could not capture the future earning potential of the OPCO and therefore it could not reflect the market value of the OPCO. We have therefore considered the adoption of the Market-Based Approach in arriving at the market value of the OPCO.

P/E Multiple

By adopting the guideline public company method under the Market-Based Approach, we have to determine the appropriate valuation multiples of comparable companies, in which we have considered price-to-sales ("**P/S**"), price-to-earnings ("**P/E**") and price-to-book ("**P/B**") multiples. However, P/S multiple was not adopted since it cannot capture the differences in cost structure across companies. P/B multiple was not adopted because it cannot reflect the true value of the companies which do not possess significant fixed assets. Therefore, we have adopted P/E multiple in the valuation for the OPCO.

We adopted several listed companies with business scopes and operations similar to those of the OPCO as comparable companies. The comparable companies were selected with reference to the following selection criteria:

- The companies are principally engaged in providing solution of factory automation equipment mainly in China;
- The companies are profit making in latest financial year; and
- The financial information of the companies is available to the public.

In choosing the comparable companies, we have considered their principal place of business, irrespective of their place of listing.

Details of the comparable companies adopted were listed as follows:

Company Name	Stock Code	Listing Location	Business Description
Guangdong Topstar Technology Co Ltd	300607 CH	China	Guangdong Topstar Technology Co Ltd develops automation equipment. The company researches, designs, produces, and sells factory automation equipment, robots, control systems, conveyors, and related devices.
Shenzhen Colibri Technologies Co Ltd	002957 CH	China	Shenzhen Colibri Technologies Co Ltd. manufactures and distributes power automation equipment. The company produces automated testing and assembly equipment, automated equipment accessories, and other related products. Shenzhen Colibri Technologies markets its products worldwide.
Suzhou Secote Precision Electronic Co Ltd	603283 CH	China	Suzhou Secote Precision Electronic Co Ltd. provides automation solutions. The company offers automation system designing, precision machining, assembly and commissioning, installation training, and other services. Secote Precision Electronic also provides technical consultancy and feasibility studies services.
Dalian Haosen Equipment Manufacturing Co Ltd	688529 CH	China	Dalian Haosen Equipment Manufacturing Co Ltd. manufactures and distributes factory automation equipment. The company produces engine assembly lines, gearbox assembly lines, new energy field assembly lines, welding lines, and other related products. Dalian Haosen Equipment Manufacturing markets its products worldwide.

Company Name	Stock Code	Listing Location	Business Description
Suzhou Harmontronics Automation Technology Co Ltd	688022 CH	China	Suzhou Harmontronics Automation Technology Co Ltd designs and sells automatic equipment. The company develops and manufactures fit pin insertion machines, formation and grading integrated machines, laminating machines, and other related products. Suzhou Harmontronics Automation Technology markets its products worldwide.
Shanghai SK Automation Technology Co Ltd	688155 CH	China	Shanghai SK Automation Technology Co Ltd. manufactures and sells intelligent manufacturing equipment. The company produces and sells automotive chassis system production line, flexible engine production line, and other products. Shanghai SK Automation Technology markets its products worldwide.
Jiangsu Beiren Robot System Co Ltd	688218 CH	China	Jiangsu Beiren Robot System Co Ltd. produces and sells automation equipment. The company develops and sells arc welding robots, spot welding robots, handling robots, and other products. Jiangsu Beiren Robot System markets its products throughout China.

Source: Bloomberg

Size Adjustment

A number of studies were conducted in the U.S. which concludes that the risk premium associated with a small company is over and above the amount that would be warranted. An investor would demand more in order to compensate for the additional risk over that of the entire stock market when investing in a small size company. Thus, in this appraisal, the comparable company multiples are size-adjusted with reference to "Adjusting Guideline Multiples for Size" by Mattson, Shannon and Drysdale published in September/October 2001 Valuation Strategies, with the following formula adopted in deriving the size adjustment:

Adjusted Multiple = 1 / (1 / Original Multiple + θ)

Where:
θ is the size differential with reference to 2017 Valuation Handbook Guide to Cost of Capital by Duff & Phelps.

The Adjusted P/E multiples of the aforementioned comparable companies were listed as follows:

Company Name	Stock Code	Adjusted P/E Multiple
Guangdong Topstar Technology Co Ltd	300607 CH	15.46
Shenzhen Colibri Technologies Co Ltd	002957 CH	24.20
Suzhou Secote Precision Electronic Co Ltd	603283 CH	21.85
Dalian Haosen Equipment Manufacturing Co Ltd	688529 CH	24.78
Suzhou Harmontronics Automation Technology Co Ltd	688022 CH	68.99
Shanghai SK Automation Technology Co Ltd	688155 CH	34.98
Jiangsu Beiren Robot System Co Ltd	688218 CH	62.72
	Average	36.14
	Median	24.78

Discount for Lack of Marketability ("DLOM")

A major difference between a closely-held private company's common shares and those of its publicly traded comparable companies is its lack of marketability – the capability and ease of transfer or salability of an asset, business, business interest, or security. It is not uncommon to see that when a private company's shareholder tries to liquidate his position, the cost and time consumed is relatively more significant than a public company's shareholder would have incurred, and as a result, it is intuitive that a share in a private company is usually worth less than an otherwise comparable share in a public company.

With reference to the result of the restricted stock study published in "Stout Restricted Stock Study 2020" by Stout Risius Ross, LLC, a discount for lack of marketability of 20.60% was adopted in arriving at the market value of the OPCO as at the Date of Valuation.

Control Premium

Control premium is the amount that a buyer is willing to pay over the minority equity value of the company in order to acquire a controlling interest in that company. The P/E ratio adopted in the valuation was calculated from public listed companies, which represents minority ownership interest; market value calculated using such P/E ratio, therefore, represents the minority interest. Thus, control premium was adopted to adjust such minority interest market value to controlling interest market value.

According to the "Control Premium Study – 3rd Quarter 2020" (referred to as the "**Mergerstat Control Premium Study**") published by FactSet Mergerstat, LLC., the 12-month mean and median premiums were gathered from 465 merger and acquisition transactions occurring within a trailing 12-month period up to the third quarter of 2020, which includes the most updated market data. Since the median rate is not affected by abnormal extreme high and low values, the control premium in the valuation was determined with reference to the median premium of 24.5%.

Calculation Details

The calculation details of the OPCO using the P/E multiple were illustrated as follows:

	RMB
FY2020 Net Profit After Tax	7,693,705
Multiplied by: Median P/E Multiple	24.78
Market Value before Applying Marketability Discount and Control Premium	190,663,911
% of interest under Valuation	51.0%
Adjusted for Marketability Discount	(1-20.6%)
Adjusted for Control Premium	(1+24.5%)
Market Value Obtained from P/E Multiple *(RMB)*	96,123,268
Market Value on a Controlling Basis (Rounded) *(RMB)*	96,000,000

SOURCE OF INFORMATION

Our opinion requires consideration of relevant factors affecting the market value of the OPCO. The factors considered included, but were not limited to, the following:

- The business nature of the OPCO;
- Audited financial statements of the OPCO as of 31 December 2020;
- Historical information of the OPCO;
- Market trends of the computers and information technology products trading industry;
- Economic outlook in China; and
- General descriptions in relation to the OPCO.

MAJOR ASSUMPTIONS

We have adopted certain specific assumptions in this valuation and the major ones are as follows:

- All relevant legal approvals and business certificates or licenses to operate the business in the localities in which the OPCO operates or intends to operate would be officially obtained and renewable upon expiry.
- There will be sufficient supply of technical staff in the industry in which the OPCO operates, and the OPCO will retain competent management, key personnel and technical staff to support its ongoing operations and developments.
- There will be no major change in the current taxation laws in the localities in which the OPCO operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with.
- There will be no major change in the political, legal, economic or financial conditions in the localities in which the OPCO operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the OPCO.
- Interest rates and exchange rates in the localities for the operation of the OPCO will not differ materially from those presently prevailing.

LIMITING CONDITIONS

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

We would particularly point out that our valuation was based on the information such as the company background and business nature of the OPCO provided to us.

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

We have relied on the historical and/or prospective information provided by the Management and other third parties to a considerable extent in arriving at our opinion of value. The information has not been audited or compiled by us. We are not in the position to verify the accuracy of all information provided to us. However, we have had no reason to doubt the truth and accuracy of the information provided to us and to doubt that any material facts have been omitted from the information provided. No responsibilities for the operation and financial information that have not been provided to us are accepted.

We assumed that the Management is competent and perform duties under the company regulation. Also, ownership of the OPCO was in responsible hands, unless otherwise stated in this report. The quality of the Management may have direct impact on the viability of the business as well as the market value of the OPCO.

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

Our conclusion of the market value was derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. The conclusion and various estimates may not be separated into parts, and/or used out of the context presented herein, and/or used together with any other valuation or study.

We assume no responsibility whatsoever to any person other than the directors and the Management in respect of, or arising out of, the content of this report. If others choose to rely in any way on the contents of this report, they do so entirely at their own risk.

The working papers and models for this valuation are being kept in our files and would be available for further references. We would be available to support our valuation if required. The title of this report shall not pass to the Company until all professional fee has been paid in full.

REMARKS

The outbreak of the Novel Coronavirus (COVID-19), declared by World Health Organization on 11 March 2020, has impacted global financial markets and is expected to bring additional disruption to economic activities around the world. Given the unknown future impact that COVID-19 might have on the different sectors of the global market, the risk towards the achievability of the financial projections of the Company would be increased. As of the Date of Valuation, it is uncertain how long the disruption will last and to what extent it will affect the economy. As a result, it causes volatility and uncertainty that value may change significantly and unexpectedly even over short periods of time. Readers are reminded that we do not intend to provide an opinion of value as of any date after the Date of Valuation in this report.

Unless otherwise stated, all monetary amounts stated in this valuation report are in Renminbi (RMB).

We hereby confirm that we have neither present nor prospective interests in the OPCO, the Company, its associated companies or the values reported herein.

OPINION OF VALUE

Based on the investigation and analysis stated above, the valuation method employed and key assumptions appended above, the market value of the 51% equity interest in the OPCO as at the Date of Valuation, in our opinion, was reasonably stated as **RMB96,000,000 (RENMINBI NINETY SIX MILLION ONLY)**.

Yours faithfully,
For and on behalf of
B.I. APPRAISALS LIMITED

William C. K. Sham
Registered Professional Surveyor (G.P.)
Registered Business Valuer
China Real Estate Appraisers
MRICS, MHKIS, RPS (G.P.), MCIREA
Executive Director

Mr. William C. K. Sham is a Registered Professional Surveyor (G.P.) and a Registered Business Valuer. He was appointed as founder member of the Hong Kong Institute of Financial Valuers in November 2015. He has been conducting asset valuations and consultancy works in the Greater China and the Asia Pacific regions for various purposes for more than 35 years. Besides, he has undertaken various valuation assignments on business enterprises and intangible assets since 1998 and has extensive experience in the valuation of patent and proprietary technology; infrastructure project including power plants, toll roads, port facilities; and business enterprises in various industries such as information technology, health products, pharmaceutical and biotechnology, media, energy, etc.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules 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 circular 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 circular misleading.

2. SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

Authorised:

		HK$
9,000,000,000	Shares	900,000,000.0

Issued and fully paid or credited as fully paid:

		HK$
716,190,000	Shares	71,619,000.0

Immediately following the allotment and issue of the Consideration Shares, the authorised and issued share capital of the Company will be as follows:

Authorised:

		HK$
9,000,000,000	Shares	900,000,000.0

Issued and fully paid or credited as fully paid:

		HK$
716,190,000	Shares	71,619,000.0
204,882,352	Consideration Shares of HK$0.51 per Consideration Share to be allotted and issued pursuant to the Agreement	20,488,235.2
921,072,352	Shares	92,107,235.2

3. DISCLOSURE OF INTERESTS

Director's and chief executive's interests in the Company

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executive of the Company and/or any of their respective associates had any interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies adopted by the Company, are set out below:

Long positions in Shares and underlying shares of the Company:

Name of Director	Capacity	Number of Shares held	Number of Options held	Total	Approximate percentage of shareholding *(%)* *(Note 1)*
Zhu Xiaojun	Interested in a controlled corporation	513,300,002 *(Note 2)*	–	513,300,002	71.67
Cai Jiaying *(Note 3)*	Beneficial interest	–	6,000,000	6,000,000	0.84
Yin Wansun *(Note 3)*	Beneficial interest	–	6,000,000	6,000,000	0.84

Notes:

1. The approximate percentage is calculated based on the total number of issued Shares as at the Latest Practicable Date, being 716,190,000 Shares.

2. 513,300,002 Shares are beneficially owned by China Consume Elderly Care Holdings Limited, a company incorporated in the Republic of Seychelles with limited liability and the entire issued share capital of which is owned by Mr. Zhu Xiaojun, an executive Director and the chairman of the Board. Accordingly, Mr. Zhu Xiaojun is deemed to be interested in the entire 513,300,002 Shares held by China Consume Elderly Care Holdings Limited under the SFO.

3. These represent the number of Shares which will be allotted and issued to such Directors upon the exercise of the options granted to each of them under the share option scheme adopted by the Company on 21 May 2007.

As at the Latest Practicable Date, the following Directors were a director or employee of a company which had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Director	**Name of Company**	**Position**
Mr. Zhu	China Consume Elderly Care Holdings Limited ("**CCEC**"), which was directly interested in 513,300,002 Shares (representing approximately 71.67% of the total issued Shares)	Director of CCEC

Save as disclosed above, as at the Latest Practicable Date, none of the Directors were director or employee of a company which had an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. DIRECTORS' INTERESTS IN ASSETS, CONTRACTS AND ARRANGEMENTS

As at the Latest Practicable Date:

(a) none of the Directors had any interest, either direct or indirect, in any assets which have, since 31 March 2020 (being the date to which the latest published audited financial statements of the Group was made up), been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group; and

(b) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Enlarged Group which is subsisting as at the Latest Practicable Date and is significant in relation to the business of the Enlarged Group.

5. DIRECTORS' SERVICE CONTRACTS

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

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors, controlling shareholders or their respective close associates had any interests in businesses which compete or might compete with the businesses of the Enlarged Group or had any other conflict of interests with the Enlarged Group.

7. MATERIAL CONTRACTS

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

a. the Agreement.

8. EXPERT AND CONSENTS

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	**Qualification**
B.I. Appraisals Limited	Independent professional valuer
CCTH CPA Limited ("**CCTH**")	Certified public accountants

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, none of the above experts had any interest, either direct or indirect, in any assets which have been, since 31 March 2020, being the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group nor had any shareholding directly or indirectly, in any member of the Enlarged Group nor any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

9. LITIGATION

On 11 September 2020, the Company received a petition (the "**Petition**") filed with the High Court of The Hong Kong Special Administrative Region (the "**Court**") by Mr. Lo Wing Hong Patrick (the "**Petitioner**") in the matter of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32, Laws of Hong Kong) applying for winding up of the Company. The Petition was filed against the Company on 11 September 2020 for failure to settle the outstanding principal of the bond and accrued interest, of which the amount is HK$36,256,400 as at 6 August 2020.

The Company has engaged legal counsel and is seeking legal advice on the Petition and considering all available options as to the legal rights of the Company, including but not limited to the preparation for a debt restructuring scheme (the "**Scheme**"). The Company has been actively liaising with its creditors (the "**Creditors**") to come up with the Scheme, which will be favourable to and best protect all creditors of the Company as compared to the Company being liquidated. On 4 December 2020, the Company has obtained a letter of support from Merry Seasons Limited, the holder of the bonds issued by the Company in the principal amount of HK$350 million which are already due, that it will fully support the Company and assist the Company to come up with the Scheme and it strongly opposes the Petition.

On 9 December 2020, the Company has obtained the support from Dunhuang Investment Holdings Limited, the holder of the convertible bonds issued by the Company in the principal amount of HK$150 million which are already due, that it does not agree with winding up order being made against the Company, and supports the Company to come up with the restructuring scheme.

On 8 January 2021, the validation order was granted by the High Court of Hong Kong approving that all sales and purchases of the issued shares of the Company which are listed on The Stock Exchange of Hong Kong Limited, whether or not through the Central Clearing and Settlement System operated by the Hong Kong Securities Clearing Company Limited, and whether on or off The Stock Exchange of Hong Kong Limited, and the corresponding alteration in the status of the members of the Company shall not be void by virtue of the Petition under section 182 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32).

The Court ordered that the hearing of the Petition be adjourned to 9:30 a.m. on Monday, 26 July 2021.

As at the Latest Practicable Date, based on the preliminary discussion with the Creditors in relation to the Scheme, the liabilities, debts and/or obligations owing by the Company to the Creditors will be restructured by (i) allotment and issue of new shares under specific mandate; and (ii) a pro rata distribution of cash to the Creditors.

The Company will seek the approval from both Creditors and Shareholders for the Scheme, and therefore the concrete details of the Scheme will be announced separately in accordance with the Listing Rules as and when appropriate.

Save as disclosed above, as at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, no member of the Group was engaged in any litigation or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

10. GENERAL

(a) The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(b) The head office and principal place of business of the Company in Hong Kong is Unit E, 22nd Floor, Tower A, Billion Centre, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong.

(c) The share registrar and transfer office of the Company in Hong Kong is Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) The company secretary of the Company is Ms. Leung Mei King, who is a member of the Association of Chartered Certified Accountants, and the Hong Kong Institute of Certified Public Accountants.

(e) This circular has been prepared in both English and Chinese. In the case of any discrepancy, the English text shall prevail.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours at the head office and principal place of business of the Company in Hong Kong at Unit E, 22nd Floor, Tower A, Billion Centre, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for each of the three years ended 31 March 2018, 2019 and 2020 respectively and the interim report of the Company for the six months ended 30 September 2020;

(c) the accountants' report of the Target Group, the text of which is set out in Appendix II to this circular respectively;

(d) the report on the unaudited pro forma financial information of the Enlarged Group issued by CCTH set out in Appendix IV to this circular;

(e) the valuation report of the OPCO, the text of which is set out in Appendix V to this circular;

(f) the material contracts as referred to in the above paragraph headed "Material Contracts" in this appendix;

(g) the consent letters referred to in the paragraph under the heading "Expert and Consents" in this appendix; and

(h) this circular.

VESTATE GROUP HOLDINGS LIMITED
國投集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1386)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**Meeting**") of Vestate Group Holdings Limited (the "**Company**") will be held at Room 631, 6/F, Kowloonbay International Trade & Exhibition Centre, 1 Trademart Drive, Kowloon Bay, Kowloon, Hong Kong at 3:30 p.m. on Friday, 30 July 2021, for the purpose of considering and, if thought fit, passing the following resolution as ordinary resolution:

ORDINARY RESOLUTION

"**THAT**:

(a) the Agreement (as defined in the circular dated 30 June 2021 despatched to the shareholders of the Company (the "**Circular**")), a copy of which has been produced to this meeting marked "A" and signed by the chairman hereof for the purpose of identification, and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(b) the grant of a specific mandate (the "**Specific Mandate**") to the directors of the Company (the "**Directors**") to allot and issue the Consideration Shares (as defined in the Circular) to the Vendor (as defined in the Circular) pursuant to the terms and conditions of the Agreement be and is hereby approved, the Specific Mandate is in addition to, and shall not prejudice nor revoke any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors by the shareholders of the Company prior to the passing of this resolution; and

(c) any one Director be and is hereby authorised to do such acts and deeds in his sole and absolute discretion and opinion deemed expedient and appropriate to implement and effect the Agreement and the transactions contemplated thereunder."

By Order of the Board
Vestate Group Holdings Limited
ZHU Xiaojun
Chairman

Hong Kong, 30 June 2021

Registered Office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
Unit E, 22nd Floor, Tower A
Billion Centre
1 Wang Kwong Road
Kowloon Bay, Kowloon
Hong Kong

Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the Meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. In order to be valid, the form of proxy and the power of attorney (if any), under which it is signed or a notarially certified copy thereof, must be lodged, at the office of the Company's branch registrar and transfer office in Hong Kong, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for the holding of the Meeting or any adjourned meeting.

3. Where there are joint registered holders of any shares of the Company, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such shares of the Company as if he were solely entitled thereto; but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the said person as present whose name stands first on the register in respect of such Share shall alone be entitled to vote in respect thereof.

4. Completion and return of a form of proxy will not preclude members of the Company from attending and voting in person at the Meeting or any adjournment thereof should they so wish and in such event, the form of proxy shall be deemed to be revoked.

5. For the purpose of determining the entitlement to attend and vote at the Meeting, the register of members of the Company will be closed from Wednesday, 28 July 2021 to Friday, 30 July 2021, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify to attend and vote at the Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch registrar and transfer office in Hong Kong, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 27 July 2021.

6. To safeguard the health and safety of the attendees who will attend the EGM and to prevent the spreading of the coronavirus (COVID-19) pandemic, the following measures will be implemented at the EGM:

   - mandatory body temperature check;

   - seating at the EGM venue will be arranged so as to allow for appropriate social distancing;

   - mandatory wearing of surgical face masks; and

   - no refreshments nor corporate gift for attendees.

   The Company reserves the right to deny entry into the EGM venue if such person: (i) refuses to comply with any of the above precautionary measures; (ii) is subject to any Hong Kong Government prescribed quarantine; (iii) is having a body temperature of over 37.4 degree Celsius; and/or (iv) has any flu-like symptoms.

For the health and safety of shareholders of the Company, the Company would like to encourage shareholders of the Company to appoint the chairman of the EGM as their proxy to vote on the proposed resolution at the EGM, instead of attending the EGM in person.

Subject to the development of COVID-19, the Company may be required to change the EGM arrangements at short notice. Shareholders should check the Company's website for further announcements and updates on the EGM arrangements.