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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**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 licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **Grandshores Technology Group Limited**, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**Grandshores Technology Group Limited**

**雄岸科技集團有限公司**

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

**(Stock Code: 1647)**

**DISCLOSEABLE TRANSACTION,  
CONNECTED TRANSACTION AND  
CONTINUING CONNECTED TRANSACTIONS  
IN RELATION TO VIE AGREEMENTS  
AND  
NOTICE OF EGM**

**Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders**



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A letter from the Board is set out on pages 7 to 37 of this circular. A letter from the Independent Board Committee is set out on pages 38 to 39 of this circular. A letter from Gram Capital is set out on pages 40 to 64 of this circular.

A notice convening the EGM to be held at 10:00 a.m. on Monday, 31 August 2020, at Room 3, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong is set out on pages 87 to 88 of this circular. A form of proxy for use at the EGM is also enclosed with this circular.

Whether or not you are able to attend the EGM, please complete and sign the accompanying form of proxy in accordance with the instructions printed on it 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 but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment of such meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment of such meeting if you so wish.

11 August 2020

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## DEFINITIONS

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

|                               |  |
|-------------------------------|--|
| “associate(s)”                | has the meaning ascribed to it under the Listing Rules   |
| “Board”                       | the board of Directors of the Company  |
| “CHFT” or “Valuer”            | CHFT Advisory And Appraisal Ltd.   |
| “Company”                     | Grandshores Technology Group Limited, a company incorporated in the Cayman Islands with limited liability, whose Shares are listed on the Stock Exchange   |
| “Completion”                  | completion of the VIE Main Agreement   |
| “connected person(s)”         | has the meaning ascribed to it under the Listing Rules   |
| “Director(s)”                 | the director(s) of the Company   |
| “EGM”                         | the extraordinary general meeting of the Company to be held at 10:00 a.m. on Monday, 31 August 2020 at Room 3, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong, or any adjournment of such meeting, to approve the Transactions |
| “Entrustment Agreement”       | the entrustment agreement as set out in the section headed “VIE Operating Agreements — Entrustment Agreement” in the Letter from the Board in this circular  |
| “Equity Pledge Agreement (A)” | the equity pledge agreement as set out in the section headed “VIE Operating Agreements — Equity Pledge Agreements — Equity Pledge Agreement (A)” in the Letter from the Board in this circular   |
| “Equity Pledge Agreement (B)” | the equity pledge agreement as set out in the section headed “VIE Operating Agreements — Equity Pledge Agreements — Equity Pledge Agreement (B)” in the Letter from the Board in this circular   |
| “Equity Pledge Agreements”    | the Equity Pledge Agreement (A) and the Equity Pledge Agreement (B)  |

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## DEFINITIONS

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| “Equity Transfer Agreement”                 | the equity transfer agreement in relation to the transfer of equity interests in the Target Company as set out under the section headed “Equity Transfer Agreement” in the Letter from the Board in this circular |
| “Exclusive Business Co-operation Agreement” | the exclusive business co-operation agreement as set out in the section headed “VIE Operating Agreements — Exclusive Business Co-operation Agreement” in the Letter from the Board in this circular               |
| “Exclusive Purchase Right Agreement”        | the exclusive purchase right agreement as set out in the section headed “VIE Operating Agreements — Exclusive Purchase Right Agreement” in the Letter from the Board in this circular                             |
| “Grandshores Hong Kong”                     | Grandshores Technology (Hong Kong) Limited, a wholly-owned subsidiary of the Company  |
| “Group”                                     | the Company and its subsidiaries, or any of them  |
| “Guangda Holdings”                          | Guangda Holdings Limited* (光達控股有限公司)  |
| “Hangzhou Grandshores”                      | Hangzhou Grandshores Weicheng Technology Co., Ltd.* (杭州雄岸偉成科技有限公司), a company established in the PRC with limited liability and wholly owned by the Company   |
| “Hangzhou Haolan”                           | Hangzhou Haolan Investment Partnership Enterprise* (杭州浩瀾投資合夥企業(有限合伙)), a vendor under the Equity Transfer Agreement   |
| “Hangzhou Jiabing”                          | Hangzhou Jiabing Technology Limited* (杭州加冰科技有限公司)   |
| “Hangzhou Jingchuan”                        | Hangzhou Jingchuan Investment Management Limited* (杭州徑川投資管理有限公司), a vendor under the Equity Transfer Agreement  |
| “Hangzhou Qiandu”                           | Hangzhou Qiandu Investment Management Limited* (杭州千度投資管理有限公司)   |

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## DEFINITIONS

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| “Hangzhou Tunlan”                                 | Hangzhou Tunlan Jiahu Investment Management Limited* (杭州瞰瀾嘉虎投資管理有限公司)  |
| “Hangzhou Tunlan Investment”                      | Hangzhou Tunlan Investment Management Limited* (杭州瞰瀾投資管理有限公司)  |
| “Hangzhou Xiongan”                                | Hangzhou Xiongan Investment Management Limited* (杭州雄岸投資管理有限公司)   |
| “Hangzhou Yisheng”                                | Hangzhou Yisheng Investment Partnership Enterprise* (杭州易盛投資合夥企業(有限合夥))   |
| “Hangzhou Zhuodi”                                 | Hangzhou Zhuodi Investment Partnership Enterprise* (杭州卓地投資合夥企業(有限合夥)), a vendor under the Equity Transfer Agreement  |
| “Hong Kong”                                       | the Hong Kong Special Administrative Region of the PRC   |
| “IDC”   | internet data centre(s)  |
| “Independent Board Committee”                     | a committee under the Board established for the purpose of advising the Independent Shareholders on the VIE Agreements and comprising all the independent non-executive Directors, being Mr. Chu Chung Yue, Howard, Dr. Zhang Weining and Mr. Yu Wenzhuo   |
| “Independent Financial Adviser” or “Gram Capital” | Gram Capital Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the VIE Agreements |
| “Independent Shareholder(s)”                      | Shareholder(s) other than Mr. Yao, Mrs. Yao and Mr. Zhu, and their respective associates   |
| “kW”  | kilowatt   |
| “Latest Practicable Date”                         | 6 August 2020, being the latest practicable date prior to the publication of this circular for ascertaining certain information in this circular   |

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## DEFINITIONS

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|----------------------|--|
| “Listing Rules”      | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited   |
| “Loan”               | the loan to be provided to Hangzhou Qiandu by Hangzhou Grandshores under the Loan Agreement  |
| “Loan Agreement”     | the loan agreement as set out in the section headed “VIE Operating Agreements — Loan Agreement” in the Letter from the Board in this circular  |
| “Morgan Hill”        | Morgan Hill Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, which owned approximately 34.38% of the issued share capital of the Company as at the Latest Practicable Date             |
| “Mr. Yao”            | Mr. Yao Yongjie, Chairman, an executive Director and a controlling shareholder of the Company  |
| “Mr. Zhu”            | Mr. Zhu Guangping, a controlling shareholder of the Company  |
| “Mrs. Yao”           | Ms. Bian Yi, the spouse of Mr. Yao   |
| “PRC”                | the People’s Republic of China, which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan  |
| “PRC Laws”           | any and all laws, regulations, statutes, rules, orders, decrees, circulars, notices, supreme court’s judicial interpretations and subsidiary legislations currently in force and publicly available in the PRC as of the date hereof |
| “PRC Legal Advisers” | Grandall Law Firm (Hangzhou), legal advisers to the Company as to PRC Laws   |
| “RMB”                | Renminbi, the lawful currency of the PRC   |
| “SFO”                | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)  |

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## DEFINITIONS

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|-------------------------------|---|
| “Share(s)”                    | ordinary share(s) of HK\$0.01 each in the share capital of the Company  |
| “Shareholder(s)”              | holder(s) of the issued Shares  |
| “Shenzhen Yulong”             | Shenzhen Yulong Tongtai Investment Partnership Enterprise* (深圳裕隆通泰股權投資合夥企業(有限合夥))   |
| “Singapore”                   | the Republic of Singapore   |
| “Shenzhen Guangliwei”         | Shenzhen Guangliwei Investment Limited* (深圳市廣立威投資有限公司), a vendor under the Equity Transfer Agreement  |
| “Shenzhen Mushui”             | Shenzhen Mushui Capital Management Limited* (深圳木水資本管理有限公司), a vendor under the Equity Transfer Agreement  |
| “Spousal Undertaking Letters” | the spousal undertaking letters as set out in the section headed “VIE Operating Agreements — Spousal Undertaking Letters” in the Letter from the Board in this circular |
| “Stock Exchange”              | The Stock Exchange of Hong Kong Limited   |
| “Target Company”              | Ordos Blockchain Cloud Computing Technology Co., Ltd.* (鄂爾多斯市區塊鏈雲計算科技有限公司)  |
| “Transactions”                | the transactions under the VIE Agreements   |
| “Vendors”                     | the vendors under the Equity Transfer Agreement, namely Hangzhou Zhuodi, Shenzhen Guangliwei, Hangzhou Haolan, Shenzhen Mushui and Hangzhou Jingchuan                   |
| “VIE”                         | variable interest entity, being an entity (the investee) in which the investor holds a controlling interest that is not based on the majority of voting rights          |
| “VIE Agreements”              | the VIE Main Agreement, the Equity Transfer Agreement, and/or the VIE Operating Agreements, or any of them  |
| “VIE Main Agreement”          | the VIE main agreement as set out in the section headed “VIE Main Agreement” in the Letter from the Board in this circular  |

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## DEFINITIONS

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|----------------------------|--|
| “VIE Operating Agreements” | the Exclusive Business Co-operation Agreement, the Entrustment Agreement, the Exclusive Purchase Right Agreement, the Equity Pledge Agreements, the Spousal Undertaking Letters, and/or the Loan Agreement |
| “Zhejiang Shixin”          | Zhejiang Shixin Trading Limited* (浙江實欣貿易有限公司)  |
| “HK\$”                     | Hong Kong dollars, the lawful currency of Hong Kong  |
| “S\$”                      | Singapore dollars, the lawful currency of Singapore  |
| “%”                        | percent  |

\* *For identification purpose only*

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LETTER FROM THE BOARD

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**Grandshores Technology Group Limited**  
**雄岸科技集團有限公司**

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

**(Stock Code: 1647)**

*Executive Director:*

Mr. Yao Yongjie (*Chairman*)

*Non-executive Directors:*

Mr. Chua Seng Hai

Ms. Lu Xuwen

*Registered office:*

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Independent non-executive Directors:*

Mr. Chu Chung Yue, Howard

Mr. Zhang Weining

Mr. Yu Wenzhuo

*Principal place of business*

*in Hong Kong:*

Unit 1503,

15/F., Greenfield Tower,

Concordia Plaza,

No. 1 Science Museum Road,

Kowloon,

Hong Kong

11 August 2020

*To the Shareholders*

Dear Sir/Madam,

**DISCLOSEABLE TRANSACTION,  
CONNECTED TRANSACTION AND  
CONTINUING CONNECTED TRANSACTIONS  
IN RELATION TO VIE AGREEMENTS**

**INTRODUCTION**

On 26 June 2020 (after trading hours), members of the Group, among other parties, entered into the VIE Main Agreement and the VIE Operating Agreements, and other relevant parties entered into the Equity Transfer Agreement. Pursuant to the VIE Agreements (comprising the VIE Main Agreement, the Equity Transfer Agreement and the VIE Operating Agreements), Hangzhou Grandshores (a wholly-owned subsidiary of the Company) shall acquire the entire economic interests and gain effective control of the Target Company by way of contractual arrangements upon Completion.

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## LETTER FROM THE BOARD

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The Transactions constitute a discloseable transaction for the Company under the Listing Rules as well as a connected transaction and continuing connected transactions for the Company subject to the announcement, circular (including independent financial advice), shareholders' approval, and annual review and reporting requirements under the Listing Rules.

The Company published an announcement dated 26 June 2020 in relation to the VIE Agreements and announcements dated 20 July 2020 and 31 July 2020 in relation to the despatch of the circular. The purpose of the circular is to provide, among other things, (i) details about the VIE Agreements, (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders, (iii) a letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders, (iv) an independent valuation report on the Target Company; and (v) the notice of the EGM.

### VIE MAIN AGREEMENT

On 26 June 2020 (after trading hours), the Company and Hangzhou Grandshores (a wholly-owned subsidiary of the Company), among the following parties, entered into the VIE Main Agreement, pursuant to which Hangzhou Grandshores has agreed to acquire the entire economic interests and gain effective control of the Target Company through the VIE Agreements upon Completion.

The principal terms of the VIE Main Agreement are set out below.

#### **Date**

26 June 2020

#### **Parties**

- (i) Company;
- (ii) Hangzhou Grandshores (a wholly-owned subsidiary of the Company);
- (iii) Hangzhou Zhuodi (an existing shareholder of the Target Company);
- (iv) Shenzhen Guangliwei (an existing shareholder of the Target Company);
- (v) Hangzhou Haolan (an existing shareholder of the Target Company);
- (vi) Shenzhen Mushui (an existing shareholder of the Target Company);

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## LETTER FROM THE BOARD

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- (vii) Hangzhou Jingchuan (an existing shareholder of the Target Company);
- (viii) Hangzhou Qiandu; and
- (ix) Target Company.

Hangzhou Qiandu is owned as to 99% by Mr. Yao (Chairman, an executive Director and a controlling shareholder of the Company) and 1% by Mrs. Yao; it is principally engaged in investment and asset management business. Information on the existing shareholders of the Target Company is set out in the section headed “Information on Target Company — Existing shareholders” in the Letter from the Board in this circular.

### **Completion**

Completion of the VIE Main Agreement is subject to among others Independent Shareholder’s approval of the Transactions and any waiver or approval required to be granted by the Stock Exchange for the Transactions. Following the VIE Main Agreement becoming unconditional, completion of the VIE Main Agreement shall take place upon completion of the Equity Transfer Agreement and Hangzhou Qiandu becoming the sole registered owner of the Target Company.

### **EQUITY TRANSFER AGREEMENT**

Hangzhou Qiandu, the Vendors and the Target Company entered into the Equity Transfer Agreement on 26 June 2020 (after trading hours), pursuant to which Hangzhou Qiandu has agreed to, upon completion of the Equity Transfer Agreement, acquire from the Vendors the entire equity interests of the Target Company for RMB49,950,000.

The principal terms and conditions of the Equity Transfer Agreement are set out below.

#### **Date**

26 June 2020

#### **Parties**

- (i) Hangzhou Qiandu (as purchaser);
- (ii) Hangzhou Zhuodi (as vendor);
- (iii) Shenzhen Guangliwei (as vendor);

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## LETTER FROM THE BOARD

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- (iv) Hangzhou Haolan (as vendor);
- (v) Shenzhen Mushui (as vendor);
- (vi) Hangzhou Jingchuan (as vendor); and
- (vii) Target Company.

Information on the Vendors, being the existing shareholders of the Target Company, is set out in the section headed “Information on Target Company — Existing shareholders” in the Letter from the Board in this circular.

### **Assets to be acquired**

Under the Equity Transfer Agreement, Hangzhou Qiandu will acquire the entire equity interests of the Target Company for RMB49,950,000 upon completion of the Equity Transfer Agreement and will become the registered owner of the Target Company.

Pursuant to the VIE Agreements, although Hangzhou Qiandu will be the registered owner of the Target Company upon Completion, Hangzhou Grandshores will have effective control of the Target Company and will be entitled to the entire economic interests generated by the Target Company.

### **Consideration**

The Consideration of RMB49,950,000 shall be satisfied by Hangzhou Qiandu in cash payable to the designated bank accounts of the Vendors according to their respective shareholding proportions. Subject to Hangzhou Qiandu obtaining the funds from Hangzhou Grandshores under the Loan Agreement, the Consideration is payable as follows: (i) RMB10,000,000 by 31 July 2020 or within ten business days of Hangzhou Qiandu becoming the registered owner of the Target Company (whichever comes later); (ii) RMB12,500,000 by 31 December 2021; (iii) RMB15,000,000 by 31 December 2022; and (iv) RMB12,450,000 by 31 December 2023.

The Consideration was arrived at after arm’s-length negotiations amongst the Company, Hangzhou Qiandu and the Vendors. It was based on the registered capital of the Target Company of RMB45,000,000 and took into account the above payment schedule of the Consideration up to 31 December 2023. The Consideration was also determined on the basis of it being no more than the appraised value of the independent valuation of the Target Company.

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## LETTER FROM THE BOARD

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The Consideration represents a premium of approximately 7% over the unaudited net asset value of the Target Company as at 30 April 2020 of RMB46.7 million, comprising total assets of RMB50.7 million and total liabilities of RMB4.0 million, and represents a discount of 23% to the independent valuation of the Target Company of RMB65 million as at 30 April 2020. In agreeing to the Consideration, the Company took into account the aforesaid and the prospects of the Target Company and considers the Consideration to be fair and reasonable. As advised by the Valuer, there is no material change to the appraised value of the Target Company up to a more recent valuation date of 31 May 2020.

The Company commissioned an independent valuation on the Target Company assess its fair value and considers that it is in the best interests of the Company and its Shareholders as a whole that the Consideration could be agreed at a price lower than the appraised value under the independent valuation. As set out in the independent valuation report of the Target Company in Appendix I to this circular, the Valuer has considered various valuation approaches. The Valuer is of the view that the cost approach would fail to capture future earnings potential of the Target Company, while the income approach would require reliable projections of the Target Company's performance which would be difficult to ascertain. Therefore, the Valuer selected market approach given the Target Company's track records and business sustainability. The Directors consider these are valid reasons to adopt market approach for valuing the Target Company.

The market approach refers to the earnings of the Target Company derived from the sum of (i) net profits of the Target Company during January-April 2020 and (ii) the net profits of the Target Company during May-December 2019, calculated based on the average monthly net profits in 2019. The Directors consider that the Target Company's earnings during January-April 2020 provide a more up-to-date performance of the Target Company and the Target Company's earnings during May-December 2019 on the basis of the average monthly net profits in 2019 would mitigate the effects of uneven trial operation of the Target Company during 2019. As stated in the valuation report, for the purposes of the valuation, the Valuer has assumed that data obtained in the course of the valuation, along with the opinions and representations provided by the Company were prepared in reasonable care. The Company considers such reliance is fair and reasonable.

Taking into account the performance of the Target Company not subject to seasonal factors, the capability of the Target Company's IDC to provide stable supply of electricity of substantial capacity, high speed internet connection and a secure environment with climate control with the expanded capacity as stated in the section headed "Information on Target Company" in letter from the Board in this circular and the prospects of the IDC industry as stated in the section headed "Industry overview" in the valuation report in Appendix I to this circular, the Directors consider that the business of the Target Company is sustainable and adoption of the market approach on the basis and assumptions as set out in the independent valuation report to be fair and reasonable.

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## LETTER FROM THE BOARD

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### **Completion**

Completion of the Equity Transfer Agreement is subject to the conditions set out therein including Independent Shareholder's approval of the Transactions and any waiver or approval required to be granted by the Stock Exchange for the Transactions, to be fulfilled (or waived) on or before 30 September 2020, or such other date as agreed between the parties. The Company will not waive the conditions of obtaining the Independent Shareholders' approval and the required waiver or approval by the Stock Exchange.

Completion of the Equity Transfer Agreement shall take place within five business days upon the Equity Transfer Agreement becoming unconditional. Within 15 business days of completion, the Vendors and the Target Company shall complete the change of business registration and obtain the new business license of the Target Company in respect of the equity transfer.

### **VIE OPERATING AGREEMENTS**

On 26 June 2020 (after trading hours), the relevant parties entered into the following VIE Operating Agreements. A summary of the terms of the VIE Operating Agreements is set out below:

#### **Exclusive Business Co-operation Agreement**

Date: 26 June 2020

Parties: (i) Hangzhou Grandshores; and  
(ii) Target Company.

Subject Matter: The Target Company shall engage Hangzhou Grandshores to be its exclusive service provider. Hangzhou Grandshores shall provide business support, technical and advisory services in relation to the principal business of the Target Company, including network support, business and management advice, and services related to intellectual property rights, equipment and lease, system integration and maintenance, and product development.

The Target Company shall act in accordance with the advice of Hangzhou Grandshores provided under the Exclusive Business Co-operation Agreement.

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## LETTER FROM THE BOARD

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**Fee:** The Target Company shall after each financial year end pay to Hangzhou Grandshores a service fee that is equal to 100% of the total net profits of the Target Company after deducting the necessary costs, expenses, taxes and other statutory contribution and retention as required by the PRC Laws and deduction of any loss of the previous year(s).

Hangzhou Grandshores has the right to adjust the service fee, taking into account among others its actual services provided to the Target Company.

**Term:** The Exclusive Business Co-operation Agreement shall take effect upon Hangzhou Qiandu becoming the sole registered owner of the Target Company and shall be terminated (i) upon the transfer of all the equity interests in the Target Company held by Hangzhou Qiandu or all the assets of the Target Company to Hangzhou Grandshores or such individuals/entities as designated by Hangzhou Grandshores pursuant to the Exclusive Purchase Right Agreement; (ii) upon the Target Company becoming bankrupt, liquidated, terminated or dissolved, or (iii) by Hangzhou Grandshores at any time by serving a written notice to the Target Company thirty days in advance.

The Target Company shall have no right to terminate this agreement.

### **Entrustment Agreement**

**Date:** 26 June 2020

**Parties:** (i) Hangzhou Grandshores;  
(ii) Hangzhou Qiandu; and  
(iii) Target Company.

**Subject:** Hangzhou Qiandu unconditionally and irrevocably authorises Hangzhou Grandshores or any Director (other than Mr. Yao or his associates) as designated by Hangzhou Grandshores or any liquidator appointed to act on behalf of the entrusted Director or any other successor to exercise all of his rights as shareholders of the Target Company under PRC Laws, including convening, attending and participating shareholders' meetings of the Target Company, receiving relevant notices or documents relating to the shareholders' meetings, and discussing and voting in shareholders' meetings of the Target Company.

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## LETTER FROM THE BOARD

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**Term:** The Entrustment Agreement shall take effect upon Hangzhou Qiandu becoming the sole registered owner of the Target Company until termination by Hangzhou Grandshores.

### **Exclusive Purchase Right Agreement**

**Date:** 26 June 2020

**Parties:** (i) Hangzhou Grandshores;  
(ii) Hangzhou Qiandu; and  
(iii) Target Company.

**Subject:** Hangzhou Qiandu and the Target Company irrevocably grant Hangzhou Grandshores an exclusive right to purchase or nominate any individuals/entities to purchase all or part of Hangzhou Qiandu's equity interests in the Target Company or all or any assets of the Target Company as permitted under the then PRC Laws, at a purchase price corresponding to the Consideration or at the net book value of the Target Company, subject to the lowest possible price as required under the PRC Laws.

Hangzhou Qiandu shall be prohibited from selling, offering to sell, transferring, donating, pledging or otherwise disposing of all or part of his equity interests in the Target Company, or granting others a right to purchase such equity interests, without the prior written consent from Hangzhou Grandshores.

**Term:** The Exclusive Purchase Right Agreement shall take effect upon Hangzhou Qiandu becoming the sole registered owner of the Target Company and shall be terminated (i) upon the transfer of all the equity interests in the Target Company held by Hangzhou Qiandu or all the assets of the Target Company to Hangzhou Grandshores or such individuals/entities as designated by Hangzhou Grandshores pursuant to the Exclusive Purchase Right Agreement, or (ii) by Hangzhou Grandshores.

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## LETTER FROM THE BOARD

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### Equity Pledge Agreements

#### *Equity Pledge Agreement (A)*

Date: 26 June 2020

Parties: (i) Hangzhou Grandshores (as pledgee);  
(ii) Hangzhou Qiandu (as pledgor); and  
(iii) Target Company.

Subject: Hangzhou Qiandu has agreed to pledge all of its equity interests in the Target Company to Hangzhou Grandshores to secure among others the performance of the obligations of Hangzhou Qiandu and the Target Company under the VIE Operating Agreements, including repayment of the Loan.

Term: The pledge of equity under the Equity Pledge Agreement (A) shall take effect upon registration of the equity pledge and shall be terminated (i) upon the discharge of all obligations of Hangzhou Qiandu and the Target Company under the VIE Operating Agreements, including repayment of the Loan, (ii) upon the transfer of all the equity interests in the Target Company held by Hangzhou Qiandu or all the assets of the Target Company to Hangzhou Grandshores or such individuals/entities as designated by Hangzhou Grandshores pursuant to the Exclusive Purchase Right Agreement, (iii) Hangzhou Grandshores terminating the Equity Pledge Agreement (A), or (iv) as required under PRC Laws.

Hangzhou Qiandu shall apply for the registration of the equity pledge within 20 days following completion of the Equity Transfer Agreement. Hangzhou Qiandu and the Target Company shall complete the registration of the equity pledge within 30 days of the application.

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## LETTER FROM THE BOARD

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### *Equity Pledge Agreement (B)*

Date: 26 June 2020

Parties: (i) Hangzhou Grandshores (as pledgee);  
(ii) Mr. Yao (as pledgor);  
(iii) Mrs. Yao (as pledgor);  
(iv) Hangzhou Qiandu; and  
(v) Target Company.

Subject: Mr. Yao and Mrs. Yao have agreed to pledge all of their equity interests in Hangzhou Qiandu to Hangzhou Grandshores to secure among others the performance of the obligations of Mr. Yao, Mrs. Yao, Hangzhou Qiandu and the Target Company under the VIE Operating Agreements, including repayment of the Loan.

Term: The pledge of equity under the Equity Pledge Agreement (B) shall take effect upon registration of the equity pledge and shall be terminated (i) upon the discharge of all obligations of Mr. Yao, Mrs. Yao, Hangzhou Qiandu and the Target Company under the VIE Operating Agreements, including repayment of the Loan, (ii) upon the transfer of all the equity interests in the Target Company held by Hangzhou Qiandu or all the assets of the Target Company to Hangzhou Grandshores or such individuals/entities as designated by Hangzhou Grandshores pursuant to the Exclusive Purchase Right Agreement, (iii) Hangzhou Grandshores terminating the Equity Pledge Agreement (B), or (iv) as required under PRC Laws.

Mr. Yao and Mrs. Yao shall apply for the registration of the equity pledge within 20 days following completion of the Equity Transfer Agreement. Mr. Yao, Mrs. Yao and Hangzhou Qiandu shall complete the registration of the equity pledge within 30 days of the application.

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## LETTER FROM THE BOARD

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### Spousal Undertaking Letters

Date: 26 June 2020

Parties: Mr. Yao and Mrs. Yao

Subject: Mr. Yao and Mrs. Yao have irrevocably agreed that all the equity interests held by them in Hangzhou Qiandu and all the benefits generated from their equity interests in Hangzhou Qiandu do not form part of their matrimonial property.

### Loan Agreement

Date: 26 June 2020

Parties: (i) Hangzhou Grandshores (as lender); and  
(ii) Hangzhou Qiandu (as borrower).

Subject: Pursuant to the terms of the Loan Agreement, Hangzhou Grandshores shall provide a non-interest bearing loan in the principal amount of RMB49,950,000 to Hangzhou Qiandu for the purposes of Hangzhou Qiandu's payment of the Consideration. The Loan will be provided to Hangzhou Qiandu by instalment corresponding to Hangzhou Qiandu's payment schedule under the Equity Transfer Agreement.

The Loan shall become due and payable in full upon transfer of all the equity interests in the Target Company held by Hangzhou Qiandu or all the assets of the Target Company to Hangzhou Grandshores or such individuals/entities as designated by Hangzhou Grandshores pursuant to the Exclusive Purchase Right Agreement (the "**Transfer**"). The amount payable by Hangzhou Grandshores to Hangzhou Qiandu under the Transfer (the "**Amount Payable**") shall be applied to repay the Loan. If the Amount Payable is less than the principal amount of the Loan, the Loan shall be deemed to be fully repaid. If the Amount Payable, as required by the applicable PRC Laws, is more than the principal amount of the Loan, the Loan shall be deemed to incur interests equivalent to, and settled by, the quantum of the Amount Payable in excess of the principal amount of the Loan. Therefore, no additional amount shall be payable by Hangzhou Grandshores upon the Transfer.

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## LETTER FROM THE BOARD

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### OTHER MATTERS UNDER VIE OPERATING AGREEMENTS

#### **Dispute resolution**

The VIE Operating Agreements are governed by and will be construed in accordance with the PRC Laws. Pursuant to the VIE Operating Agreements, any dispute arising from the VIE Operating Agreements between the parties shall be submitted to Shanghai International Economic and Trade Arbitration Commission\* (上海國際經濟貿易仲裁委員會) for arbitration. The arbitrators may award remedies over the equity interest or assets of the Target Company, injunctive relief (e.g. mandatory transfer of assets) and/or winding up of the Target Company. The results of the arbitration shall be final and binding. When the arbitral award is granted, any party can apply for its enforcement in any courts of competent jurisdiction such as courts in Hong Kong, Cayman Islands, the PRC and locations where the principal assets of the Company or the Target Company are located.

The VIE Operating Agreements also include a clause in relation to dispute resolution among the parties where, when awaiting the formation of the arbitration tribunal or otherwise under appropriate conditions, the parties thereto may seek temporary injunctive relief or other temporary remedies from the courts in Hong Kong, Cayman Islands, the PRC and the location where the principal assets of the Company or the Target Company are located.

#### **Succession**

The provisions set out in the Exclusive Business Co-operation Agreement, the Entrustment Agreement, the Exclusive Purchase Right Agreement, the Equity Pledge Agreements and the Loan Agreement are also binding on the successors of the signing parties, as if the successor were a signing party to the VIE Operating Agreements. Although the VIE Operating Agreements do not specify the identity of successors to Mr. Yao and Mrs. Yao, under the succession law of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the VIE Operating Agreements.

In addition, Mr. Yao and Mrs. Yao have given undertakings in relation to the VIE Operating Agreements, as set out in the paragraph headed “VIE Operating Agreements — Spousal Undertaking Letters” in the Letter from the Board in this circular.

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## LETTER FROM THE BOARD

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### **Liquidation, bankruptcy or death**

Pursuant to the Exclusive Purchase Right Agreements, in the event of a dissolution or liquidation of the Target Company, the Target Company shall transfer all its assets to Hangzhou Grandshores or its designated person(s) at the minimum purchase price permitted under PRC Laws, payment of which shall be waived by the Target Company, as permitted under applicable PRC Laws. Any income arising from the liquidation or dissolution shall be returned to Hangzhou Grandshores as service fee payable under the Exclusive Business Co-operation Agreement.

The PRC Legal Advisers advise that in the event of death, the successor of Mr. Yao or Mrs. Yao shall assume the rights and obligations under the VIE Agreements and there was no bankruptcy procedures applicable for PRC individuals under the PRC Laws as at the Latest Practicable Date.

### **Conflicts of interest**

Pursuant to the Exclusive Business Co-operation Agreement, the Target Company shall not take or omit to take any action which may lead to conflicts of interest with Hangzhou Grandshores or Hangzhou Grandshores' shareholders. If there is any conflict of interest, Hangzhou Grandshores shall have the right to decide in its sole discretion on how to deal with such conflict of interest in accordance with the applicable PRC Laws.

### **Loss sharing**

None of the VIE Operating Agreements provides that the Group is obligated to share the losses of the Target Company or provide financial support to the Target Company. Further, the Target Company is a limited liability company and shall be solely liable for its own debts and losses. The Company, as the primary beneficiary of the Target Company under the VIE Operating Agreements, is not required to share the losses of the Target Company or provide financial support to the Target Company under the PRC Laws.

### **INTERNAL CONTROL**

The Group will adopt the following internal control to monitor the operation of the Target Company and the VIE Operating Agreements.

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## LETTER FROM THE BOARD

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### Management controls

- (i) the Group will appoint a management member of the Group other than Mr. Yao or his associates (the “**Representative**”) to the board of the Target Company mainly responsible for exercising management controls of the Target Company. The Representative is required to conduct monthly review on the operations of the Target Company;
- (ii) the Representative shall be actively involved in various aspects of the daily managerial and operational activities of the Target Company;
- (iii) the Representative shall report any major events of the Target Company to the chief executive officer of the Company (the “**CEO**”), who must in turn report to the Board;
- (iv) the CEO shall conduct regular site visits to the Target Company and conduct personnel interviews quarterly and submit corresponding reports to the Board; and
- (v) all seals, chops, incorporation documents and all other legal documents, to the extent permitted by the PRC law, of the Target Company must be kept at the office of Hangzhou Grandshores.

### Financial controls

- (i) the chief financial officer of the Group (the “**CFO**”) shall collect monthly management accounts, bank statements and cash balances and major operational data of the Target Company within 30 days after each month end for review. The financial team of the Company will seek explanations from the senior management of the Target Company on any material fluctuations of the aforesaid collected items. Upon discovery of any suspicious matters, the CFO must report to the Board;
- (ii) if the payment of the services fees by the Target Company to Hangzhou Grandshores under the Exclusive Business Co-operation Agreement is delayed, the CFO must meet with Hangzhou Qiandu to investigate, and should report any suspicious matters to the Board; and
- (iii) the Target Company must assist and facilitate the Company to conduct all on-site internal audits as required by the Company.

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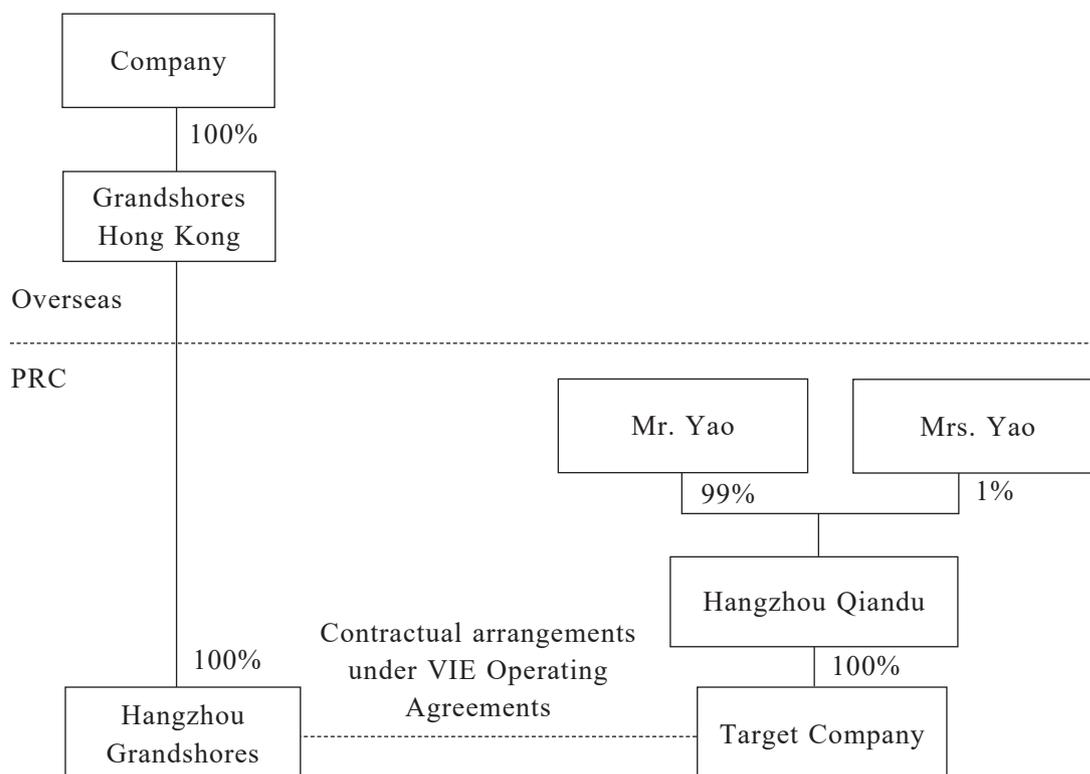
## LETTER FROM THE BOARD

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### Legal review

- (i) the Representative will consult the Company's PRC legal advisers from time to time to check if there are any legal developments in the PRC affecting the arrangement contemplated under the VIE Operating Agreements, and should immediately report to the Board so as to allow the Board to determine if any modification or amendment are required to be made;
- (ii) as part of the internal control measures, major issues arising from implementation and performance of the VIE Operating Agreements will be reviewed by the Board on a regular basis which will be no less frequent than on a quarterly basis. The Board will determine, as part of its periodic review process, whether legal advisers and/or other professionals will need to be retained to assist the Group to deal with specific issues arising from the VIE Operating Agreements; and
- (iii) matters relating to compliance and regulatory enquiries from governmental authorities, if any, will be discussed by the Board on a regular basis which will be no less frequent than on a quarterly basis.

### DIAGRAM OF VIE STRUCTURE



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## LETTER FROM THE BOARD

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### REASONS FOR VIE AGREEMENTS

The Target Company is principally engaged in operation of internet data centre. The PRC Legal Advisers advise that the Target Company's principal business falls under value-added telecommunication services and is subject to the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2019)\* (外商投資准入特別管理措施(負面清單)(2019年版)), under which foreign investors of a value-added telecommunication services company may not hold an equity interest more than 50% in the company.

According to the Regulations on the Administration of Foreign-invested Telecommunication Enterprises (2016 Amended)\* (外商投資電信企業管理規定(2016年修訂)), a foreign investor who invests in a value-added telecommunications services company shall have a good track record and operational experience in providing value-added telecommunications business (the "**Qualification Requirement**"). But, currently, there is no clear guidance as to the interpretation of such Qualification Requirement and the procedures to obtain the necessary approval for the foreign investor to invest in a value-added telecommunication services company. Therefore, in practice, it is not possible for the Company to acquire the maximum permitted interest in the Target Company.

Therefore, in order to comply with applicable PRC Laws, the parties entered into the VIE Agreements to enable Hangzhou Grandshores to be entitled to the entire economic interests and gain effective control of the Target Company.

The PRC Legal Advisers are of the view that:

- the VIE Operating Agreements are narrowly tailored to achieve the business purposes of the Company and minimise the potential for conflict with relevant PRC Laws;
- the Target Company is duly established and validly existing under the PRC Laws, and has obtained or completed all requisite approvals, permits, registrations or filings that are material for carrying out its business operations as required by the applicable PRC Laws;
- each of the VIE Operating Agreements, taken individually and collectively, constitutes legal, valid and binding obligations of the parties thereto and complies with, and will be enforceable and not deemed void under, applicable PRC Laws except that (i) Shanghai International Economic and Trade Arbitration Commission\* (上海國際經濟貿易仲裁委員會) has no power to grant injunctive relief, nor will it be able to order the winding up of the Target Company pursuant to the PRC Laws; and (ii) interim remedies or enforcement order granted by overseas courts such as the courts of Hong Kong and the Cayman Islands may not be recognised or enforceable in the PRC;

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## LETTER FROM THE BOARD

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- the VIE Operating Agreements do not, individually or collectively, violate the mandatory provisions of the PRC Contract Law regarding “concealing illegal intentions with a lawful form” and other applicable PRC Laws;
- none of the VIE Operating Agreements violates any provisions of the existing articles of association of the Target Company;
- the execution, effectiveness and enforceability of the VIE Operating Agreements do not require any approvals from any PRC governmental authority, except that (1) the Equity Pledge Agreements are subject to registration requirements with the relevant administration for industry and commerce; (2) the exercising of the exclusive option by Hangzhou Grandshores according to the Exclusive Purchase Right Agreement shall be subject to the then effective PRC Laws; and
- all possible actions or steps taken to enable the PRC Legal Advisers to reach their legal conclusions had been taken.

Upon Completion, the financial results of the Target Company will be consolidated into the financial results of the Company, and the Target Company will become a wholly-owned subsidiary of the Company. The Directors have discussed with the auditors of the Company and it has confirmed that the financial results of the Target Company will be consolidated into the accounts of the Group as long as all the contractual arrangements pursuant to the VIE Operating Agreements remain effective.

### **RISK FACTORS IN RELATION TO VIE OPERATING AGREEMENTS**

**There is no assurance that the VIE Operating Agreements could comply with future changes in the regulatory requirements in the PRC and the PRC government may determine that the VIE Operating Agreements do not comply with applicable regulations**

Under the Discussion Draft of the Proposed Foreign Investment Law\* (中華人民共和國外國投資法(草案徵求意見稿)) published by MOFCOM in January 2015 and the Explanation on the Draft PRC Foreign Investment Law\* (關於中華人民共和國外國投資法(草案徵求意見稿)的說明) (collectively, the “**Draft PRC Foreign Investment Law**”), the regulation governing VIE structure would be amended to the effect that VIE controlled via contractual arrangements would be deemed as foreign-invested enterprises, if they are ultimately “controlled” by foreign investors.

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## LETTER FROM THE BOARD

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In March 2019, the National People’s Congress promulgated the PRC Foreign Investment Law\* (中華人民共和國外商投資法) (the “**2019 PRC Foreign Investment Law**”), which became effective on 1 January 2020 and replaced major existing laws and regulations governing foreign investment in the PRC. The 2019 PRC Foreign Investment Law does not explicitly classify the VIE structure as foreign investment.

Since the 2019 PRC Foreign Investment Law has only recently been adopted and relevant government authorities may promulgate rules and regulations as to the interpretation and implementation of the 2019 PRC Foreign Investment Law, there can be no assurance that the concept of “control” as referred to in the 2015 Draft PRC Foreign Investment Law will not be reintroduced, or that the VIE structure adopted by us will not be deemed as foreign investment or that the VIE structure will not be deemed by the relevant government authorities not to comply with the applicable PRC Laws as interpreted by the relevant government authorities.

### **VIE Operating Agreements may not be as effective as direct ownership in providing control over the Target Company**

The Group relies on the contractual arrangements under the VIE Operating Agreements to operate the business of the Target Company. Such contractual arrangements may not be as effective in providing Hangzhou Grandshores with control over the Target Company as direct ownership. If Hangzhou Grandshores has direct ownership of the Target Company, it will be able to exercise its rights as a shareholder to effect changes in the board of directors of the Target Company, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, under the VIE Operating Agreements, the Group relies on the performance by Hangzhou Qiandu of its obligations under the VIE Operating Agreements to exercise control over the Target Company. Therefore, the VIE Operating Agreements may not be as effective in ensuring Hangzhou Grandshores’ control over the Target Company as direct ownership would be.

### **Hangzhou Qiandu may potentially have a conflict of interest with the Group**

The Group’s control over the Target Company held by Hangzhou Qiandu is based upon the VIE Operating Agreements. Hangzhou Qiandu may potentially have a conflict of interest with the Group, and it may breach the VIE Operating Agreements. There is no assurance that when conflicts of interest arise between the Group and Hangzhou Qiandu, Hangzhou Qiandu will act completely in the Group’s interests or that the conflicts of interest will be resolved in the Group’s favour. If Hangzhou Qiandu does not act completely in the Group’s interests or the conflicts of interest between the Group and them are not resolved in the Group’s favour, the Group’s business and financial condition may be materially and adversely affected.

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## LETTER FROM THE BOARD

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In addition, Hangzhou Qiandu may breach or cause the Target Company to breach the VIE Operating Agreements. If the Target Company or Hangzhou Qiandu breach the VIE Operating Agreements or otherwise have disputes with the Group, the Group may have to initiate arbitration or other legal proceedings, which involve significant uncertainty. Such disputes and proceedings may significantly distract the management's attention, adversely affect the Group's ability to control the Target Company.

### **The contractual arrangements may be subject to scrutiny of the PRC tax authorities and transfer pricing adjustments and additional tax may be imposed**

The Group could face material adverse tax consequences if the PRC tax authorities determine that the arrangements under the VIE Operating Agreements were not entered into based on arm's-length negotiations. If the PRC tax authorities determine that these agreements were not entered into on an arm's-length basis, they may adjust income and expenses of Hangzhou Grandshores and/or the Target Company for PRC tax purposes, which could result in higher tax liabilities on Hangzhou Grandshores and/or the Target Company.

The operating and financial results of the Group may be materially and adversely affected if the tax liabilities of the Target Company or those of Hangzhou Grandshores increase significantly or if they are required to pay interest on late payments and other penalties.

### **Certain terms of the VIE Operating Agreements may not be enforceable under PRC Laws**

The VIE Operating Agreements provide that the arbitration tribunal of the PRC may award remedies over the equity interests or assets of the Target Company or injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of the Target Company. The VIE Operating Agreements also include a clause in relation to dispute resolution among the parties where, when awaiting the formation of the arbitration tribunal or otherwise under appropriate conditions, the parties thereto may seek temporary injunctive relief or other temporary remedies from the courts in Hong Kong, Cayman Islands, the PRC and the location where the principal assets of the Company or the Target Company are located.

The PRC Legal Adviser is of the view that pursuant to the PRC Laws, the arbitration tribunal has no power to grant the aforementioned remedies or injunctive relief or to order the winding up of the Target Company. In addition, even though the VIE Operating Agreements provide that overseas courts (e.g. courts in Hong Kong and Cayman Islands) shall have the power to grant certain relief or remedies, such relief or remedies may not

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## LETTER FROM THE BOARD

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be recognised or enforced under the PRC Laws. As a result, in the event that the Target Company or Hangzhou Qiandu breaches the terms of the VIE Operating Agreements, the Company may not be able to obtain sufficient remedies in a timely manner, and its ability to exert effective control over the Target Company could be materially and adversely affected.

Furthermore, notwithstanding the relevant contractual provisions contained in the VIE Operating Agreements, courts of competent jurisdiction may grant interim remedies only to the extent as permitted under the PRC Laws. Therefore, such interim remedies may not be available under the PRC Laws.

### **A substantial amount of costs and time may be involved in transferring the ownership of the Target Company to the Group under the Exclusive Purchase Right Agreement**

In case Hangzhou Grandshores exercises its option to acquire all or part of the equity interests in the Target Company under the Exclusive Purchase Right Agreement, such acquisition may only be conducted to the extent as permitted by the applicable PRC Laws and will be subject to necessary approvals and relevant procedures under the applicable PRC Laws. In addition, the abovementioned acquisitions may be subject to a minimum price limitation (such as an appraised value for the equity interests in the Target Company) or other limitations as imposed by the applicable PRC Laws. Further, a substantial amount of taxes, other necessary costs (if any), expenses and time may be involved in transferring the ownership of the Target Company, which may have a material adverse impact on the Group's business, prospects and results of operation.

### **The Group may bear economic risk which may arise from difficulties in the operation of the Target Company**

As the primary beneficiary of the Target Company, the Group will bear economic risks which may arise from difficulties in the operation of the Target Company's business. The Hangzhou Grandshores will have to provide financial support in the event of financial difficulty of the Target Company. Under these circumstances, the Group's financial results and financial position may be adversely affected by the worsening financial performance of the Target Company and the need to provide financial support to the Target Company.

### **The Company does not have any insurance which covers the risks relating to the VIE Operating Agreements and the transactions contemplated thereunder**

The insurance of the Group does not cover the risks relating to the VIE Operating Agreements and the transactions contemplated thereunder. If any risk arises from the VIE Operating Agreements in the future, such as those affecting the enforceability of the VIE

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## LETTER FROM THE BOARD

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Operating Agreements and the operation of VIE Operating Agreements, the results of the Group may be adversely affected. To this end, the Group will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations. The Company will continue evaluating the feasibility, the cost and the benefit of insuring the transactions contemplated under the VIE Operating Agreements.

**There is a lack of clear guidance on or interpretation of the Qualification Requirement and the procedures to obtain the necessary approval for the foreign investor to invest in a value-added telecommunication services company, which may cast uncertainty to the Group when the foreign ownership restriction in value-added telecommunications is relaxed**

Currently, there is no clear guidance as to the interpretation of what constitutes “a good track record” and “operational experience” under the Qualification Requirement and as to the procedures to obtain the necessary approval for the foreign investor to invest in a value-added telecommunication services company. If the restriction on foreign ownership in companies providing value-added telecommunications services under the current PRC Laws is lifted, the Group may still not be in a position to comply with the Qualification Requirement and apply to the relevant authority to acquire the entire equity interests in the Target Company.

Nonetheless, in preparation of fulfilling the Qualification Requirement in future, the Company will maintain a good track record and accumulate operational experience in IDC operation and maintenance, through the operation of the Target Company following Completion, and explore other relevant business opportunities to gain experience in satisfying the Qualification Requirement. The Company will acquire the equity of the Target Company as soon as the Company satisfies the Qualification Requirement and complies with the required procedures, when such requirements and procedures become clear in future.

### **BOARD’S VIEW ON VIE AGREEMENTS**

Based on the above, the Board is of the view that the VIE Agreements are enforceable under the relevant PRC Laws and they are narrowly tailored to achieve the Target Company’s business purpose and minimize the potential conflicts with the relevant PRC Laws. The VIE Agreements enable Hangzhou Grandshores to gain effective control over the Target Company and to be entitled to the entire economic interests of the Target Company. Pursuant to the relevant provisions of the VIE Agreements, Hangzhou Grandshores has the right to unwind the VIE Agreements as soon as the relevant PRC Laws allow Hangzhou Grandshores to register itself as the shareholder of the Target

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## LETTER FROM THE BOARD

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Company. The Board confirms that appropriate arrangements have been made to protect the Company's interests in the Target Company in the event of bankruptcy of Hangzhou Qiandu and death, bankruptcy or divorce of Mr. Yao and Mrs. Yao to avoid any practical difficulties in enforcing the VIE Operating Agreements. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, as at the Latest Practicable Date, the Target Company had not encountered any interference or encumbrance from any governing bodies in operating its business under the VIE Operating Agreements.

The Board confirms that prior to acquiring the Target Company under the VIE Agreements, (i) the Board has assessed the requirements under all applicable rules as set out in the section headed "Reasons for VIE Agreements" in the Letter from the Board in this circular, (ii) the Company has committed financial resources to acquire the Target Company and other resources to implement control over the Target Company as set out in the section headed "Internal control" in the Letter from the Board in this circular, and (iii) the Company has implemented the PRC Legal Advisers' recommendations to enter into the VIE Agreements to acquire the entire economic interests, and gain effective control, of the Target Company through VIE arrangements.

Taking into account the terms of the VIE Agreements, the disclosures made in this circular and the advice of the PRC Legal Advisers, the Board confirms that each of the applicable requirements set out in the guidance letter HKEx-GL77-14 has been complied with.

### INFORMATION ON TARGET COMPANY

The Target Company was established in October 2017. Its principal business is operation of internet data centres (IDC).

At present, the Target Company operates an IDC located in a cloud computing industrial park in Ordos, Inner Mongolia, the PRC (the "**Ordos IDC**"). It had 12 employees responsible for management, operation, administration and finance of the Target Company as at the Latest Practicable Date. Following its establishment in October 2017, the Target Company commenced setting up the Ordos IDC on the premises leased from a PRC government controlled entity. The Target Company equipped the premises with specifications essential to IDC including stable supply of electricity of substantial capacity, high-speed internet connection, and a secure and climate-controlled environment. The Target Company oversees the management of the operation of the Ordos IDC, with the support of third-party service providers in the maintenance of the facilities, including repair and maintenance of electricity supply facilities and other equipment installed in the Ordos IDC. The Target Company also engages third-party agents to look for customers. The Target Company commenced trial operation of the Ordos IDC in June 2018, with a capacity of electricity supply of 18,900 kW and maintaining up to 67 cabinets with each cabinet capable of holding 110 computing machines of 2.4 kW each.

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## LETTER FROM THE BOARD

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For each of the two years ended 31 December 2019, the Target Company generated revenue of RMB6.4 million and RMB20.5 million primarily from providing management, testing and maintenance services to customers using the Ordos IDC. For the four months ended 30 April 2020, the Target Company generated revenue of RMB20.1 million. Among the customers of the Ordos IDC, Hangzhou Jiabing, an associate of Mr. Zhu, generated revenue of RMB5.8 million and RMB18.1 million for 2018 and 2019, representing 91% and 88% of the total revenue of the Target Company. The Target Company has been marketing the Ordos IDC to sign up customers. The proportion of the Target Company's revenue from Hangzhou Jiabing has reduced. For the four months ended 30 April 2020, Hangzhou Jiabing generated revenue of RMB4.5 million, representing 22% of the total revenue of the Target Company. Based on the Target Company's records, revenue from Hangzhou Jiabing further reduced to RMB0.7 million for May 2020 and RMB0.09 million for June 2020. Following Completion, Hangzhou Jiabing may continue to be a customer of the Target Company generating income, as long as the transactions are under normal commercial terms, fair and reasonable, and in the interest of the Company and Shareholders as a whole. During the four months ended 30 April 2020, without taking into account Hangzhou Jiabing, the Target Company had seven customers.

The Target Company's customers consist of technology companies (including Hangzhou Jiabing), whose business include blockchain technology consulting services, trading and leasing of computer equipment, e-commerce order settlement services and supply chain system integration services, as well as individuals who require high speed internet connection and stable electricity supply of the Target Company's IDC facilities to participate in the application of blockchain technology to process transactions of digital assets based on blockchain technology. The Target Company promotes its IDC and finds customers through the following channels: introduction by its third-party agents, word-of-mouth of its customers, business networks of Mr. Zhu and Mr. Yao, who have beneficial shareholding interests in the Target Company and the Target Company's marketing efforts of participating in blockchain-related events. Save for Hangzhou Jiabing, all existing customers of the Target Company are independent of the Company and its connected persons.

The Target Company completed further development of the Ordos IDC in April 2020, expanding its capacity to electricity supply of 61,000kW and maintaining up to 172 cabinets with each cabinet capable of holding 110 computing machines of 2.4 kW each. On the basis of the expanded capacity of the Ordos IDC, the utilization rate of the Ordos IDC was in the range of 30%-40% during May-June 2020. The Target Company intends to strengthen its marketing efforts to promote its IDC by participating in more blockchain related events, conferences and seminars to gain exposure and business opportunities of potential customers and may consider to engage more third-party agents to look for potential customers.

### **Financial highlights**

Set out below is a financial summary of the Target Company for the two years ended 31 December 2019 and for the four months ended 30 April 2020, based on the unaudited financial statements of the Target Company prepared in accordance with the International Financial Reporting Standards.

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## LETTER FROM THE BOARD

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| <i>RMB in million</i>       | <b>For the years ended</b> |             | <b>For the</b>     |
|-----------------------------|----------------------------|-------------|--------------------|
|                             | <b>31 December</b>         |             | <b>four months</b> |
|                             | <b>2018</b>                | <b>2019</b> | <b>ended</b>       |
|                             |                            |             | <b>30 April</b>    |
|                             |                            |             | <b>2020</b>        |
| Revenue                     | 6.4                        | 20.5        | 20.1               |
| Profit or (Loss) before Tax | (1.2)                      | 1.1         | 2.6                |
| Profit or (Loss) after Tax  | (1.2)                      | 1.1         | 2.0                |

As at 30 April 2020, the Target Company reported total assets of RMB50.7 million and total liabilities of RMB4.0 million, resulting in net assets of RMB46.7 million. The Target Company's assets as at 30 April 2020 were primarily comprised of fixed assets including leasehold improvements and equipment in relation to the Target Company's Ordos IDC. The Target Company's liabilities as at 30 April 2020 were primarily comprised of payables including rent payable and other payables due to service providers of the Target Company.

### Existing shareholders

As at the date of this circular, the existing shareholders of the Target Company, being the Vendors, have paid up the registered capital of the Target Company as follows.

|                     | <b>Paid-up<br/>capital<br/>(RMB)</b> | <b>% of equity<br/>interests</b> |
|---------------------|--------------------------------------|----------------------------------|
| Hangzhou Zhuodi     | 16,800,000                           | 37.33%                           |
| Shenzhen Guangliwei | 15,000,000                           | 33.33%                           |
| Hangzhou Haolan     | 10,003,500                           | 22.23%                           |
| Shenzhen Mushui     | 2,000,000                            | 4.44%                            |
| Hangzhou Jingchuan  | 1,200,000                            | 2.67%                            |
| <br>                |                                      |                                  |
| Total               | 45,003,500                           | 100%                             |

Hangzhou Zhuodi is a limited partnership established in the PRC, principally engaged in investment and asset management business. Hangzhou Zhuodi is owned as to 49.51% by Mr. Wan Jingang, 29.7% by Mr. Zhu, 19.8% by Zhejiang Shixin (which in turn is owned as to 90% by Mr. Pu Wen and 10% by Mr. Zhou Qinqin) and 0.99% by Hangzhou Tunlan. Hangzhou Tunlan, is the general partner Hangzhou Zhuodi and is wholly owned by

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## LETTER FROM THE BOARD

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Hangzhou Tunlan Investment, of which Mr. Yao and Ms Yao Zhian, a niece of Mr. Yao, are substantial shareholders. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, save as disclosed above, the other ultimate beneficial owners of Hangzhou Zhuodi are independent of the Company and its connected persons.

Shenzhen Guangliwei is a company established in the PRC with limited liability, principally engaged in investment holding and trading business. Shenzhen Guangliwei is held as to 90% by Mr. Zhu and 10% by Ms. Wang Li, Mr. Zhu's spouse.

Hangzhou Haolan is a limited partnership established in the PRC, principally engaged in investment and asset management business. Hangzhou Haolan is owned as to 28.17% by Mr. Chai Huijing, 14.08% by Mr Ruan Tiejun, 14.08% by Mr. Yu Chunlei, 14.08% by Ms. Ni Xiuqin, 14.08% by Guangda Holdings (which in turn is owned as to 90% by Mr. Chen Huofa and 10% by Ms. Wu Mingxia), 7.04% by Hangzhou Yisheng (which in turn is owned as to 95% by Mr. Mao Dai and 5% by Hanzhou Yihe (which is wholly owned by Ms. Li Ming)), 7.04% by Shenzhen Yulong (which in turn is owned as to 75% by Mr. Zhao Zuchuan and 25% by Mr. Wang Fuming) and 1.4% by Hangzhou Xiongan, which is also the general partner of Hangzhou Haolan. Hangzhou Xiongan is owned as to 51% by Hangzhou Tunlan and 49% by Mr. Li Xiaolai. Hangzhou Tunlan is wholly owned by Hangzhou Tunlan Investment. Mr Yao and Ms Yao Zhian, a niece of Mr. Yao, directly and indirectly (through companies wholly or majority owned by them) hold an aggregate equity interest of 49.3% in Hangzhou Tunlan Investment. The remaining equity interests of Hangzhou Tunlan Investment are held directly and indirectly by 26 individuals who are investors in Hangzhou Tunlan Investment or in the companies holding shareholding interests in Hangzhou Tunlan Investment. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, save as disclosed above, the other ultimate beneficial owners of Hangzhou Haolan are independent of the Company and its connected persons.

Shenzhen Mushui is a company established in the PRC with limited liability, principally engaged in investment and asset management business. Shenzhen Mushui is owned as to 95% by Mr. Li Dan and 5% by Mr. Li Xiaohui. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, Messrs. Li are independent of the Company and its connected persons.

Hangzhou Jingchuan is a company established in the PRC with limited liability, principally engaged in investment and asset management business. Hangzhou Jingchuan is owned as to 30% by Ms. Yao Zhian, a niece of Mr. Yao, and 70% by Mr. Wu Qiang. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, Mr. Wu is independent of the Company and its connected persons.

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## LETTER FROM THE BOARD

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### REASONS FOR TRANSACTION

The Group is principally engaged in (i) providing integrated building services in Singapore; (ii) undertaking building and construction works in Singapore; (iii) blockchain technology development and application business; and (iv) industrial hemp business.

In relation to the blockchain technology business segment, it's the Company's strategy to operate, maintain and manage data centres, other high-performance data processing facilities, equipment for blockchain technologies and digital assets trading platform as well as provide blockchain strategic advisory services. The Company envisages that the Group would provide related and diversified services, from IDC and equipment to technical advisory and digital assets trading platform, to customers who may require one or all of the above services for their blockchain related business.

Blockchain technology may be applied in crypto-currencies as well as other general applications, such as records management. Depending on the business opportunities available, the Group's blockchain business segment will focus on customers who apply blockchain technology and will expand as required by the business opportunities including acquisitions and recruiting relevant staff or source the necessary equipment. The development of the Group's blockchain business will be led by the Board, with extensive experiences in the blockchain industry. Mr. Yao, Chairman and executive Director, has extensive experience in investment in companies and funds that focus on blockchain technology related business, including trading platforms for digital assets, application of blockchain technology in data management and software development. Ms. Lu Xuwen, a non-executive Director, has a number of years of experience in investment in the blockchain industry. Mr. Zhang Weining, an independent non-executive Director, is an associate professor of accounting at Cheung Kong Graduate School of Business. He has extensive knowledge in the commercial application of blockchain technology and has developed courses related to blockchain technology. Mr. Yu Wenzhou, an independent non-executive Director, has held senior management roles in a number of companies engaged in blockchain related business.

The Company has been exploring development opportunities for its blockchain business. The opportunity to acquire the Target Company was introduced in February 2020 by Mr. Yao, Chairman, executive Director and a controlling Shareholder, who has interests in the Vendors as set out in the section headed "Information on Target Company — Existing shareholders" in the letter from the Board in this Circular. The Company considers that the acquisition of the Target Company, at a fair and reasonable consideration, would help the Group develop its blockchain business segment. The Company has not yet come across other suitable acquisition opportunities of IDC.

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## LETTER FROM THE BOARD

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The Company believes that IDC play an important role in the blockchain industry. Blockchain technology requires computing powers, data storage capacity and internet connection. IDC are well placed to meet such requirements; they provide an environment with uninterrupted electricity supply of substantial capacity, physical security, climate control and high-speed internet connection. The acquisition of the Target Company under the Transaction represents a significant step forward in the Group's development of its blockchain business segment. The Target Company completed its expansion of the Ordos IDC in April 2020. On the basis of the expanded capacity, the utilisation rate of the Ordos IDC was in the range of 30%-40% during May-June 2020. The Company considers that the surplus capacity of the Ordos IDC provides an opportunity to acquire more customers and raise its exposure in the industry. Following Completion, the Company intends to continue to focus the Target Company's Ordos IDC to serve third-party customers and the Group may only consider to use any utilised capacity of the Ordos IDC for its business development, such as provision of cloud computing power and data storage services that may be used in blockchain-related applications. Taking into account the basis of the consideration, the Directors (including independent non-executive Directors) consider that the VIE Agreements and the Transactions are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Mr. Yao (Chairman and an executive Director) and Ms. Lu Xuwen (a non-executive Director), a former supervisor of the Target Company, have abstained from voting on the Board resolutions for considering and approving the VIE Agreements and the Transactions contemplated thereunder. Save for Mr. Yao and Ms. Lu, there are no other Directors who have any material interest in the transactions contemplated under the VIE Agreements and are required to abstain from voting on the Board resolutions for considering and approving the VIE Agreements and the Transactions.

### LISTING RULES IMPLICATIONS

Based on the applicable percentage ratios in respect of the Transactions, the Transactions constitute a discloseable transaction for the Company under the Listing Rules.

Mr. Yao is Chairman, an executive Director and a controlling shareholder of the Company; Mr. Yao and Mrs. Yao are therefore connected persons of the Company. Mr. Zhu is a controlling shareholder of the Company and therefore is also a connected person of the Company. Mr. Yao, Mrs. Yao and Hangzhou Qiandu (owned as to 99% by Mr. Yao and 1% by Mrs. Yao) are parties to the applicable VIE Agreements; Mr. Yao's interests in the Vendors are set out in the section headed "Information on Target Company — Existing Shareholders" in the Letter from the Board in this circular. Among Mr. Zhu's interests in the Vendors, he and his spouse hold 90% and 10% equity interests respectively in Shenzhen Guangliwei, which in turn holds a 33.33% equity interest in the Target

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## LETTER FROM THE BOARD

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Company; therefore, both Shenzhen Guangliwei and the Target Company are associates of Mr. Zhu and connected persons of the Company. Given Mr. Yao's, Mrs. Yao's and Mr. Zhu's aforesaid interests in the VIE Agreements, the Transactions constitute a connected transaction and continuing connected transactions (given the continuing nature of the VIE Operating Agreements) for the Company subject to the announcement, circular (independent financial advice), shareholders' approval, and annual review and reporting requirements under the Listing Rules.

Hangzhou Jiabing, an associate of Mr. Zhu, may continue to be a customer of the Target Company generating income, as long as the transactions are under normal commercial terms, fair and reasonable, and in the interests of the Company and Shareholders as a whole. Following Completion, any transactions between Hangzhou Jiabing and the Target Company will become connected transactions of the Company under the Listing Rules. The Company will monitor the transactions between Hangzhou Jiabing and the Target Company including the accumulated transaction amount following Completion and comply with the Listing Rules including setting annual caps for such transactions as and when required.

### APPLICATION OF WAIVER

The Company has applied for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.102 of the Listing Rules from (i) fixing the term of the VIE Operating Agreements for a period of not exceeding three years as required under Rule 14A.52 of the Listing Rules, and (ii) setting a maximum aggregate annual cap as required under Rule 14A.53 of the Listing Rules for the services fees payable by the Target Company to Hangzhou Grandshores under the Exclusive Business Co-operation Agreement, subject to the following conditions:

- (a) *No Material Change without Independent non-executive Directors' Approval*: No material changes to the terms of any of the VIE Operating Agreements will be made without the approval of the independent non-executive Directors.
- (b) *No Material Change without Independent Shareholders' Approval*: No material changes to the terms of any of the VIE Operating Agreements will be made without the approval of the Independent Shareholders.

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## LETTER FROM THE BOARD

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- (c) *Economic Benefits Flexibility:* The VIE Operating Agreements shall continue to enable the Group to receive the economic benefits derived by the Target Company through (i) the Group's potential right (if and when so allowed under the applicable PRC Laws) to acquire the entire equity interest in the Target Company at the lowest price permissible under the then applicable PRC Laws, (ii) the business structure under which the total net profits generated by the Target Company after deducting the necessary costs, expenses, taxes and other statutory contribution and retention as required by the PRC Laws is substantially retained by the Group (such that no annual caps shall be set on the amount of the services fees payable to Hangzhou Grandshores under the Exclusive Business Co-operation Agreement), and (iii) the Group's right to control the management and operation of, as well as, in substance, all of the voting rights of the Target Company.
- (d) *Ongoing Reporting and Approvals:* the Group will disclose details relating to the VIE Operating Agreements on an ongoing basis as follows:
- (i) The VIE Operating Agreements in place during each financial period will be disclosed in the Company's annual report and accounts in accordance with the relevant provisions of the Listing Rules.
  - (ii) The independent non-executive Directors will review the VIE Operating Agreements annually and confirm in the Company's annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the VIE Operating Agreements, have been operated so that the revenue generated by the Target Company has been substantially retained by Hangzhou Grandshores; and (ii) no dividends or other distributions have been made by Hangzhou Grandshores to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group.
  - (iii) The Company's auditors will carry out procedures annually on the transactions carried out pursuant to the VIE Operating Agreements and will provide a letter to the Directors with a copy to the Stock Exchange, at least ten business days before the Company bulk prints its annual report, confirming that the transactions carried out pursuant to the VIE Operating Agreements have received the approval of the Directors, have been entered into in accordance with the relevant VIE Operating Agreements and that no dividends or other distributions have been made by the Target Company to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group.

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## LETTER FROM THE BOARD

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- (iv) For the purposes of Chapter 14A of the Listing Rules, the Target Company and its subsidiaries (if any) will be treated as the Company's subsidiaries, and the directors, chief executives or substantial shareholders (as defined in the Listing Rules) of Target Company and its subsidiaries (if any) and their respective associates will be treated as the Company's connected persons. As such, the transactions between these connected persons and the Group, other than those under the VIE Operating Agreements, shall comply with Chapter 14A of the Listing Rules.
- (v) The Target Company also undertakes that, during the term of the relevant VIE Operating Agreements, it will provide the Group's management and the Company's auditors with full access to its relevant records for the purpose of the Company's auditors' review on the continuing connected transactions.

### EGM AND PROXY FORM

A notice convening the EGM to be held at 10:00 a.m. on Monday, 31 August 2020, at Room 3, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong is set out on pages 87 to 88 of this circular. At the EGM, an ordinary resolution will be proposed to approve, among others, the VIE Agreements and the Transactions. In view of Mr. Yao's, Mrs. Yao's and Mr. Zhu's interests in the VIE Agreements, they and their respective associates shall abstain from voting at the EGM for the ordinary resolution in respect of the VIE Agreements. As at the Latest Practicable Date, Morgan Hill, a company beneficially owned as to 51% and 49% by Mr. Yao and Mr. Zhu respectively, held 354,295,000 Shares, representing approximately 34.38% of issued Shares, shall abstain from voting at the EGM accordingly.

A form of proxy for use at the EGM is enclosed with this circular and the form of proxy is also published on the websites of the Stock Exchange and the Company, respectively. Whether or not you are able to attend the EGM, please complete and sign the form of proxy in accordance with the instructions printed on it and return it, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority, 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, not less than 48 hours before the time of the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment of such meeting if you so wish and in such event, your proxy form shall be deemed to be revoked.

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## LETTER FROM THE BOARD

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### CLOSURE OF REGISTER OF MEMBERS

The EGM will be held on 10:00 a.m. on Monday, 31 August 2020. For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 26 August 2020 to Monday, 31 August 2020 (both dates inclusive) during which period no transfer of Shares will be effected. In order to qualify for attending and voting at the EGM, unregistered holders of the Shares should ensure that all share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 25 August 2020.

### RECOMMENDATION

An Independent Board Committee has been established to advise the Independent Shareholders in relation to the terms of the VIE Agreements. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the VIE Agreements and why the duration of the VIE Operating Agreements, which exceeds three years, is required for the nature of the transactions, and whether it is normal business practice for contracts of this type to be of such duration, in accordance with Rule 14A.52 of the Listing Rules.

The letter from the Independent Board Committee is set out on pages 38 to 39 of this circular; the letter from Gram Capital to the Independent Board Committee and the Independent Shareholders is set out on pages 40 to 64 of this circular. The Independent Board Committee, having taken into account the advice of Gram Capital, considers that the terms of the VIE Agreements and the Transactions are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, although they are not in the ordinary and usual course of the Group's business. Therefore, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM in relation to the VIE Agreements and the Transactions.

### ADDITIONAL INFORMATION

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

Yours faithfully,  
On behalf of the Board  
**Grandshores Technology Group Limited**  
**Yao Yongjie**  
*Chairman and Executive Director*

**Grandshores Technology Group Limited**

**雄岸科技集團有限公司**

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

(Stock Code: 1647)

11 August 2020

*To the Independent Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTION,  
CONNECTED TRANSACTION AND  
CONTINUING CONNECTED TRANSACTIONS  
IN RELATION TO VIE AGREEMENTS**

We refer to the circular of the Company dated 11 August 2019 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members to form the Independent Board Committee and to advise you the terms of the VIE Agreements and the Transactions and whether such terms are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Gram Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the VIE Agreements were entered into on normal commercial terms and in the ordinary and usual course of business of the Company; and the terms of the VIE Agreements and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, whether such terms are in the interests of the Company and the Independent Shareholders as a whole. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 40 to 64 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 7 to 37 of the Circular and the additional information set out in the appendices to the Circular.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having considered the terms of the VIE Agreements and the transactions contemplated thereunder and the advice of Gram Capital, we are of the opinion that the VIE Agreements were entered into on normal commercial terms, the terms of the VIE Agreements and the Transactions are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole, although they are not in the ordinary and usual course of business of the Company. We therefore recommend that you vote in favour of the resolution to be proposed at the EGM to approve the VIE Agreements and the Transactions.

Yours faithfully,

For and on behalf of Independent Board Committee of  
**Grandshores Technology Group Limited**

**Mr. Chu Chung Yue, Howard**

*Independent non-executive  
Director*

**Dr. Zhang Weining**

*Independent non-executive  
Director*

**Mr. Yu Wenzhuo**

*Independent non-executive  
Director*

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## LETTER FROM GRAM CAPITAL

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*Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders in respect of the Transactions for the purpose of inclusion in this circular.*



Room 1209, 12/F.  
Nan Fung Tower  
88 Connaught Road Central/  
173 Des Voeux Road Central  
Hong Kong

11 August 2020

*To: The Independent Board Committee and the Independent Shareholders  
of Grandshores Technology Group Limited*

Dear Sir/Madam,

### **DISCLOSEABLE TRANSACTION, CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Transactions, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 11 August 2020 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

With reference to the Board Letter, on 26 June 2020, members of the Group, among other parties, entered into the VIE Main Agreement and the VIE Operating Agreements and other relevant parties entered into the Equity Transfer Agreement. Pursuant to the VIE Agreements (comprising the VIE Main Agreement, the VIE Operating Agreements and the Equity Transfer Agreement), Hangzhou Grandshores (a wholly-owned subsidiary of the Company) shall acquire the entire economic interests and gain effective control of the Target Company by way of contractual arrangements upon Completion.

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## LETTER FROM GRAM CAPITAL

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With reference to the Board Letter, the Transactions constitute discloseable transaction, connected transaction and continuing connected transactions for the Company. The Transactions are subject to the announcement, circular, shareholders' approval, annual review and reporting requirements under the Listing Rules.

The Independent Board Committee comprising Mr. Chu Chung Yue, Howard, Dr. Zhang Weining and Mr. Yu Wenzhuo, being all of the independent non-executive Directors, has been formed to advise the Independent Shareholders on (i) whether the terms of the Transactions are on normal commercial terms and are fair and reasonable; (ii) whether the Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Transactions at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Transactions. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

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## LETTER FROM GRAM CAPITAL

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We have not made any independent evaluation or appraisal of the assets and liabilities of the Target Company, and we have not been furnished with any such evaluation or appraisal, save as and except for the valuation report in relation to the market value of 100% equity interest of the Target Company (the “**Valuation Report**”) as contained in Appendix I to the Circular. The Valuation Report was prepared by CHFT Advisory and Appraisal Ltd., an independent valuer. Since we are not experts in the valuation of assets, business or company, we have relied solely upon the Valuation Report for the market value of 100% equity interest of the Target Company as at 30 April 2020 (the “**Valuation**”).

The Circular, for which the Directors collectively and individually accept full responsibility, includes the 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 the 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 therein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Hangzhou Grandshores, the Vendors, Hangzhou Qiandu, the Target Company or their respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

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## LETTER FROM GRAM CAPITAL

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Transactions, we have taken into consideration the following principal factors and reasons:

#### 1. Background of and reasons for the Transactions

##### *Information on the Group*

With reference to the Board Letter, the Group is principally engaged in (i) providing integrated building services in Singapore; (ii) undertaking building and construction works in Singapore; (iii) blockchain technology development and application business; and (iv) industrial hemp business.

Set out below is a summary of the audited consolidated financial information of the Group for the two years ended 31 March 2020 as extracted from the Company's audited annual results announcement for the year ended 31 March 2020 (the "2020 AR Announcement"):

|  | For the year<br>ended<br>31 March 2020 | For the year<br>ended<br>31 March 2019 | Year on year<br>change |
|--|--|--|------------------------|
|  | S\$                                    | S\$                                    | %                      |
| Revenue  | 46,611,664                             | 52,806,323                             | (11.73)                |
| — <i>Integrated building services</i>                              | 35,609,800                             | 49,657,780                             | (28.29)                |
| — <i>Building construction works</i>                               | 7,391,795                              | 3,148,543                              | 134.77                 |
| — <i>Blockchain technology<br/>development and<br/>application</i> | 3,517,589                              | Nil                                    | N/A                    |
| — <i>Industrial hemp</i>   | 92,480                                 | Nil                                    | N/A                    |
| Gross profit   | 12,777,609                             | 17,864,070                             | (28.47)                |
| Profit/loss for the year   | (438,397)                              | 4,888,524                              | N/A                    |

As depicted from the above table, the Group's revenue was approximately S\$46.61 million for the year ended 31 March 2020 ("FY2020"), representing a decrease of approximately 11.73% as compared to that for the year ended 31 March 2019 ("FY2019"). With reference to the 2020 AR Announcement, such decrease was mainly due to decreased revenue contribution from the integrated building services.

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## LETTER FROM GRAM CAPITAL

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The Group recorded loss of approximately S\$0.44 million for FY2020, as compared to the Group's profit of approximately S\$4.89 million for FY2019. With reference to the 2020 AR Announcement, such turnaround from profit to loss position was mainly due to the decrease in revenue as stated above.

As advised by the Directors, the Group started to engage in blockchain technology development and application business since mid-2018. The blockchain technology development and application business have progressed steadily and started to generate revenue during FY2020. With reference to the Board Letter, it is the Company's strategy to operate, maintain and manage data centres, other high-performance data processing facilities, equipment for blockchain technologies and digital assets trading platform and to provide blockchain strategic advisory services.

### *Information on the Target Company*

With reference to the Board Letter, the Target Company was established in October 2017. Its principal business is operation of internet data centres (i.e. IDC).

The Target Company operates an IDC located in a cloud computing industrial park in Ordos, Inner Mongolia, the PRC (i.e. the Ordos IDC). The Target Company commenced trial operation of the Ordos IDC in June 2018, with a capacity of electricity supply of 18,900 kW and maintaining up to 67 cabinets with each cabinet capable of holding 110 computing machines of 2.4 kW each.

The Target Company completed further development of the Ordos IDC in April 2020, expanding its capacity to electricity supply of 61,000 kW and maintaining up to 172 cabinets with each cabinet capable of holding 110 computing machines of 2.4 kW each. On the basis of the expanded capacity of the Ordos IDC, the utilization rate of the Ordos IDC was in the range of 30% to 40% during May and June 2020. The Target Company intends to strengthen its marketing efforts to promote the Ordos IDC by participating in more blockchain related events, conferences and seminars to gain exposure and business opportunities of potential customers and may consider to engage more third-party agents to look for potential customers.

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## LETTER FROM GRAM CAPITAL

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Set out below is an unaudited financial summary of the Target Company for the two years ended 31 December 2019 and for the four months ended 30 April 2020 as extracted from the Board Letter:

|                             | <b>For the four<br/>months ended<br/>30 April 2020</b> | <b>For the year<br/>ended<br/>31 December 2019</b> | <b>For the year<br/>ended<br/>31 December 2018</b> |
|-----------------------------|--|--|--|
|                             | <i>RMB in million</i>                                  | <i>RMB in million</i>                              | <i>RMB in million</i>                              |
| Revenue                     | 20.1   | 20.5   | 6.4  |
| Profit or (Loss) before Tax | 2.6  | 1.1  | (1.2)  |
| Profit or (Loss) after Tax  | 2.0  | 1.1  | (1.2)  |

As at 30 April 2020, the Target Company reported total assets of RMB50.7 million and total liabilities of RMB4.0 million, resulting in net assets of RMB46.7 million.

With reference to the Board Letter, for each of the two years ended 31 December 2019, the Target Company generated revenue of RMB6.4 million and RMB20.5 million primarily from providing management, testing and maintenance services to customers using the Ordos IDC. For the four months ended 30 April 2020, the Target Company generated revenue of RMB20.1 million. Among the customers of the Ordos IDC, the Target Company generated revenue of RMB5.8 million and RMB18.1 million respectively for each of the two years ended 31 December 2019 from Hangzhou Jiabing (being an associate of Mr. Zhu), representing approximately 91% and 88% of the Target Company's total revenue. The Target Company has been marketing the Ordos IDC to sign up customers. The proportion of the Target Company's revenue from Hangzhou Jiabing was reduced. For the four months ended 30 April 2020, the Target Company generated revenue of RMB4.5 million from Hangzhou Jiabing, representing 22% of the Target Company's total revenue. The Target Company's revenue from Hangzhou Jiabing further reduced to approximately RMB0.7 million for May 2020 and approximately RMB0.09 million for June 2020. Following Completion, Hangzhou Jiabing may continue to be a customer of the Target Company as long as the transactions are under normal commercial terms, fair and reasonable, and in the interest of the Company and Shareholders as a whole.

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## LETTER FROM GRAM CAPITAL

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### *Information on the existing shareholders of the Target Company*

Set out below are the existing shareholders of the Target Company, being the Vendors, who have paid up the registered capital of the Target Company as extracted from the Board Letter:

|                     | <b>Paid-up capital<br/>(RMB)</b> | <b>% of equity<br/>interests</b> |
|---------------------|----------------------------------|----------------------------------|
| Hangzhou Zhuodi     | 16,800,000                       | 37.33                            |
| Shenzhen Guangliwei | 15,000,000                       | 33.33                            |
| Hangzhou Haolan     | 10,003,500                       | 22.23                            |
| Shenzhen Mushui     | 2,000,000                        | 4.44                             |
| Hangzhou Jingchuan  | 1,200,000                        | 2.67                             |
|                     | <hr/>                            | <hr/>                            |
| Total               | <u>45,003,500</u>                | <u>100</u>                       |

With reference to the Board Letter, Hangzhou Zhuodi is a limited partnership established in the PRC, principally engaged in investment and asset management business. Hangzhou Zhuodi is owned as to 49.51% by Mr. Wan Jingang, 29.7% by Mr. Zhu, 19.8% by Zhejiang Shixin (which in turn is owned as to 90% by Mr. Pu Wen and 10% by Mr. Zhou Qinqin) and 0.99% by Hangzhou Tunlan. Hangzhou Tunlan, is the general partner Hangzhou Zhuodi and is wholly owned by Hangzhou Tunlan Investment, of which Mr. Yao and Ms Yao Zhian, a niece of Mr. Yao, are substantial shareholders. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, save as disclosed above, the other ultimate beneficial owners of Hangzhou Zhuodi are independent of the Company and its connected persons.

With reference to the Board Letter, Shenzhen Guangliwei is a company established in the PRC with limited liability, principally engaged in investment holding and trading business. Shenzhen Guangliwei is held as to 90% by Mr. Zhu and 10% by Ms. Wang Li (who is Mr. Zhu's spouse).

With reference to the Board Letter, Hangzhou Haolan is a limited partnership established in the PRC, principally engaged in investment and asset management business. Hangzhou Haolan is owned as to 28.17% by Mr. Chai Huijing, 14.08% by Mr. Ruan Tiejun, 14.08% by Mr. Yu Chunlei, 14.08% by Ms. Ni Xiuqin, 14.08% by Guangda Holdings (which in turn is owned as to 90% by Mr. Chen Huofa and 10% by Ms. Wu Mingxia), 7.04% by Hangzhou Yisheng (which in turn is owned as to

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## LETTER FROM GRAM CAPITAL

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95% by Mr. Mao Dai and 5% by Hanzhou Yihe (which is wholly owned by Ms. Li Ming)), 7.04% by Shenzhen Yulong (which in turn is owned as to 75% by Mr. Zhao Zuchuan and 25% by Mr. Wang Fuming) and 1.4% by Hangzhou Xiongan, which is also the general partner of Hangzhou Haolan. Hangzhou Xiongan is owned as to 51% by Hangzhou Tunlan and 49% by Mr. Li Xiaolai. Hangzhou Tunlan is wholly owned by Hangzhou Tunlan Investment. Mr. Yao and Ms. Yao Zhian, a niece of Mr. Yao, directly and indirectly (through companies wholly or majority owned by them) hold an aggregate equity interest of 49.3% in Hangzhou Tunlan Investment. The remaining equity interests of Hangzhou Tunlan Investment are held directly and indirectly by 26 individuals who are investors in Hangzhou Tunlan Investment or in the companies holding shareholding interests in Hangzhou Tunlan Investment. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, save as disclosed above, the other ultimate beneficial owners of Hangzhou Haolan are independent of the Company and its connected persons.

With reference to the Board Letter, Shenzhen Mushui is a company established in the PRC with limited liability, principally engaged in investment and asset management business. Shenzhen Mushui is owned as to 95% by Mr. Li Dan and 5% by Mr. Li Xiaohui. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, Messrs. Li are independent of the Company and its connected persons.

With reference to the Board Letter, Hangzhou Jingchuan is a company established in the PRC with limited liability, principally engaged in investment and asset management business. Hangzhou Jingchuan is owned as to 30% by Ms. Yao Zhian, a niece of Mr. Yao, and 70% by Mr. Wu Qiang. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, save as disclosed above, Mr. Wu Qiang is independent of the Company and its connected persons.

### *Information on the Hangzhou Qiandu*

With reference to the Board Letter, Hangzhou Qiandu is owned as to 99% by Mr. Yao (Chairman, an executive Director and a controlling shareholder of the Company) and 1% by Mrs. Yao. Hangzhou Qiandu is principally engaged in investment and asset management business.

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## LETTER FROM GRAM CAPITAL

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### *Reasons for and benefits of the Transactions*

With reference to the Board Letter, the Company believes that IDCs play an important role in the blockchain industry. Blockchain technology requires computing powers, data storage capacity and internet connection. IDCs are well placed to meet such requirements. They provide an environment with uninterrupted electricity supply of substantial capacity, physical security, climate control and high-speed internet connection. The acquisition of the Target Company under the Transactions represents a significant step forward in the Group's development of its blockchain business segment. The Target Company completed its expansion of the Ordos IDC in April 2020. On the basis of the expanded capacity, the utilisation rate of the Ordos IDC was in the range of 30% to 40% during May and June 2020. The Company considers that the surplus capacity of the Ordos IDC provides an opportunity to acquire more customers and raise its exposure in the industry. Following Completion, the Company intends to continue to focus the Target Company's Ordos IDC to serve third-party customers and the Group may only consider to use any unutilized capacity of the Ordos IDC for its business development, such as provision of cloud computing power and data storage services that may be used in blockchain-related applications. Taking into account the basis of the consideration, the Directors consider that the VIE Agreements and the Transactions are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

As advised by the Directors, the Group devoted resources to develop new business lines related to blockchain technology development and application since mid-2018 and such business commenced to bring revenue to the Group in FY2020. The Directors are positive about the future of the blockchain technology development and application business, considering the ongoing expansion of blockchain technology applications in different field and industries.

According to an article published by the PRC State-owned Assets Supervision and Administration Commission of the State Council on 20 March 2020, the Standing Committee of the Political Bureau of the Communist Party of China Central Committee raised a direction of "Accelerate the construction of state-planned significant project and infrastructure; and accelerate the construction of new type infrastructure such as 5G networks and data centers".

In addition, according to White Paper on Data Centers (數據中心白皮書) jointly published by China Academy of Information and Communications Technology (a scientific research institute under the Ministry of Industry and Information Technology of China) and Open Data Center Committee (an industry non-profit

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## LETTER FROM GRAM CAPITAL

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organization) in October 2018, (i) the revenue generated from the IDC industry in the PRC reached RMB65.04 billion in 2017, representing a compound annual growth rate of approximately 32% from 2012 to 2017; (ii) the utilization of mega IDC in the PRC reached approximately 34.4% in 2017, representing an increase of approximately 5 percentage points as compared to that in 2016; and (iii) the utilization of large IDC in the PRC reached approximately 54.9% in 2017, representing an increase of approximately 5 percentage points as compared to that in 2016.

The above findings indicate the potential prospects of the IDC industry in the PRC.

Having considered the above, in particular, (i) that the Transactions are in line with the Group's development strategy; and (ii) the potential prospects of the IDC industry in the PRC, we concur with the Directors that, although the Transactions are not conducted in the ordinary and usual course of business of the Group, the Transactions are in the interests of the Company and its Shareholders as a whole.

## 2. Principal terms of the Transactions

### *The VIE Main Agreement*

On 26 June 2020 (after trading hours), the Company, Hangzhou Grandshores (a wholly-owned subsidiary of the Company), the Vendors, Hangzhou Qiandu and the Target Company entered into the VIE Main Agreement, pursuant to which Hangzhou Grandshores has agreed to acquire the entire economic interests and gain effective control of the Target Company through the VIE Agreements upon Completion.

Completion of the VIE Main Agreement is subject to among others Independent Shareholder's approval of the Transactions and any waiver or approval required to be granted by the Stock Exchange for the Transactions. Following the VIE Main Agreement becoming unconditional, completion of the VIE Main Agreement shall take place upon completion of the Equity Transfer Agreement and Hangzhou Qiandu becoming the sole registered owner of the Target Company.

### *The Equity Transfer Agreement*

Set out below are the major terms for the Equity Transfer Agreement, details of which are set out under the section headed "EQUITY TRANSFER AGREEMENT" of the Board Letter.

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## LETTER FROM GRAM CAPITAL

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### *Date*

26 June 2020

### *Parties*

- (i) Hangzhou Qiandu (as purchaser);
- (ii) the Vendors; and
- (iii) the Target Company.

### *Assets to be acquired*

Under the Equity Transfer Agreement, Hangzhou Qiandu will acquire the entire equity interests of the Target Company for RMB49,950,000 upon completion of the Equity Transfer Agreement and will become the registered owner of the Target Company.

Pursuant to the VIE Agreements, although Hangzhou Qiandu will be the registered owner of the Target Company upon Completion, Hangzhou Grandshores will have effective control of the Target Company and will be entitled to the entire economic interests generated by the Target Company.

### *Consideration*

With reference to the Board Letter, the Consideration of RMB49,950,000 shall be satisfied by Hangzhou Qiandu in cash payable to the designated bank accounts of the Vendors according to their respective shareholding proportions. Subject to Hangzhou Qiandu obtaining the funds from Hangzhou Grandshores under the Loan Agreement, the Consideration is payable as follows: (i) RMB10,000,000 by 31 July 2020 or within ten business days of Hangzhou Qiandu becoming the registered owner of the Target Company (whichever comes later); (ii) RMB12,500,000 by 31 December 2021; (iii) RMB15,000,000 by 31 December 2022; and (iv) RMB12,450,000 by 31 December 2023.

With reference to the Board Letter, the Consideration was arrived at after arm's-length negotiations amongst the Company, Hangzhou Qiandu and the Vendors. Detailed basis of the Consideration is set out under the sub-section headed "EQUITY TRANSFER AGREEMENT – Consideration" of the Board Letter.

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## LETTER FROM GRAM CAPITAL

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### Valuation of the Target Company

To assess the fairness and reasonableness of the Consideration, we obtained the Valuation Report prepared by the Valuer and noted that the market value of 100% of equity interest of the Target Company as at 30 April 2020 was RMB65,000,000 (i.e. the Valuation). Details of the Valuation Report are set out in Appendix I to the Circular.

For our due diligence purpose, we reviewed and enquired into (i) the terms of engagement of the Valuer with the Company; (ii) the Valuer's qualification in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by the Valuer for conducting the Valuation Report. From the mandate letter and other relevant information provided by the Valuer and based on our interview with them, we were satisfied with the terms of engagement of the Valuer as well as their qualification for preparation of the Valuation Report. The Valuer also confirmed that they are independent to the Group, Hangzhou Qiandu, the Vendors and the Target Company.

The Valuation Report was prepared by the Valuer by the market approach (guideline publicly-traded comparable method) with reference to information on publicly-traded comparables that are the same or similar to the subject asset to arrive at an indication of value. Upon our enquiry, the Valuer advised us that, after assessing the appropriateness of different valuation approaches (with reference to the Valuation Report, the cost approach was not considered applicable as it fails to capture future earnings potential of the Target Company; and the income approach was also not adopted as various projected inputs, including but not limited to service pricing, electric power consumption and operating costs, have to be made, which cannot be easily justified or ascertained) and circumstances and facts specific to the Target Company, the Valuer considered that the market approach (guideline publicly-traded method) is the appropriate valuation methodology for valuing the Target Company.

Despite that the profitable operating history of the Target Company is short, we noticed that the Target Company is improving its profitability (i.e. recorded profit after tax of approximately RMB1.1 million for the year ended 31 December 2019 and approximately RMB2.0 million for the four months ended 30 April 2020). With reference to the Board Letter, taking into account the performance of the Target Company not subject to seasonal factors, the capability of the Target Company's IDC to provide stable supply of electricity of substantial capacity, high speed internet connection and a secure environment with climate control with the expanded capacity and the prospects of the IDC industry, the Directors consider that the business of the Target Company is sustainable. Accordingly, we consider that the short profitable

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## LETTER FROM GRAM CAPITAL

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operating history of the Target Company would not affect the appropriateness of the market approach (guideline publicly-traded comparable method) adopted in the Valuation Report.

Having considered that:

- (i) the cost approach was not considered applicable as it fails to capture future earnings potential of the Target Company;
- (ii) the income approach was not adopted as various projected inputs, including but not limited to service pricing, electric power consumption and operating costs, have to be made, which cannot be easily justified or ascertained;
- (iii) the Target Company has profitable operating history to form the basis and a key parameter (i.e. the Target Company's profit) of the Valuation Report;
- (iv) the Target Company is improving its profitability and the Target Company's business is sustainable; and
- (v) as demonstrated above, the short profitable operating history of the Target Company would not affect the appropriateness of the market approach (guideline publicly-traded method) adopted in the Valuation Report,

we consider the market approach (guideline publicly-traded comparable method) to be the appropriate valuation methodology for valuing the Target Company.

As other valuation methodologies are not appropriate for valuing the Target Company, we did not cross-check the Valuation with other methodologies.

We further reviewed and enquired into the Valuer on the methodology adopted and the basis and assumptions adopted in the Valuation Report in order for us to understand the Valuation Report. During our discussion with the Valuer, we did not identify any major factor which caused us to doubt the fairness and reasonableness of the methodology, principal bases, assumptions and parameters adopted for the Valuation Report.

With reference to the Valuation Report, the Valuer adopted the proportion method to mitigate the impact of the uneven operation during 2019. The annualized earning is the sum of the Target Company's net profit from May 2019 to December 2019 calculated by proportion method and the Target Company's net profit from January

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## LETTER FROM GRAM CAPITAL

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2020 to April 2020. As advised by the Directors, the Target Company was in trial operation in 2019 and is ready to operate with full capacity in 2020. With reference to the Board Letter, the performance of the Target Company is not subject to seasonal factors. Accordingly, we do not doubt the aforesaid earning annualization adopted in the Valuation Report.

With reference to the Valuation Report, by adopting market approach, the Valuer selected the appropriate comparable public companies. The selection of the comparable companies was based on the comparability of the overall industry sector, details of which are set out in Appendix I to the Circular. Having considered the selection criteria for the comparable public companies and the description of such companies under the Valuation Report, we do not doubt the selection and application of the comparable public companies in the Valuation Report. Furthermore, based on our independent research over the internet, we did not find any discrepancy between the published information and the figures of the comparable public companies (including market capitalization and annual net income) adopted in the Valuation Report.

In addition, we noted that the Valuer adopted a lack of marketability discount of 20% in the valuation of 100% equity interest of the Target Company to compensate for the potential difficulty of selling the investments, which are not traded on a stock exchange, compared with those of the peer companies that are traded publicly in stock exchange markets. With reference to the Valuation Report, the 20% discount is sourced from 2020 edition of the Stout Restricted Stock Study Companion Guide, the latest applicable edition consisting of 759 restricted stock transactions with distinct transaction and company characteristics. The study represents the most widely used and accepted database available to valuers for lack of marketability discount determination. For our due diligence, we obtained the 2020 edition of the Stout Restricted Stock Study Companion Guide and noted from such guide that the overall average discount for lack of marketability as observed in the aforesaid study based on data from 1980 through December 2019 is 20.6%, concluded by dividing the difference between the private placement price and the market reference price by the market reference price. Accordingly, we do not doubt the reasonableness of the lack of marketability discount of 20%.

Taking into account the above and that the Consideration represents a discount of approximately 23.15% to the Valuation, we are of the view that the Consideration is fair and reasonable.

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## LETTER FROM GRAM CAPITAL

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### *The VIE Operating Agreements*

Set out below are the major terms for the VIE Operating Agreements, details of which are set out under the section headed “VIE OPERATING AGREEMENTS” of the Board Letter.

### *Exclusive Business Co-operation Agreement*

Date: 26 June 2020

Parties: (i) Hangzhou Grandshores; and  
(ii) Target Company.

Subject matter: The Target Company shall engage Hangzhou Grandshores to be its exclusive service provider. Hangzhou Grandshores shall provide business support, technical and advisory services in relation to the principal business of the Target Company, including network support, business and management advice, and services related to intellectual property rights, equipment and lease, system integration and maintenance, and product development.

The Target Company shall act in accordance with the advice of Hangzhou Grandshores provided under the Exclusive Business Co-operation Agreement.

Fee: The Target Company shall after each financial year end pay to Hangzhou Grandshores a service fee that is equal to 100% of the total net profits of the Target Company after deducting the necessary costs, expenses, taxes and other statutory contribution and retention as required by the PRC Laws and deduction of any loss of the previous year(s).

Hangzhou Grandshores has the right to adjust the service fee, taking into account among others its actual services provided to the Target Company.

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## LETTER FROM GRAM CAPITAL

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**Term:** The Exclusive Business Co-operation Agreement shall take effect upon Hangzhou Qiandu becoming the sole registered owner of the Target Company and shall be terminated (i) upon the transfer of all the equity interests in the Target Company held by Hangzhou Qiandu or all the assets of the Target Company to Hangzhou Grandshores or such individuals/entities as designated by Hangzhou Grandshores pursuant to the Exclusive Purchase Right Agreement; (ii) upon the Target Company becoming bankrupt, liquidated, terminated or dissolved, or (iii) by Hangzhou Grandshores at any time by serving a written notice to the Target Company thirty days in advance.

The Target Company shall have no right to terminate this agreement.

### *Entrustment Agreement*

**Date:** 26 June 2020

**Parties:** (i) Hangzhou Grandshores;  
(ii) Hangzhou Qiandu; and  
(iii) Target Company.

**Subject matter:** Hangzhou Qiandu unconditionally and irrevocably authorises Hangzhou Grandshores or any Director (other than Mr. Yao or his associates) as designated by Hangzhou Grandshores or any liquidator appointed to act on behalf of the entrusted Director or any other successor to exercise all of his rights as shareholders of the Target Company under PRC Laws, including convening, attending and participating shareholders' meetings of the Target Company, receiving relevant notices or documents relating to the shareholders' meetings, and discussing and voting in shareholders' meetings of the Target Company.

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## LETTER FROM GRAM CAPITAL

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Term: The Entrustment Agreement shall take effect upon Hangzhou Qiandu becoming the sole registered owner of the Target Company until termination by Hangzhou Grandshores.

*Exclusive Purchase Right Agreement*

Date: 26 June 2020

Parties: (i) Hangzhou Grandshores;  
(ii) Hangzhou Qiandu; and  
(iii) Target Company.

Subject matter: Hangzhou Qiandu and the Target Company irrevocably grant Hangzhou Grandshores an exclusive right to purchase or nominate any individuals/entities to purchase all or part of Hangzhou Qiandu's equity interests in the Target Company or all or any assets of the Target Company as permitted under the then PRC Laws, at a purchase price corresponding to the Consideration or at the net book value of the Target Company, subject to the lowest possible price as required under the PRC Laws.

Hangzhou Qiandu shall be prohibited from selling, offering to sell, transferring, donating, pledging or otherwise disposing of all or part of his equity interests in the Target Company, or granting others a right to purchase such equity interests, without the prior written consent from Hangzhou Grandshores.

Term: The Exclusive Purchase Right Agreement shall take effect upon Hangzhou Qiandu becoming the sole registered owner of the Target Company and shall be terminated (i) upon the transfer of all the equity interests in the Target Company held by Hangzhou Qiandu or all the assets of the Target Company to Hangzhou Grandshores or such individuals/entities as designated by Hangzhou Grandshores pursuant to the Exclusive Purchase Right Agreement, or (ii) by Hangzhou Grandshores.

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## LETTER FROM GRAM CAPITAL

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### *Loan Agreement*

Date: 26 June 2020

Parties: (i) Hangzhou Grandshores (as lender); and  
(ii) Hangzhou Qiandu (as borrower).

Subject matter: Pursuant to the terms of the Loan Agreement, Hangzhou Grandshores shall provide a non-interest bearing loan in the principal amount of RMB49,950,000 to Hangzhou Qiandu for the purposes of Hangzhou Qiandu's payment of the Consideration. The Loan will be provided to Hangzhou Qiandu by instalment corresponding to Hangzhou Qiandu's payment schedule under the Equity Transfer Agreement.

The Loan shall become due and payable in full upon transfer of all the equity interests in the Target Company held by Hangzhou Qiandu or all the assets of the Target Company to Hangzhou Grandshores or such individuals/entities as designated by Hangzhou Grandshores pursuant to the Exclusive Purchase Right Agreement (i.e. the Transfer). The amount payable by Hangzhou Grandshores to Hangzhou Qiandu under the Transfer (i.e. the Amount Payable) shall be applied to repay the Loan. If the Amount Payable is less than the principal amount of the Loan, the Loan shall be deemed to be fully repaid. If the Amount Payable, as required by the applicable PRC Laws, is more than the principal amount of the Loan, the Loan shall be deemed to incur interests equivalent to, and settled by, the quantum of the Amount Payable in excess of the principal amount of the Loan. Therefore, no additional amount shall be payable by Hangzhou Grandshores upon the Transfer.

Accordingly, we consider the purchase price under the Exclusive Purchase Right Agreement to be justifiable.

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## LETTER FROM GRAM CAPITAL

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*Equity Pledge Agreement (A)*

Date: 26 June 2020

Parties: (i) Hangzhou Grandshores (as pledgee);  
(ii) Hangzhou Qiandu (as pledgor); and  
(iii) Target Company.

Subject matter: Hangzhou Qiandu has agreed to pledge all of its equity interests in the Target Company to Hangzhou Grandshores to secure among others the performance of the obligations of Hangzhou Qiandu and the Target Company under the VIE Operating Agreements, including repayment of the Loan.

Term: The pledge of equity under the Equity Pledge Agreement (A) shall take effect upon registration of the equity pledge and shall be terminated (i) upon the discharge of all obligations of Hangzhou Qiandu and the Target Company under the VIE Operating Agreements, including repayment of the Loan, (ii) upon the transfer of all the equity interests in the Target Company held by Hangzhou Qiandu or all the assets of the Target Company to Hangzhou Grandshores or such individuals/entities as designated by Hangzhou Grandshores pursuant to the Exclusive Purchase Right Agreement, (iii) Hangzhou Grandshores terminating the Equity Pledge Agreement (A), or (iv) as required under PRC Laws.

Hangzhou Qiandu shall apply for the registration of the equity pledge within 20 days following completion of the Equity Transfer Agreement. Hangzhou Qiandu and the Target Company shall complete the registration of the equity pledge within 30 days of the application.

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## LETTER FROM GRAM CAPITAL

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*Equity Pledge Agreement (B)*

Date: 26 June 2020

Parties: (i) Hangzhou Grandshores (as pledgee);  
(ii) Mr. Yao (as pledgor);  
(iii) Mrs. Yao (as pledgor);  
(iv) Hangzhou Qiandu; and  
(v) Target Company.

Subject matter: Mr. Yao and Mrs. Yao have agreed to pledge all of their equity interests in Hangzhou Qiandu to Hangzhou Grandshores to secure among others the performance of the obligations of Mr. Yao, Mrs. Yao, Hangzhou Qiandu and the Target Company under the VIE Operating Agreements, including repayment of the Loan.

Term: The pledge of equity under the Equity Pledge Agreement (B) shall take effect upon registration of the equity pledge and shall be terminated (i) upon the discharge of all obligations of Mr. Yao, Mrs. Yao, Hangzhou Qiandu and the Target Company under the VIE Operating Agreements, including repayment of the Loan, (ii) upon the transfer of all the equity interests in the Target Company held by Hangzhou Qiandu or all the assets of the Target Company to Hangzhou Grandshores or such individuals/entities as designated by Hangzhou Grandshores pursuant to the Exclusive Purchase Right Agreement, (iii) Hangzhou Grandshores terminating the Equity Pledge Agreement (B), or (iv) as required under PRC Laws.

Mr. Yao and Mrs. Yao shall apply for the registration of the equity pledge within 20 days following completion of the Equity Transfer Agreement. Mr. Yao, Mrs. Yao and Hangzhou Qiandu shall complete the registration of the equity pledge within 30 days of the application.

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## LETTER FROM GRAM CAPITAL

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### *Spousal Undertaking Letters*

Date: 26 June 2020

Parties: Mr. Yao and Mrs. Yao

Subject matter: Mr. Yao and Mrs. Yao have irrevocably agreed that all the equity interests held by them in Hangzhou Qiandu and all the benefits generated from their equity interests in Hangzhou Qiandu do not form part of their matrimonial property.

### *Reasons for VIE Agreements*

With reference to the Board Letter, the Target Company is principally engaged in operation of IDC. The PRC Legal Advisers advise that the Target Company's principal business falls under value-added telecommunication services and is subject to the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2019)\* (外商投資准入特別管理措施(負面清單)(2019年版)), under which foreign investors of a value-added telecommunication services company may not hold an equity interest more than 50% in the company.

According to the Regulations on the Administration of Foreign-invested Telecommunication Enterprises (2016 Amended)\* (外商投資電信企業管理規定(2016年修訂)), a foreign investor who invests in a value-added telecommunications services company shall have a good track record and operational experience in providing value-added telecommunications business (i.e. the Qualification Requirement). Nevertheless, there is currently no clear guidance as to the interpretation of such Qualification Requirement and the procedures to obtain the necessary approval for the foreign investor to invest in a value-added telecommunication services company. Therefore, in practice, it is not possible for the Company to acquire the maximum permitted interest in the Target Company.

Therefore, in order to comply with applicable PRC Laws, the parties entered into the VIE Agreements to enable Hangzhou Grandshores to be entitled to the entire economic interests and gain effective control of the Target Company.

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## LETTER FROM GRAM CAPITAL

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### *Assessment on the VIE Agreements*

For our due diligence purpose, we obtained and reviewed the VIE Agreements and the PRC legal opinion issued by the PRC Legal Advisers. Upon our further discussion with the Company, we understood that:

- (i) the VIE Operating Agreements are narrowly tailored to achieve the business purposes of the Company and minimise the potential for conflict with relevant PRC Laws;
- (ii) the Target Company is duly established and validly existing under the PRC Laws, and has obtained or completed all requisite approvals, permits, registrations or filings that are material for carrying out its business operations as required by the applicable PRC Laws;
- (iii) each of the VIE Operating Agreements, taken individually and collectively, constitutes legal, valid and binding obligations of the parties thereto and complies with, and will be enforceable and not deemed void under applicable PRC Laws except that (a) Shanghai International Economic and Trade Arbitration Commission\* (上海國際經濟貿易仲裁委員會) has no power to grant injunctive relief, nor will it be able to order the winding up of the Target Company pursuant to the PRC Laws; and (b) interim remedies or enforcement order granted by overseas courts such as the courts of Hong Kong and the Cayman Islands may not be recognised or enforceable in the PRC;
- (iv) the VIE Operating Agreements do not, individually or collectively, violate the mandatory provisions of the PRC Contract Law regarding “concealing illegal intentions with a lawful form” and other applicable PRC Laws;
- (v) none of the VIE Operating Agreements violates any provisions of the existing articles of association of the Target Company; and
- (vi) the execution, effectiveness and enforceability of the VIE Operating Agreements do not require any approvals from any PRC governmental authority, except that (1) the Equity Pledge Agreements are subject to registration requirements with the relevant administration for industry and commerce; (2) the exercising of the exclusive option by Hangzhou Grandshores according to the Exclusive Purchase Right Agreement shall be subject to the then effective PRC Laws.

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## LETTER FROM GRAM CAPITAL

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We also understood from the VIE Agreements and discussion with the Company that:

- (i) Hangzhou Grandshores has the right to unwind the VIE Agreements as soon as the relevant PRC Laws allow Hangzhou Grandshores to register itself as the shareholder of the Target Company;
- (ii) according to the Entrustment Agreement, Hangzhou Qiandu unconditionally and irrevocably authorises Hangzhou Grandshores or any Director (other than Mr. Yao or his associates) as designated by Hangzhou Grandshores or any liquidator appointed to act on behalf of the entrusted Director or any other successor to exercise all of his rights as shareholders of the Target Company under PRC Laws, including convening, attending and participating shareholders' meetings of the Target Company, receiving relevant notices or documents relating to the shareholders' meetings, and discussing and voting in shareholders' meetings of the Target Company;
- (iii) pursuant to the VIE Operating Agreements, any dispute arising from the VIE Operating Agreements between the parties shall be submitted to Shanghai International Economic and Trade Arbitration Commission\* (上海國際經濟貿易仲裁委員會) for arbitration;
- (iv) pursuant to the applicable VIE Operating Agreements, the arbitrators may award remedies over the equity interest or assets of the Target Company, injunctive relief (e.g. mandatory transfer of assets) and/or winding up of the Target Company. When the arbitral award is granted, any party can apply for its enforcement in any courts of competent jurisdiction such as courts in Hong Kong, Cayman Islands, the PRC and locations where the principal assets of the Company or the Target Company are located;
- (v) pursuant to the Exclusive Purchase Right Agreements, in the event of a dissolution or liquidation of the Target Company, the Target Company shall transfer all its assets to Hangzhou Grandshores or its designated person(s) at the minimum purchase price permitted under PRC Laws, payment of which shall be waived by the Target Company, as permitted under applicable PRC Laws;
- (vi) the Directors have discussed with the auditors of the Company and it has confirmed that the financial results of the Target Company will be consolidated into the accounts of the Group as long as all the contractual arrangements pursuant to the VIE Operating Agreements remain effective; and

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## LETTER FROM GRAM CAPITAL

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(vii) the Group will adopt the internal control set out under the section headed “INTERNAL CONTROL” of the Board Letter to monitor the operation of the Target Company and the VIE Operating Agreements.

Having considered the above, we are of the view that the VIE Agreements take into account of the principles set out in the Stock Exchange’s guidance letter HKEx-GL-77-14.

### *Duration of the VIE Operating Agreements*

Furthermore, in assessing the reasons for the duration of the VIE Operating Agreements to be longer than three years, we enquired into the Directors and the Directors advised us that the VIE Agreements enable Hangzhou Grandshores to be entitled to the entire economic interests and gain effective control of the Target Company. It would be unduly burdensome and impracticable, and would add unnecessary administration costs for a renewal of the VIE Operating Agreements every three years or less as the VIE structure thereunder is a long-term arrangement.

In considering whether it is normal business practice for agreements of similar nature (i.e. VIE structures adopted to obtain control over the operating businesses of the PRC companies in which foreign investment is restricted by relevant PRC Laws and regulations) with the VIE Operating Agreements to have a term of such duration. We identified eight transactions with VIE structure adopted with term of VIE agreements more than three years and announced by companies listed on the Stock Exchange during the period of one year prior to the date of VIE Operating Agreements, and noted from those announcements that the terms of individual VIE agreements ranged from 10 years to “infinite until termination”.

Taking into account of the above, we confirm that the duration of the VIE Operating Agreements, which is longer than three years, is required and it is normal business practice for the VIE Operating Agreements to be of such duration.

Other terms of the Transactions are set out in the Board Letter.

Taking into account the principal terms of the Transactions as set out above, we consider that the terms of the Transactions are fair and reasonable.

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## LETTER FROM GRAM CAPITAL

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### 3. Possible financial effects of the Transactions

With reference to the Board Letter, upon Completion, the financial results of the Target Company will be consolidated into the financial results of the Company, and the Target Company will become a wholly-owned subsidiary of the Company. The Directors have discussed with the auditors of the Company and it has confirmed that the financial results of the Target Company will be consolidated into the accounts of the Group as long as all the contractual arrangements pursuant to the VIE Operating Agreements remain effective.

### RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Transactions are on normal commercial terms and are fair and reasonable; and (ii) although the Transactions are not conducted in the ordinary and usual course of business of the Group, the Transactions are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Transactions and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,  
For and on behalf of  
**Gram Capital Limited**  
**Graham Lam**  
*Managing Director*

*Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.*

*\* For identification purpose only*



Date: 11 August 2020

**Grandshores Technology Group Limited**

Unit 1503,  
15/F., Greenfield Tower,  
Concordia Plaza,  
No. 1 Science Museum Road,  
Kowloon,  
Hong Kong

**Attn.: Board of Directors**

Dear Sirs/Madams,

**RE: Valuation of Ordos Blockchain Cloud Computing Technology Co., Ltd.**

In accordance with an instruction from Grandshores Technology Group Limited (the “**Instructing Party**”), we hereby provide a valuation on the market value of 100% equity interest of Ordos Blockchain Cloud Computing Technology Co., Ltd. (the “**Target Company**”) as at 30 April 2020 (the “**Valuation Date**”).

We confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of 100% equity interest of the Target Company.

This valuation is complied with the RICS Valuation – Professional Standards published by the Royal Institution of Chartered Surveyors (“**RICS**”) and International Valuation Standards (“**IVS**”) published by the International Valuation Standards Council.

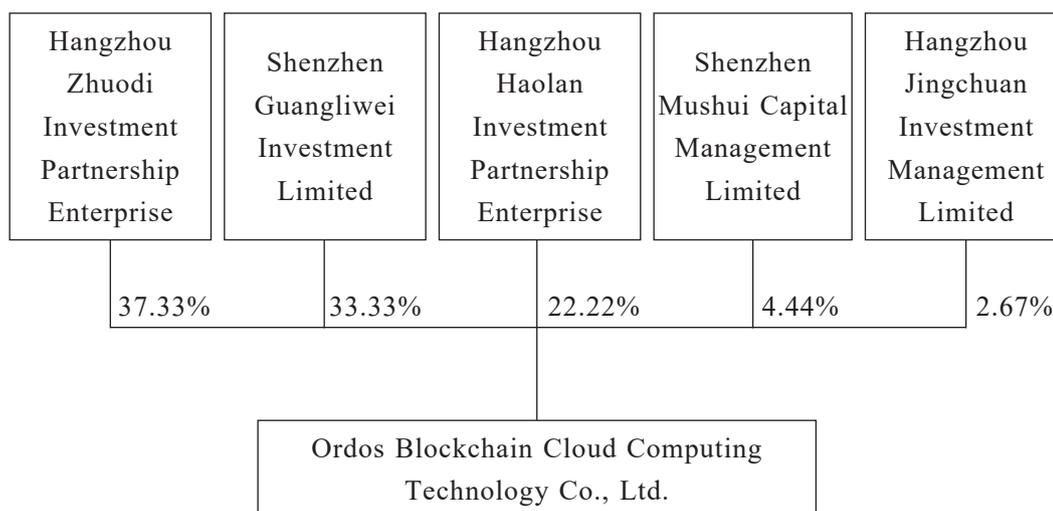
**1 PURPOSE OF VALUATION**

The purpose of this report is to express an independent opinion on the market value of 100% equity interest of the Target Company as at the Valuation Date. This report outlines our latest findings and valuation conclusion and is prepared solely for public circular purpose only.

## 2 OVERVIEW OF TARGET COMPANY

The Target Company is a company with limited liability incorporated in China on 16 October 2017. It is principally engaged in provision of blockchain, internet data centres (“IDC”), computer-integrated system, and communication transfer and value-added telecommunications business.

As at the Valuation Date, the shareholders structure of the Target Company is set out as followed:



## 3 SCOPE OF WORK

In conducting this valuation exercise, our scope of work includes:

- Co-ordinated with the representatives of the Instructing Party to obtain the required information and documents for our valuation;
- Gathered the relevant information of the Target Company, including the legal documents, financial statements, etc. made available to us;
- Discussed with the Instructing Party to understand the history, business model, operations, business development plan, etc. of the Target Company for valuation purpose;
- Carried out researches in the sector concerned and collected relevant market data from reliable sources for analysis;
- Investigated into the information of the Target Company made available to us and considered the basis and assumptions of our conclusion of value;

- Designed an appropriate valuation model to analyze the market data and derived the estimated fair value of the Target Company; and
- Compiled a report on the valuation, which outlines our findings, valuation methodologies and assumptions, and conclusion of value.

When performing our valuation, all relevant information, documents, and other pertinent data concerning the assets, liabilities and contingent liabilities should be provided to us. We relied on such data, records and documents in arriving at our opinion of values and had no reason to doubt the truth and accuracy of the information provided to us by the Instructing Party, the Target Company and its authorized representatives.

#### 4 INDUSTRY OVERVIEW

China's information communications industry maintains a steady growth trend in recent years. Based on the data from Ministry of Industry and Information Technology of China, the information communications business revenue reached RMB1.31 trillion in 2019, with an increase of 0.8% on a year-on-year basis.

Among the total revenue, the income generated by fixed value-added telecommunications businesses with IPTV, data centres, cloud services, and big data as the main business has reached RMB137.1 billion, rising 21.2% from a year earlier. As the government has continued to encourage the digital conversion of communications and 5G basic construction, these businesses have become the major driver of promoting the information communications industry.

Based on the study of Minsheng Securities, China's IDC market size reached RMB156.08 billion in 2019, a year-on-year increase of 27.1%, higher than the world average growth rate (about 11%). China's IDC Quan, a research institute specialized in China's information communications industry, predicts that the scale of China's IDC industry will reach RMB348.2 billion in 2022, with a compound growth rate of 30.7% from 2019 to 2022. Besides, as the information communications industry is non-labour intensive, the effect of the epidemic on this industry is slight. With the 5G commercialization process accelerating, the demand for cloud computing and edge computing continues increasing.

## 5 VALUATION METHODOLOGY

There are three generally accepted valuation approaches in this valuation. The valuation approaches are sourced from International Valuation Standard 105 – Valuation Approaches and Methods.

### 5.1 Cost Approach

The cost approach provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction, unless undue time, inconvenience, risk or other factors are involved. The approach provides an indication of value by calculating the current replacement or reproduction cost of an asset and making deductions for physical deterioration and all other relevant forms of obsolescence.

The cost approach should be used as the primary basis for a valuation under the following circumstances:

- market participants would be able to recreate an asset with substantially the same utility as the subject asset, without regulatory or legal restrictions, and the asset could be recreated quickly enough that a market participant would not be willing to pay a significant premium for the ability to use the subject asset immediately;
- the asset is not income-generating (directly or indirectly) and the unique nature of the asset makes using an income approach or market approach unfeasible, and
- the basis of value being used is fundamentally based on replacement cost, such as reinstatement value.

### 5.2 Market Approach

The market approach provides an indication of value by comparing the asset with identical or comparable (that is similar) assets for which price information is available. When reliable, verifiable and relevant market information is available, the market approach is the preferred valuation approach.

The market approach should be used as the primary basis for a valuation under the following circumstances:

- the asset has recently been sold in a transaction appropriate for consideration under the basis of value;
- the asset or substantially similar assets are actively publicly traded; and
- there are frequent or recent observable transactions in substantially similar assets.

### 5.3 Income Approach

The income approach provides an indication of value by converting future cash flow to a single current value. Under the income approach, the value of an asset is determined by reference to the value of income, cash flow or cost savings generated by the asset.

The income approach should be used as the primary basis for a valuation under the following circumstances:

- the income-producing ability of the asset is the critical element affecting value from a market participant perspective; and
- reliable projections of the amount and timing of future income are available for the subject asset, but there are few, if any, relevant market comparables.

### 5.4 Selection of Assessment Methodology

In this valuation, the cost approach is not considered applicable as it fails to capture future earnings potential of the Target Company. The income approach is also not adopted as various projected inputs, including but not limited to service pricing, electric power consumption and operating costs, have to be made, which cannot be easily justified or ascertained.

The Target Company has sufficient track records. As advised by the management, the Target Company is expected to sustain its existing business operations in the foreseeable future. Therefore, we considered that market approach is the most appropriate approach for valuing the Target Company.

## 6 GUIDELINE PUBLICLY-TRADED COMPARABLE METHOD

The guideline publicly-traded method utilizes information on publicly-traded comparables that are the same or similar to the subject asset to arrive at an indication of value.

The key steps in the guideline publicly-traded comparable method are to:

- identify the valuation metrics/comparable evidence that are used by participants in the relevant market;
- identify the relevant guideline publicly-traded comparables and calculate the key valuation metrics for those comparables;
- perform a consistent comparative analysis of qualitative and quantitative similarities and differences between the publicly-traded comparables and the subject asset;
- make necessary adjustments, if any, to the valuation metrics to reflect differences between the subject asset and the publicly-traded comparables;
- apply the adjusted valuation metrics to the subject asset; and
- if multiple valuation metrics were used, weight the indications of value.

We consider that the use of the guideline publicly-traded comparable method is appropriate for the valuation of the Target Company, since the method reflects the going concern of the Target Company and provides direct market reference on the value from a group of comparable companies in the market. Especially, the P/E Ratio is adopted in this valuation.

### **P/E Ratio**

P/E Ratio is considered appropriate and adopted in this valuation as it is a widely adopted pricing multiple in valuation. It is a ratio for valuing a company that measures its current market value relative to its earnings & business scale. It relates the market value of a company's equity to its earnings, an important driver of shareholder value. This trailing price/earnings multiple is derived by dividing the market capitalization of the underlying company with its earning as of the Valuation Date. The formula is as below:

$$P/E \text{ Ratio} = \text{Market Value per Share} / \text{Earnings per Share}$$

We have also considered P/B and P/S ratios. In view of the nature of the business operation of the Target Company, P/B Ratio is considered not appropriate as book value captures only the tangible assets of the Target Company, which has its own intangible advantages. The value of these intangible advantages is not reflected in P/B Ratio. P/S Ratio is also not adopted for this valuation, since revenues may not consider the cost structure and profitability.

## 7 INCOME STATEMENT OF TARGET COMPANY AS AT VALUATION DATE

In this valuation, we have obtained the financial statement of the Target Company from 1 January 2019 to 30 April 2020. The detailed financial information is set out as table below.

| <b>Items</b>      | <b>Jan 2019 –<br/>Dec 2019</b> | <b>Jan 2020 –<br/>Apr 2020</b> |
|-------------------|--------------------------------|--------------------------------|
| Revenue           | 20,474,487                     | 20,065,584                     |
| Cost of sales     | 16,321,272                     | 16,230,048                     |
| Tax and Extra     | 19,695                         | —                              |
| Admin expenses    | 3,005,278                      | 1,238,319                      |
| Finance expenses  | (1,479)                        | (618)                          |
| Other revenue     | 7,150                          | 3,371                          |
| Profit before tax | 1,136,871                      | 2,601,207                      |
| Tax               | —                              | 650,302                        |
| Net profit        | 1,136,871                      | 1,950,905                      |

*Currency: RMB; Source: Instructing Party*

*Note:* Based on the breakdown of the revenue, it is observed that approximate 90% and 22% of the Target Company's total revenue in 2019 and from January to April 2020 was generated from Hangzhou Jiabing Technology Limited (the "Hangzhou Jiabing"). Hangzhou Jiabing is controlled by Mr. Zhu Guangping, a controlling shareholder of the Instructing Party.

We have obtained the monthly payment statement of Hangzhou Jiabing and checked the price that Hangzhou Jiabing pays to the Target Company. Based on the monthly payment statement and our discussion with the management, the Target Company charged Hangzhou Jiabing at market rate, which is the same to that charge from independent customers.

Accordingly, in this valuation the revenue from Hangzhou Jiabing is considered to be revenue based on the market price, and reflects the Target Company's normal business operation as at the Valuation Date.

## 8 MARKET APPROACH AND OTHER ADJUSTMENT

### Selection of Comparable Companies

By adopting market approach, we have selected the appropriate comparable public companies. The selection of the comparable companies was based on the comparability of the overall industry sector.

Therefore, we focus on identifying listed companies who are engaged in the business of the Target Company, which is the information communications business. As a result, a set of potential comparable companies with business exposure in relation to information and communications technology was comprised. Then, more comprehensive researches have been carried out to confine the selection of comparable companies.

The comparable public companies are selected with mainly reference to the following selection criteria:

1. Primarily be engaged in the provision of cloud computing product, data centre, and other related IDC services (Over 50% of the revenue is derived from the provision);
2. Has its primary operations in mainland China (Over 50% of the revenue is derived from mainland China);
3. The operating profit for the latest 12 months financial reporting period is positive;
4. Should be listed on the Main Board or SME Board of the stock exchanges of China;
5. The market capitalization should be less than RMB 10 billion; and
6. Information on the comparable companies must be extracted from a reliable source.

We have adopted the market practice to consider mainly the business natures (i.e. revenue source and geographic segment) in the comparable companies' selection process. The comparability of the magnitude of earnings, revenue and market capitalization would come in second especially the number of comparable companies is limited.

After an exhaustive search from FactSet (a financial data provider developed by FactSet Research Systems Inc., a global industry leader in acquiring, integrating and managing core financial data) on all stock exchanges, we did not find comparable companies listed on other stock exchanges that satisfy the above criteria 1 to 3, except those listed on the stock exchanges of China. We further excluded the companies not listed on Main Board or SME Board of the stock exchanges of China, ie ChiNext and Star Market, with consideration of below reasons:

- The companies listed on ChiNext and Star Market usually have high investment risk;
- The accounting information publishing system for companies listed on the ChiNext is less complete than that for Main Board or SME Board companies; and
- The investors of ChiNext are more speculative than those of Main Board or SME Board.
- The price limit for STAR companies is relaxed from the 10% for Main Board and SME Board to 20%, causing the intraday trading volatility to be significantly higher than that on the Main Board and SME Board.

Given these characteristics, the market value of the companies listed on ChiNext and Star Market may be more susceptible to high market volatility than that of the companies listed on Main Board or SME Board. Therefore, we incorporated criteria 4 that the selected comparable companies should be listed on Main Board or SME Board of the stock exchange of China to ensure the stability of the valuation result in this valuation.

Meanwhile, we have calculated the market capitalization of potential comparable companies based on the share outstanding and the price as at the Valuation Date, which is ranged from RMB 5 billion to RMB 85 billion. Given the fact that differences in market capitalization often map to differences in valuation, hence, we tiered the potential comparable companies based on market capitalization categories. Considering the Target Company's book value of equity interest and the number of potential comparable companies, we imposed the cap on the market capitalization of comparable companies, which should be less than RMB 10 billion, to mitigate the impact of the difference in market capitalization. Therefore, we incorporated the criteria 5 that the market capitalization should be less than RMB 10 billion to ensure the accuracy of the valuation result in this valuation. In this regard, we also take into account the following.

A number of factors have influence on P/E ratio, among which company's operational risk and company's expected growth rate are the primary factors. These two factors are related to company size as reflected by the market capitalization of a company.

1. Operational risk. We have noticed that the operating period of the Target Company is shorter than selected comparable companies, meaning that the Target Company still needs time to reach comparable companies' development level. Therefore, we consider that the Target Company faces slightly higher operational risk than comparable companies, which would have a downward impact on the P/E ratio.
2. Expected growth rate. We have also compared the FY 2019 growth rates of revenue of Target Company and comparable companies, and noticed that the historical growth rate of Target Company is higher than comparable companies. Besides, as discussed with the management, the expansion of the operational capacity of the Target Company recently completed in April 2020 is expected to boost the growth of the Target Company. Therefore, we consider that the expected growth rate of the Target Company is higher than that of comparable companies, which would have an upward impact on the P/E ratio.

Although the market capitalization of the comparable companies is higher than the Target Company's which may result in different profiles of operational risk and expected growth rate, we consider that as explained above, the operational risk and the expected growth rate of Target Company differ with those of the comparable companies and would offset each other. Furthermore, business nature and financial condition represent primary criteria in comparable company screening, while the criterion of market capitalization is relatively secondary. Therefore, given the above reasons and that all the selected comparable companies satisfy the primary criteria, the magnitude of market capitalization is secondary among the selection criteria and only a limited number of comparable companies is available, we are of the opinion that based on the aforementioned selection criteria and the search from the FactSet Database, the following comparable companies are exhaustive, fair and representative to be adopted in the valuation, with the following information as of 30 April 2020:

| Ticker    | Company Name                                    | Market Capitalization | Annual Net Income | P/E          |
|-----------|---|-----------------------|-------------------|--------------|
| 002518-CN | Shenzhen Kstar Science and Technology Co., Ltd. | 7,080                 | 321               | 22.08        |
| 002335-CN | Kehua Hengsheng Co., Ltd.                       | 5,962                 | 207               | 28.89        |
| 600850-CN | Shanghai East-China Computer Co., Ltd.          | 9,348                 | 322               | 29.00        |
| 002929-CN | Runjian Co., Ltd.                               | 6,678                 | 230               | 29.03        |
| 600602-CN | INESA Intelligent Tech Inc.                     | 9,793                 | 242               | 40.50        |
|           | <b>Mean</b>                                     | <b>7,772</b>          | <b>264</b>        | <b>29.90</b> |

Source: FactSet

Currency: RMB (Million)

### Description of Comparable Companies

Shenzhen Kstar Science & Technology Co., Ltd. principally provides data centres all-in-one solutions and other electrical products. The company was founded on March 17, 1993 and is headquartered in Shenzhen, China.

We have studied the latest published annual report of Shenzhen Kstar Science & Technology Co., Ltd. Based on 2019 annual report, approximately 70% of its total revenue was derived from provision of data centres and related operations in 2019.

Kehua Hengsheng Co., Ltd. principally engages in the development of data centres products, and provides basic cloud computing related to IDC integrated solutions, and other critical power services. The company was founded on December 23, 1988 and is headquartered in Xiamen, China.

We have studied the latest published annual report of Kehua Hengsheng Co., Ltd. Based on 2019 annual report, approximately 50% of its total revenue was derived from provision of the construction, management and maintenance of cloud computing and data centres, and other supporting services in 2019.

Shanghai East-China Computer Co., Ltd. principally provides products and solutions including data center product solutions, cloud computing product solutions, cloud service management platform, integrated operation and maintenance management platform. The company was founded in September 1993 and is headquartered in Shanghai, China.

We have studied the latest published annual report of Shanghai East-China Computer Co., Ltd. Based on 2019 annual report, approximately 80% of its total revenue was derived from provision of the cloud computing management, data centres management, data centres intelligent solutions and related operations in 2019.

RunJian Co., Ltd. principally provides cloud service including the design, development and maintenance of data centres and IDC related services, communications technology services and other IT services. The company was founded by Jian Guo Li on January 3, 2003 and is headquartered in Nanning, China.

We have studied the latest published annual report of RunJian Co., Ltd. Based on 2019 annual report, approximately 90% of the total revenue was derived from the construction and management of cloud computing and data centres, information intelligent service and other related information communication services in 2019.

INESA Intelligent Tech, Inc. principally provides cloud computing service including IDC and big data, industry solutions and other services. The company was founded in December 1986 and is headquartered in Shanghai, China.

We have studied the latest published annual report of INESA Intelligent Tech, Inc. Based on 2019 annual report, approximately 50% of its total revenue was derived from cloud computing, data centres and related operations in 2019.

The above comparable companies are similarly subject to fluctuations in the economy and performance of the industry that the Target Company is engaged in, among other factors. Thus, we consider they are faced with similar industry risks and returns.

#### ***Lack of Marketability Discount***

We have adopted a lack of marketability discount of 20% in the valuation of 100% equity interest of the Target Company to compensate for the potential difficulty of selling the investments, which are not traded on a stock exchange, compared with those of the peer companies that are traded publicly in stock exchange markets.

The 20% discount is source from 2020 edition of the Stout Restricted Stock Study Companion Guide, the latest applicable edition consisting of 759 restricted stock transactions with distinct transaction and company characteristics. The study represents the most widely used and accepted database available to valuers for lack of marketability discount determination. Based on the study, the overall average discount for lack of marketability as observed in the Stout Study based on data from 1980 through December 2019 is 20.6%, concluded by dividing the difference between the private placement price and the market reference price by the market reference price.

#### ***Result Analysis***

The detailed calculation is shown in table below:

| <b>Subject</b>                       | <b>Amount</b> | <b>Formula</b>  |
|--------------------------------------|---------------|-----------------|
| Net profit from Jan 2019 to Dec 2019 | 1,136,871     | A               |
| Net profit from Jan 2020 to Apr 2020 | 1,950,905     | B               |
| 12-month annualized earning*         | 2,708,819     | $C=A*8/12+B$    |
| Market price multiple observed       | 29.90         | D               |
| Lack of marketability discount       | 20%           | E               |
| Shareholding of Target Company       | 100%          | F               |
| 100% Equity value (rounded)          | 65,000,000    | $G=C*D*(1-E)*F$ |

*Unit: RMB*

*\*Note:* Per our discussion with the management, the Target Company aims at operating with full capacity in 2020. In order to value the Target Company, we have first considered the method using the net income from Jan 2020 to Apr 2020 to calculate the annualized earnings. However, as the term between Jan 2020 to Apr 2020 is relatively short (4 months), the net profit lacks representativeness for the annual earnings.

According to the management, in 2019 the Target Company was in trial operation, conducting checks and testing on the machine rooms and other facilities and resulting in uneven operation during the year. After a comprehensive consideration, we adopted the proportion method to mitigate the impact of the uneven operation during 2019, so the net profit concluded by pro rata basis could be more representative of the profitability of the Target Company during the period from May 2019 to Dec 2019. The annualized earning is the sum of the net profit from May 2019 to Dec 2019 calculated by proportion method and the actual net profit from Jan 2020 to April 2020.

## 9 PREMISE OF VALUATION AND BASIS OF VALUATION

Our valuation is based on market value basis and 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”. Such definition is in line with the requirements of International Valuation Standards.

### 9.1 Source of Information

Our investigation covers the discussion with Target Company and Instructing Party’s representatives, the collection of information including the details of Target Company.

We assume that the data obtained in the course of the valuation, along with the opinions and representations provided to us by Instructing Party were prepared in reasonably care.

We have had no reason to doubt the truth and accuracy of the information provided to us by Instructing Party. We have also sought confirmation from Instructing Party that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

## 9.2 Factors Considered

The factors considered in this valuation included, but were not limited to, the following:

- The demand and supply of information communication industry in the region;
- Operation and financial risks of the Target Company;
- Environmental policies set by the government that pertains to the Target Company;
- Average operational parameters of comparable companies in the region;
- Operation experience of the management of the Target Company; and
- The economic conditions of China.

## 10 DISCLAIMER AND LIMITATION

Our findings or conclusion of values of the subject(s) in this report are valid only for the stated purpose and at the Valuation Date, and for the sole use of the Instructing Party.

Our liability for loss or damage shall be limited to such sum as we ought reasonably to pay having regard to our responsibility for the same on the basis that all other consultants and specialists, where appointed, shall be deemed to have provided to the Instructing Party contractual undertakings in respect of their services and shall be deemed to have paid to the Instructing Party such contribution as may be appropriate having regard to the extent of their responsibility for such loss or damage.

Our liability for any loss or damage arising out of the action or proceedings aforesaid shall, notwithstanding the preceding provisions, in any event be limited to a sum not exceeding three (3) times of the amount of our agreed fee(s) for this engagement. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, loss of profits, opportunity cost, etc.), even if it has been advised of their possible existence. For the avoidance of doubt our liability shall never exceed the lower of the sum calculated in accordance with the preceding provisions and the sum provided for in this clause.

The Instructing Party is required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney’s fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our engagement except to the extent that any such losses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence, misconduct, willful default or fraud of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

We reserve the right to include your company/firm name in our client list, but we will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to legal or administrative process or proceedings. These conditions can only be modified by written documents executed by both parties.

Any decision to purchase, sell or transfer any interest in the valuation subjects shall be the owners’ sole responsibility, as well as the structure to be utilized and the price to be accepted. The selection of the price to be accepted requires consideration of factors beyond the information we will provide or have provided. An actual transaction involving the subject business might be concluded at a higher value or at a lower value, depending upon the circumstances of the transaction and the business, and the knowledge and motivations of the buyers and sellers at that time.

## **11 CONCLUSION**

The conclusion of value is based on the accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

While the assumptions and consideration of such matters are considered to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Instructing Party and/or CHFT Advisory And Appraisal Ltd (the “CHFT”).

Based on the valuation methodology adopted, we are of the opinion that:

The market value of 100% of shareholding interest of the Target Company, as at 30 April 2020, was in the sum of **RMB65,000,000 (RMB SIXTY FIVE MILLION)**.

We hereby certify that we have neither present nor prospective interests in the Company or the value reported.

Yours faithfully,

For and on behalf of

**CHFT Advisory And Appraisal Ltd.**

**Ross Wang CFA**

*Director*

## 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.

## DISCLOSURE OF INTERESTS

## (a) Substantial Shareholders

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

| Name   | Type of interests                  | Position | Number of Shares | Approx. percentage of issued Shares as at the Latest Practicable Date |
|--|------------------------------------|----------|------------------|---|
| Morgan Hill <sup>(Note 1)</sup>  | Beneficial owner                   | Long     | 354,295,000      | 34.38%  |
| Great Scenery Ventures Limited (“ <b>Great Scenery</b> ”) <sup>(Note 1)</sup>      | Interest of controlled corporation | Long     | 354,295,000      | 34.38%  |
| Emperor Grand International Limited (“ <b>Emperor Grand</b> ”) <sup>(Note 1)</sup> | Interest of controlled corporation | Long     | 354,295,000      | 34.38%  |

| Name   | Type of interests                  | Position | Number of Shares | Approx. percentage of issued Shares as at the Latest Practicable Date |
|--|------------------------------------|----------|------------------|---|
| Mr. Yao <sup>(Note 1)</sup>  | Interest of controlled corporation | Long     | 354,295,000      | 34.38%  |
| Mr. Zhu <sup>(Note 1)</sup>  | Interest of controlled corporation | Long     | 354,295,000      | 34.38%  |
| Trinity Gate Limited<br>("Trinity Gate") <sup>(Note 2)</sup>       | Beneficial owner                   | Long     | 111,420,000      | 10.81%  |
| Timeness Vision Limited<br>("Timeness Vision") <sup>(Note 2)</sup> | Interest of controlled corporation | Long     | 107,740,000      | 10.65%  |
| Mr. Teng Rongsong<br>("Mr. Teng") <sup>(Note 2)</sup>              | Interest of controlled corporation | Long     | 107,740,000      | 10.65%  |

*Notes:*

- (1) As at the Latest Practicable Date, Morgan Hill was owned as to 51% by Great Scenery and 49% by Emperor Grand. Mr. Yao is the sole ultimate beneficial owner and director of Great Scenery, and Mr. Zhu is the sole ultimate beneficial owner and director of Emperor Grand.

As set out in the composite offer and response document dated 29 May 2018 issued by Morgan Hill and the Company (the "**Document**"), Trinity Gate is a party acting in concert with Morgan Hill relating to the mandatory unconditional cash offer made by Morgan Hill. Please refer to the Document for further details.

- (2) As at the Latest Practicable Date, Trinity Gate was wholly-owned by Timeness Vision, which in return is wholly-owned by Mr. Teng.
- (3) Mr. Yao is a director of Morgan Hill and Great Scenery.

**(b) Directors' interests**

As at the Latest Practicable Date, the interests and/or short positions, if any, of each Director and chief executive of the Company in the shares, underlying shares and/or debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were taken or deemed to have under such provisions of the SFO), or (ii) which were required to be and were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or (iii) 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 Issuers (the “**Model Code**”) adopted by the Company were as follows:

***Long position in ordinary shares of the Company***

| <b>Name of Director</b>                 | <b>Capacity/Nature</b>             | <b>Number of Shares held/interested</b> | <b>Approximate percentage of shareholding</b> |
|---|------------------------------------|---|---|
| Mr. Yao Yongjie<br>(“ <b>Mr. Yao</b> ”) | Interest of controlled corporation | 354,295,000<br>( <i>Note 1</i> )        | 34.38%  |

*Note:*

- (1) As at Latest Practicable Date, these shares were held by Morgan Hill which is owned as to 51% by Great Scenery Ventures Limited, a company wholly and beneficially owned by Mr. Yao.

***Long position in the underlying shares of the Company***

Ms. Lu Xuwen, a non-executive director, had been granted options under the share option scheme of the Company, to subscribe for 1,000,000 Shares, representing approximately 0.1% of issued Shares, as at the Latest Practicable Date.

*Long position in ordinary shares of associated corporations*

| Name of Director | Name of associated corporation | Relationship with the Company | Capacity and nature of interest  | Number of Shares held | Percentage of the associated corporation's total issued share capital |
|------------------|--------------------------------|-------------------------------|----------------------------------|-----------------------|---|
| Mr. Yao          | Morgan Hill                    | The Company's holding company | Through a controlled corporation | 5,100                 | 51.00%  |

Save for the VIE Agreements, no transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries, its holding company or any subsidiary of the Company's holding company was a party and in which a director of the Company or an entity connected with a director of the Company (as defined in Section 486 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) had a material interest, whether directly or indirectly, subsisted as at the Latest Practicable Date.

**DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into any service contract with any member of the Group which does not expire or which is not determinable by the Company or its subsidiaries (as the case may be) within one year without payment of compensation other than statutory compensation.

**DIRECTORS' INTEREST IN ASSETS**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 March 2020, being the date to which the latest published audited consolidated financial statements of the Company were made up.

**DIRECTORS' INTEREST IN COMPETING BUSINESS**

As at the Latest Practicable Date, none of the Directors or their respective close associates had any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

**EXPERT**

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

| <b>Name</b>                      | <b>Qualification</b>  |
|----------------------------------|---|
| CHFT Advisory And Appraisal Ltd. | Independent valuer  |
| Gram Capital Limited             | A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the SFO |
| Grandall Law firm (Hangzhou)     | Legal advisers to the Company as to PRC Laws  |

CHFT, Gram Capital and the PRC Legal Advisers have given and have not withdrawn their written consent to the issue of this circular with the inclusion herein of their report, letter and/or opinions and references to their names in the form and context in which they appear respectively.

As at the Latest Practicable Date, CHFT, Gram Capital and the PRC Legal Advisers did not have any shareholding in any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group. As at the Latest Practicable Date, CHFT, Gram Capital and the PRC Legal Advisers had no direct or indirect interest in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 March 2020, being the date to which the latest published audited consolidated financial statements of the Company were made up.

For incorporation in this circular, the report, letter and/or opinions in this circular are provided by CHFT, Gram Capital and the PRC Legal Advisers as of the date of this circular.

**MATERIAL ADVERSE CHANGE**

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

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the VIE Agreements are available for inspection at the Company's principal place of business in Hong Kong at Unit 1503, 15/F., Greenfield Tower, Concordia Plaza, No. 1 Science Museum Road, Kowloon, Hong Kong during normal business hours on any weekday (except public holidays in Hong Kong) from the date of this circular up to the date of the EGM (both dates inclusive) and also at the EGM.

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## NOTICE OF EGM

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# Grandshores Technology Group Limited

## 雄岸科技集團有限公司

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

(Stock Code: 1647)

**NOTICE IS HEREBY GIVEN** that the extraordinary general meeting (the “EGM”) of Grandshores Technology Group Limited (the “Company”) will be held at 10:00 a.m. on Monday, 31 August 2020 at Room 3, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong to consider and if thought fit, transact the following resolutions as ordinary resolutions of the Company:

### ORDINARY RESOLUTION

“**THAT:**

1. (a) the entering into of the VIE Agreements (as defined in the Company’s circular dated 11 August 2020 (the “Circular”)), a copy of which has been produced to the meeting marked “A” and initialed by the chairman of the meeting for identification purpose, and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;

and

- (b) any one of the directors of the Company be and is hereby authorised, for and on behalf of the Company, to do all acts and things as they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the VIE Agreements and the transactions contemplated thereunder, and to execute all such other documents, instruments and agreements (including the affixation of the Company’s common seal, if required) deemed by them to be incidental to, ancillary to or in connection with the entering into of the VIE Agreements and the transactions contemplated thereunder.”

By order of the Board

**Grandshores Technology Group Limited**

**Wong Ngai**

*Company Secretary*

Hong Kong, 11 August 2020

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## NOTICE OF EGM

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

*Headquarters and Principal Place  
of Business:*  
18 Kaki Bukit Place  
Eunos Techpark  
Singapore 416196

*Principal place of business  
in Hong Kong:*  
Unit 1503,  
15/F., Greenfield Tower,  
Concordia Plaza,  
No. 1 Science Museum Road,  
Kowloon, Hong Kong

*Notes:*

- (a) Any member of the Company entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote instead of him/her/it. A proxy need not be a member of the Company. A member who is the holder of two or more shares may appoint more than one proxy to represent him/her/it to attend and vote on his/her/its behalf. 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.
- (b) In order to be valid, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, must be deposited at 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, not less than 48 hours before the time appointed for the holding of the extraordinary general meeting of the Company or any adjournment of such meeting. Delivery of the form of proxy shall not preclude a member of the Company from attending and voting in person at the meeting and, in such event, the form of proxy shall be deemed to be revoked.
- (c) For determining the entitlement to attend and vote at the above meeting, the register of members of the Company will be closed from Wednesday, 26 August 2020 to Monday, 31 August 2020 (both dates inclusive), during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the above meeting, unregistered holders of shares should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 25 August 2020.
- (d) In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto to. If more than one of such joint holders are present at the above meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
- (e) In the case of any inconsistency between the Chinese translation and the English text hereof, the English text shall prevail.
- (f) If tropical cyclone warning signal no. 8 or above is hoisted or a black rainstorm warning signal is in force at 7:00 a.m. on Monday, 31 August 2020, the meeting will be postponed and further announcement for details of alternative meeting arrangements will be made. The meeting will be held as scheduled even when tropical cyclone warning signal no. 3 or below is hoisted, or an amber or red rainstorm warning signal is in force. You should make your own decision as to whether you would attend the meeting under bad weather conditions and if you should choose to do so, you are advised to exercise care and caution.