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

VIE AGREEMENTS

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.

Listing Rules implications

Based on the applicable percentage ratios in respect of the Transactions contemplated under the VIE Agreements, 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. Given Mr. Yao's, Mrs. Yao's and Mr. Zhu's 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 (including independent financial advice), shareholders' approval, and annual review and reporting requirements under the Listing Rules.

The Company will apply to the Stock Exchange for 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.

General

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.

An EGM will be convened for the Independent Shareholders to approve 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.

A circular containing, 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 convening the EGM is expected to be despatched to the Shareholders on or before 20 July 2020.

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);

(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."

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);

(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."

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 with reference to the unaudited total asset value of the Target Company as at 30 April 2020, an independent valuation of the Target Company and prospects of the Target Company.

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.

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.

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.

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.

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.

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 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.

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 this announcement.

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 is no bankruptcy procedures applicable for PRC individuals under the PRC Laws as at the date of this announcement.

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.

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.

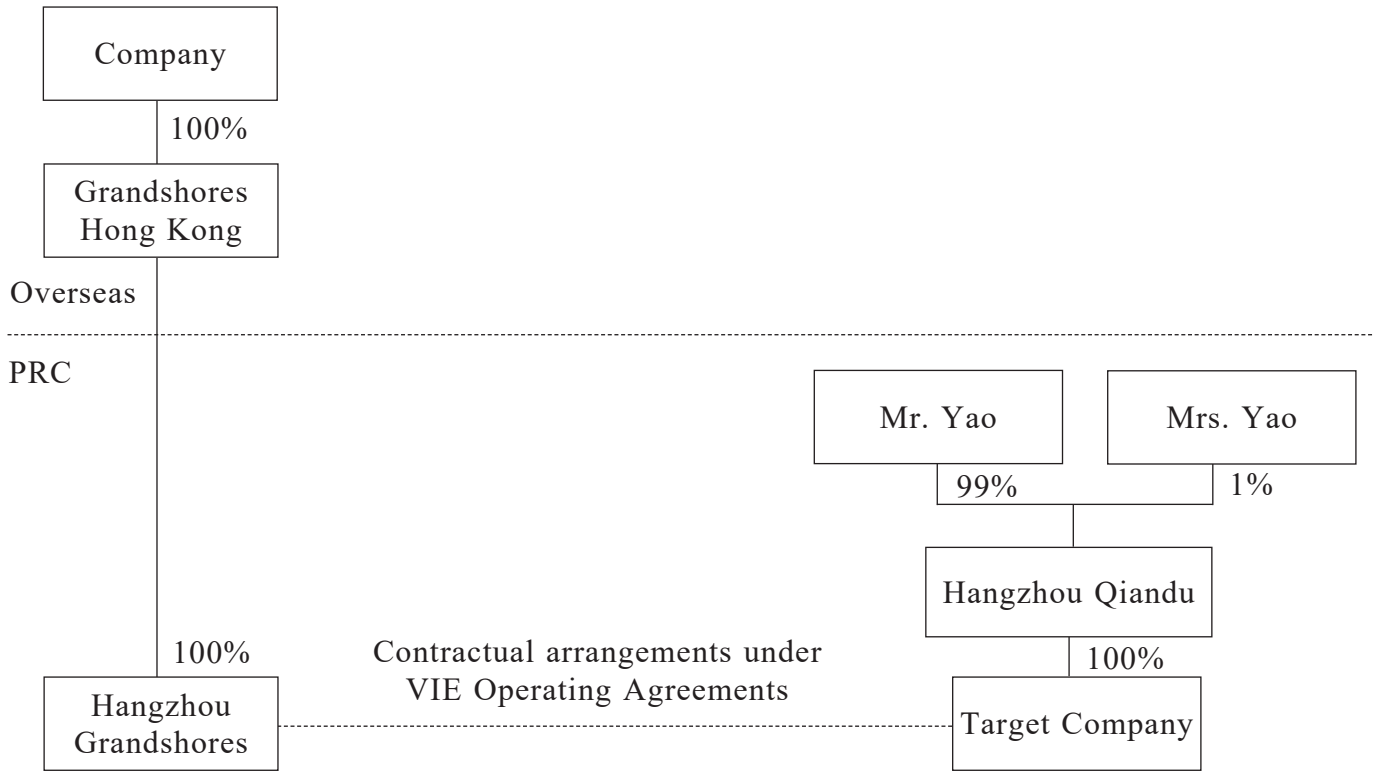
Legal review

(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



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**"). Currently, no clear guidance as to the interpretation of the Qualification Requirement has been issued.

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 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 will be enforceable 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;

- the VIE 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; and

- 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.

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.

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 by other laws, regulations and rules. Accordingly, there are substantial uncertainties as to whether our VIE structure may be deemed as a method of foreign investment in the future.

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.

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 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 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 which may cast uncertainty to the Group when the foreign ownership restriction in value-added telecommunications is relaxed

In respect of the Qualification Requirement, there is no clear formal guideline and provision on what constitutes "a good track record" and "operational experience". 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 not qualified to acquire the entire equity interests in the Target Company.

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 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 date of this announcement, the Target Company has not encountered any interference or encumbrance from any governing bodies in operating its business under the VIE Operating Agreements.

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 in Ordos, Inner Mongolia, the PRC (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. 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.

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.

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.

	For the years ended 31 December		**For the four months ended 30 April**
RMB in million	**2018**	**2019**	**2020**
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 RMB47.3 million and total liabilities of RMB2.6 million, resulting in net assets of RMB44.7 million.

Existing shareholders

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

	Paid-up capital (RMB)	% of equity interests
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%
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 29.7% by Mr. Zhu and 0.99% by Hangzhou Tunlan. Hangzhou Tunlan, of which Mr. Yao is a substantial shareholder, is the general partner Hangzhou Zhuodi. 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 Xiongan holds a 1.4% equity interest in, and is the general partner of, Hangzhou Haolan. Hangzhou Xiongan is owned as to 51% by Hangzhou Tunlan, of which Mr. Yao is a substantial shareholder. 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. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, Shenzhen Mushui and its ultimate beneficial owners 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. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, save as disclosed above, the other ultimate beneficial owner of Hangzhou Jingchuan is independent of the Company and its connected persons.

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.

The Company considers that IDC play an important role in the development of the blockchain industry. IDC provide a secure environment with climate control, uninterrupted electricity supply and high speed internet connection. The acquisition of the Target Company, through the VIE Agreements, would represent a significant step of the Group's development of its blockchain business. Taking into account the basis of the consideration, the Directors (excluding independent non-executive Directors who will express their opinion after taking into account the advice of Gram Capital) 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.

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". 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 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.

The Company will apply to the Stock Exchange for 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.

Hangzhou Jiabing, an associate of Mr. Zhu, is an existing customer of the Target Company. 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.

GENERAL

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. In accordance with Rule 14A.52 of the Listing Rules, Gram Capital will explain 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.

An EGM will be convened for the Independent Shareholders to approve 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 resolutions in respect of the VIE Agreements.

A circular containing, 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 convening the EGM is expected to be despatched to the Shareholders on or before 20 July 2020.

DEFINITION

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

"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors of the Company
"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 to be convened by the Company to approve the Transactions
"Entrustment Agreement"	the entrustment agreement as set out in the section headed "VIE Operating Agreements — Entrustment Agreement"
"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 this announcement
"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 this announcement
"Equity Pledge Agreements"	the Equity Pledge Agreement (A) and the Equity Pledge Agreement (B)
"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 this announcement
"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 this announcement

"Exclusive Purchase Right Agreement"	the exclusive purchase right agreement as set out in the section headed "VIE Operating Agreements — Exclusive Purchase Right Agreement" in this announcement
"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
"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)
"Hangzhou Tunlan"	Hangzhou Tunlan Jiahu Investment Management Limited* (杭州暾瀾嘉虎投資管理有限公司)
"Hangzhou Xiongan"	Hangzhou Xiongan Investment Management Limited* (杭州雄岸投資管理有限公司)
"Hangzhou Zhuodi"	Hangzhou Zhuodi Investment Partnership Enterprise* (杭州卓地投資合夥企業(有限合伙)), 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

* *For identification purpose only*

"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
"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 this announcement
"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 shall, for the purposes of this announcement, exclude Hong Kong, Macau and Taiwan
"PRC Laws"	any and all laws, regulations, statutes, rules, orders, decrees, circulars, notices, supreme court's judicial interpretations and subordinary 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
"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 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"
"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 this announcement
"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
"%"	percent

By order of the Board
Grandshores Technology Group Limited
Yao Yongjie
Chairman and Executive Director

Hong Kong, 26 June 2020

As at the date of this announcement, the Board comprises Mr. Yao Yongjie as an executive Director; Mr. Chua Seng Hai and Ms. Lu Xuwen as non-executive Directors; and Mr. Chu Chung Yue, Howard, Dr. Zhang Weining and Mr. Yu Wenzhuo as independent non-executive Directors.

* *For identification purpose only*