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BRAINHOLE TECHNOLOGY LIMITED

脑洞科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2203)

CONTINUING CONNECTED TRANSACTIONS – CONSTRUCTION SERVICES FRAMEWORK AGREEMENT

CONSTRUCTION SERVICES FRAMEWORK AGREEMENT

On 13 June 2019, Guangzhou Weaving entered into the Construction Services Framework Agreement with Seedland, pursuant to which Guangzhou Weaving shall provide Seedland with certain communication construction services, including but not limited to broadband infrastructure construction services for residential properties and projects, integrated solutions for smart community projects covering both hardware for security and identification purposes and software for residence management and community services, and Guangzhou Weaving shall receive construction service fees in return.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Mr. Zhang, the chairman and an executive Director, through a wholly owned subsidiary owns the entire issued share capital of Seedland. Accordingly, Seedland is regarded as a connected person of the Company under Chapter 14A of the Listing Rules.

Given that Guangzhou Weaving will become an indirectly wholly-owned subsidiary of the Company, it is expected that the transactions which will be entered into between Guangzhou Weaving and Seedland upon or after completion of the Acquisition Agreement will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the transaction under the Construction Services Framework Agreement exceed 0.1% but are less than 5%, the transaction is only subject to reporting, annual review and announcement requirements but are exempt from the circular and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

BACKGROUND

Reference is made to the announcement of the Company dated 5 March 2019 in relation to, among others, the Acquisition. Subject to the approval by the Independent Shareholders at the EGM and upon completion of the Acquisition, Guangzhou Weaving will become an indirectly wholly-owned subsidiary of the Company.

THE CONSTRUCTION SERVICES FRAMEWORK AGREEMENT

Pursuant to the Construction Services Framework Agreement, Guangzhou Weaving shall provide Seedland with certain communication construction services, including but not limited to broadband infrastructure construction services for residential properties and projects, integrated solutions for smart community projects covering both hardware for security and identification purposes and software for residence management and community services, and Guangzhou Weaving shall receive construction service fees in return.

The major terms of the Construction Services Framework Agreement are set out below.

Date:

13 June 2019 (after trading hours of the Stock Exchange)

Parties:

(i) Guangzhou Weaving; and

(ii) Seedland

Duration:

The Construction Services Framework Agreement is for a term from the date of its approval by the Independent Shareholders at the EGM to 31 December 2021 and is conditional upon, among other things, its having been approved by the Board and all other necessary or appropriate approval or consent as required by the Stock Exchange or under the relevant laws, regulations or rules (including the Listing Rules) having been obtained.

Either party, during the continuance of the Construction Services Framework Agreement, may terminate by giving the other party not less than six (6) months' prior written notice. Such written notice of termination shall take effect on the date on which it is received by the receiving party.

Should the services under the Construction Services Framework Agreement cannot be fulfilled due to force majeure, the Construction Services Framework Agreement may be terminated in advance by the mutual agreement of both parties.

The Construction Services Framework Agreement will be terminated on the expiring date of the cooperation period and will not be automatically renewed.

INFORMATION ABOUT THE PARTIES

The Group is principally engaged in the assembly, packaging and sales of self-manufactured discrete semiconductors and trading of semiconductors sourced from third-party suppliers and Guangzhou Weaving is principally engaged in broadband infrastructure construction for residential properties, and providing integrated solution for smart communities and smart cities projects. Its smart community and smart city solution includes hardware for security and identification purposes, software for residence management and community services.

As at the date of the Construction Services Framework Agreement, Seedland is a comprehensive property developer focusing on the development of intelligent residential properties in the Greater Bay Area with a strategic presence in cities with high growth potential in the PRC.

Annual caps

Pursuant to Rule 14A.81 of the Listing Rules, the aggregate transaction amounts receivable under the Construction Services Framework Agreement for the years ending 31 December 2019, 2020 and 2021 are expected to be RMB11.5 million, RMB12.5 million and RMB13.7 million, respectively. As the applicable percentage ratios in respect of the transaction under the Construction Services Framework Agreement exceed 0.1% but are less than 5%, the transaction is only subject to reporting, annual review and announcement requirements but are exempt from the circular and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

In arriving at the Proposed Annual Caps in respect of the service fees receivable from Seedland, the Directors have considered the following factors:

- (i) the historical figures in the years 2016, 2017 and 2018, which were approximately RMB0.7 million, RMB1.5 million and RMB6.3 million respectively;
- (ii) contracts for construction services which have already been entered into between Guangzhou Weaving and Seedland; and
- (iii) the expected contract amount for construction services to be entered into between Guangzhou Weaving and Seedland for each of the three years ending 31 December 2021.

Pricing policy

The service fees receivable from Seedland shall be determined based on prevailing market price with reference to prices quoted on normal commercial terms by providers of similar construction services who are Independent Third Parties.

The service fees receivable from Seedland shall be comparable to the market price of fees for similar construction services between Guangzhou Weaving and the Independent Third Parties. If no prevailing market price could be referenced at that time or it is difficult to obtain the relevant market price, the parties will determine the service fees based on the reasonable cost and reasonable profit rate of the relevant services in the previous transactions.

Internal control procedures

In order to ensure that the service fee charged under the Construction Services Framework Agreement shall not be less favourable than those available to Independent Third Parties for similar quotation arrangement of similar services provided to Seedland, the Company has adopted the following measures:

- the Company will supervise the Construction Services Framework Agreement in accordance with the procedures set forth in the Company's internal control manual on continuing connected transactions. Designated personnel of the operation department of the Company will conduct regular checks to review and assess whether relevant transactions are conducted in accordance with the terms of the Construction Services Framework Agreement;
- the Company's external auditors will conduct an annual review on the pricing and the annual caps of the Construction Services Framework Agreement;
- the Company's Audit Committee will review at least twice a year the analysis reports and the improvement measures prepared by the Company's management based on the implementation of the Construction Services Framework Agreement by the Company; and
- the independent non-executive Directors will conduct an annual review of the implementation and enforcement of the Construction Services Framework Agreement.

Reasons for and benefits of the Construction Services Framework Agreement

Since Guangzhou Weaving is well-acquainted with the businesses of Seedland and has been providing the construction services to Seedland over the years, it is both time and cost effective from a continuity perspective for Guangzhou Weaving to continue to supply Seedland with construction services in view of business needs and administrative convenience, and at the same time this arrangement would possibly generate steady income for the Company.

The Directors are of the view that the Construction Services Framework Agreement is entered into in the ordinary and usual course of business of Guangzhou Weaving and on normal commercial terms negotiated on arm's length basis, and the Construction Services Framework Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps) are fair and reasonable and in the interests of the Group and the Independent Shareholders as a whole.

As at the date of this announcement, Mr. Zhang, the chairman and an executive Director, through a wholly owned subsidiary owns the entire issued share capital of Seedland. Therefore, as at the date of this announcement, Mr. Zhang is deemed to be materially interested in the Construction Services Framework Agreement and the transactions contemplated thereunder. Mr. Zhang has abstained from voting on the relevant Board resolution in relation to considering and approving the Construction Services Framework Agreement and the transactions contemplated thereunder at the Board meeting.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Mr. Zhang, the chairman and an executive Director, through a wholly owned subsidiary owns the entire issued share capital of Seedland. Accordingly, Seedland is regarded as a connected person of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the transaction under the Construction Services Framework Agreement exceed 0.1% but are less than 5%, the transaction is only subject to reporting, annual review and announcement requirements but are exempt from the circular and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

DEFINITIONS

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

“Acquisition”	the acquisition in relation to the Acquisition Agreement as mentioned in the announcement of the Company dated 5 March 2019
“Acquisition Agreement”	the acquisition agreement dated 5 March 2019 as mentioned in the announcement of the Company dated 5 March 2019
“Board”	the board of Directors
“Company”	Brainhole Technology Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 2203)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Construction Services Framework Agreement”	the construction services framework agreement entered into between Guangzhou Weaving and Seedland on 13 June 2019 in relation to the provision of communication construction services
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Guangzhou Weaving”	Guangzhou Weaving Communications Telecommunications Technology Limited (廣州織網通訊科技有限公司), a company established in the PRC and, subject to Independent Shareholders’ approval at the EGM, will become an indirectly wholly-owned subsidiary of the Company upon Completion of the Acquisition
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Independent Shareholder(s)”	Shareholder(s) other than Mr. Zhang
“Independent Third Party(ies)”	third party(ies) independent of, and not connected with, the Company and its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Mr. Zhang”	Mr. Zhang Liang Johnson, the chairman and an executive Director
“PRC”	the People’s Republic of China, which, for the purpose of this announcement, excludes Hong Kong, Macau and Taiwan
“Proposed Annual Caps”	the proposed annual caps for the Construction Services Framework Agreement in the amount of RMB11.5 million, RMB12.5 million and RMB13.7 million for the three years ending 31 December 2021 respectively
“Seedland”	Guangzhou Seedland Real Estate Development Co., Ltd., a limited liability company established in the PRC and wholly owned by Mr. Zhang through his wholly owned company
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and supplemented from time to time
“Shareholder(s)”	holder(s) of the Share(s)
“Shares”	ordinary share(s) in the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

In this announcement, amounts in RMB are translated to HK\$ on the basis of RMB1 = HK\$1.15. The conversion is for illustration purpose only and should not be taken as a representation that RMB could actually be converted into HK\$ at that rate or at other rates or at all.

By order of the Board
Brainhole Technology Limited
Zhang Liang Johnson
Chairman and Executive Director

Hong Kong, 14 June 2019

As at the date of this announcement, the Board comprises two executive Directors, namely, Mr. Zhang Liang Johnson, Ms. Wan Duo and three independent non-executive Directors, namely Mr. Xu Liang, Mr. Chen Johnson Xi and Ms. Zhang Yibo.