THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

BRAINHOLE TECHNOLOGY LIMITED
脑洞科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2203)

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE EQUITY INTEREST OF GUANGZHOU WEAVING; AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial adviser to the Company

東英 ORIENTAL PATRON

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

第一上海 FIRST SHANGHAI GROUP
FIRST SHANGHAI CAPITAL LIMITED
第一上海融資有限公司

A letter from the Board is set out on pages 5 to 23 of this circular. A letter from the Independent Board Committee is set out on page 24 of this circular. A letter from the Independent Financial Adviser containing advice and recommendations to the Independent Board Committee and the Independent Shareholders is set out on pages 25 to 52 of this circular.

A notice convening the extraordinary general meeting (the "**EGM**") of Brainhole Technology Limited to be held at Luxembourg Room I-II, 3rd Floor, Regal Kowloon Hotel, 71 Mody Road, Tsimshatsui, Kowloon, Hong Kong at 2:30 p.m. on Tuesday, 20 August 2019 is set out on pages 58 to 59 of this circular. A form of proxy for use at the EGM is also enclosed.

Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the office of the branch share registrar of the Company 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 holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof in person should you so wish.

30 July 2019

CONTENTS

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

"Acquisition"	the sale and purchase of the Sale Shares in accordance with the terms and conditions of the Acquisition Agreement
"Acquisition Agreement"	the Acquisition Agreement dated 5 March 2019 entered into among the Purchaser, Guangzhou Chong Dong and the Target in respect of the Acquisition
"Acquisition Announcement"	the announcement of the Company dated 5 March 2019 in relation to among other things, the Acquisition Agreement
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	any day (other than a Saturday, Sunday or public holiday or a day on which a typhoon signal number 8 or above or a "black" rainstorm signal is hoisted in Hong Kong between 9:00 a.m. to 5:00 p.m.) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
"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)
"Completion"	completion of the Acquisition
"Completion Date"	the date of Completion
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the consideration for the Acquisition in the maximum amount of RMB68.0 million (subject to adjustments)
"controlling shareholder"	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 and convened for the Independent Shareholders to consider, and if thought fit, to approve the ordinary resolution in respect of the Acquisition Agreement and the transactions contemplated thereunder
"Enlarged Group"	the Group and the Target Group upon Completion
"Group"	the Company and its subsidiaries
"Guangzhou Chong Dong"	Guangzhou Chong Dong Technology Co., Ltd.* (廣州蟲洞科技有限公司), a company established in the PRC and is wholly beneficially owned by Mr. Zhang
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee, comprising all the independent non-executive Directors, namely Mr. Xu Liang, Mr. Chen Johnson Xi and Ms. Zhang Yibo, which has been established to make recommendations to the Independent Shareholders in respect of the Acquisition Agreement and the transactions contemplated thereunder
"Independent Financial Adviser" or "First Shanghai"	First Shanghai Capital Limited, a licensed corporation registered with the SFC to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed by the Company with the approval of the Independent Board Committee for the purpose of advising the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement and the transactions contemplated thereunder
"Independent Shareholder(s)"	Shareholder(s) other than Mr. Zhang, Yoho Bravo and their respective associates
"Independent Third Party(ies)"	third party(ies) independent of, and not connected with, the Company and its connected persons

"Independent Valuer"	Valtech Valuation Advisory Limited, an independent professional valuer
"Latest Practicable Date"	25 July 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
"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
"Negative List"	the Special Administrative Measures for Access of Foreign Investment (Negative List) (2018 Edition) promulgated by the PRC National Development and Reform Commission and Ministry of Commerce with effect from 28 July 2018 to 29 July 2019, and the Special Administrative Measures for Access of Foreign Investment (Negative List) (2019 Edition) promulgated by the PRC National Development and Reform Commission and Ministry of Commerce with effect from 30 July 2019
"Payment Date"	any Business Days between the date of the issuance of the audited report of the Target for the financial year ending on 31 December 2019 and the tenth Business Day thereafter (solely based on the discretion of the Purchaser and subject to the fulfillment of all conditions precedent)
"PRC"	the People's Republic of China, which, for the purpose of this circular, excludes Hong Kong, Macau and Taiwan
"PRC Subsidiary"	Hunan Huama Construction Engineering Co., Ltd.*（湖南華馬建設工程有限公司）, a company established in the PRC and is wholly-owned by the Target
"Purchaser"	Brainhole Technology Investments Limited, a company incorporated in Hong Kong with limited liability and an indirectly wholly-owned subsidiary of the Company
"RMB"	Renminbi, the lawful currency of the PRC

"Sale Shares"	the entire equity interest of the Target to be sold by the Guangzhou Chong Dong and to be acquired by the Purchaser pursuant to the terms and conditions of the Acquisition Agreement
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"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
"Target" or "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
"Target Group"	the Target and its subsidiaries
"Tech Elite"	Tech Elite Investments Limited is a company incorporated in the British Virgin Islands on 13 November 2018 and was acquired by the Company solely for the purpose of the Acquisition
"Vendor"	Guangzhou Chong Dong
"Yoho Bravo"	Yoho Bravo Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly owned by Mr. Zhang
"%"	per cent.

In this circular, amounts in RMB are translated to HK$ on the basis of RMB 1 = HK$ 1.15. The translation 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.

* *For identification purpose only*

BRAINHOLE TECHNOLOGY LIMITED
脑洞科技有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2203)

Executive Directors
Mr. Zhang Liang Johnson *(Chairman)*
Ms. Wan Duo

Independent Non-Executive Directors
Mr. Xu Liang
Mr. Chen Johnson Xi
Ms. Zhang Yibo

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

Principal place of business in Hong Kong
Office A, 31st Floor
Billion Plaza II
10 Cheung Yue Street
Cheung Sha Wan,
Kowloon
Hong Kong

30 July 2019

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE EQUITY INTEREST OF GUANGZHOU WEAVING AND NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the Acquisition Announcement, pursuant to which, among other things, the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the Sale Shares, which represent the entire equity interest of the Target at the maximum Consideration of RMB68.0 million in cash (equivalent to approximately HK$78.2 million) which is subject to adjustments at Completion.

On 5 March 2019 (after trading hours of the Stock Exchange), the Purchaser, Guangzhou Chong Dong and the Target entered into the Acquisition Agreement, pursuant to which, among other things, the Purchaser conditionally agreed to acquire and Guangzhou Chong Dong conditionally agreed to sell the Sale Shares, which represents the entire equity interest of the Target as at the Completion Date, at the Consideration of RMB68.0 million in cash (equivalent to approximately HK$78.2 million) which is subject to adjustments. Upon Completion, members of the Target Group will become an indirect wholly-owned subsidiaries of the Company.

The purpose of this circular is to provide the Shareholders with, among other things, (i) the details of the Acquisition Agreement and the transactions contemplated thereunder; (ii) further information of the Group and the Target Group; (iii) the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Acquisition Agreement and the transactions contemplated thereunder; (iv) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Acquisition Agreement and the transactions contemplated thereunder; (v) other information as required under the Listing Rules; and (vi) a notice of EGM.

Details of the principal terms and conditions of the Acquisition Agreement are set out below:

THE ACQUISITION AGREEMENT

Date

5 March 2019

Parties:	(i)	the Purchaser:	Brainhole Technology Investments Limited
	(ii)	the Vendor:	Guangzhou Chong Dong, the legal and beneficial owner of the entire equity interest in the Target as at the Latest Practicable Date
	(iii)	the Target:	Guangzhou Weaving Communications Telecommunications Technology Limited

Guangzhou Chong Dong is wholly beneficially owned by Mr. Zhang, the chairman and an executive Director, as at the Latest Practicable Date. Guangzhou Chong Dong is therefore regarded as a connected person of the Company under Chapter 14A of the Listing Rules.

Subject matter

Pursuant to the Acquisition Agreement, the Purchaser conditionally agreed to acquire, and Guangzhou Chong Dong conditionally agreed to sell, the Sale Shares. The Sale Shares shall represent the entire equity interest of the Target as at the Completion Date. Details of the Target Group are set out in the section headed "Information on the Target Group" below.

Consideration

The Consideration of RMB68.0 million (equivalent to approximately HK$78.2 million) (subject to adjustments as described under the paragraphs headed "Profit guarantee" below) shall be paid by the Purchaser (or its nominee(s)) to Guangzhou Chong Dong (or its nominee(s)) on the Payment Date. The Company expects that approximately 50% and 50% of the Consideration will be funded by internal resource and external financing, respectively. Having considered that (i) the current bank and cash balances of the Group are approximately HK$40.0 million as at the Latest Practicable Date; and (ii) the Consideration shall be paid after the issuance of the audited report of the Target for the financial year ending on 31 December 2019, the Company is confident that there will be sufficient internal resource for at least 50% of the Consideration at the relevant payment date. Further, the Company is still in discussion with various parties in relation to the external financing, including but not limited to debt financing or equity financing, and has not entered into any definite agreement as at the Latest Practicable Date. The Company expects to obtain the external funding (either debt or equity financing) by early 2020. In the event the Company fails to obtain external financing, the Vendor agreed to (by itself or through its related parties) make available unsecured interest-free loan(s) to the Group for the aforesaid purpose.

The Consideration was determined after arm's length negotiations between the Purchaser and Guangzhou Chong Dong with reference to, among other things, the preliminary valuation of the Target Group as at 31 October 2018 (the "**Preliminary Valuation**"), which ranges from RMB62.0 million (equivalent to approximately HK$71.3 million) to RMB74.0 million (equivalent to approximately HK$85.1 million), as prepared by the Independent Valuer based on market approach. Such range was arrived by the Independent Valuer having taken into account various factors including but not limited to (i) the valuation multiple (i.e. profit to earning ratio) of the selected comparable companies set out below in the similar industry as the Target Group; (ii) control premium of 5%; and (iii) discount for lack of marketability of 28%.

List of comparable companies

	Company Name	Stock code	Market capitalisation (HK$ million)	Principal activities	P/E Multiple (rounded)
Smart home and smart community industry					
1	Teamax Smart City Technology Corp Ltd.	000662 CH	8,810	Provides services on the planning, construction and operation of smart city	14.67
2	Shanghai Yanhua Smartech Group Co., Ltd.	002178 CH	3,034	Provides professional planning, consulting, design, construction, integration and service of artificial intelligent architecture systems	39.32
3	Zhejiang Dahua Technology Co., Ltd.	002236 CH	37,506	Provides video-centric intelligent Internet of things solutions and operation services	12.53
4	Taiji Computer Corporation Ltd.	002368 CH	12,911	Provides industry-specific solution, IT consulting, value-added services, and IT infrastructure services	36.47
5	Shenzhen Das Intellitech Co., Ltd	002421 CH	7,698	Provides smart information technology solutions for transportation network, healthcare and buildings	24.68
6	Shenzhen Sunwin Intelligent Co., Ltd.	300044 CH	5,330	Provides intelligent system solutions for the transportation and construction industry	21.96
7	Beijing eGOVA Co., Ltd.	300075 CH	4,846	Provides solutions in the digital city management, innovation and social management, intelligent transportation, and safe city fields in the PRC	21.95
8	Guangdong Anjubao Digital Technology Co., Ltd	300155 CH	2,572	Researches, designs, produces, sells and provide services on building intercom systems, intelligent home systems and burglar alarm systems	58.41
9	Wonders Information Co., Ltd.	300168 CH	12,940	Operates smart health, smart social security, wisdom education, city of peace, cultural tourism, e-government, market supervision, etc	29.40
10	Beijing E-Hualu Information Technology Co., Ltd	300212 CH	10,921	Operates intelligent transportation systems application, including software development, data mining and decision support, and producing intelligent transport and professional security products and systems	40.18

	Company Name	Stock code	Market capitalisation (HK$ million)	Principal activities	P/E Multiple (rounded)
11	Beijing Philisense Technology Co., Ltd.	300287 CH	6,825	Provides whole intelligent solutions for conference systems, electronic government information management systems, intelligent building and integrated business information systems	17.70
12	Beijing Watertek Information Technology Co., Ltd.	300324 CH	18,655	Provides intelligent solutions in the fields of testing/support, taxation access control, smart city, and spatio-temporal big data	33.74
13	Hengfeng Information Technology Co., Ltd.	300605 CH	1,925	Develops smart city solutions such as providing smarter buildings and incorporating software and hardware into structures to provide enhancement of people's lives and public safety	38.65
14	PCI-Suntek Technology Co., Ltd.	600728 CH	11,301	Provides customer service solutions for telecommunication service providers, banks, and securities firms	34.72
15	Linewell Software Co., Ltd.	603636 CH	5,008	Develops social management and public service systems, information technology products, and industrial applications support systems	21.77
Broadband infrastructure construction industry					
16	GCI Science & Technology Co., Ltd.	002544 CH	6,455	Provides communication system and integrated network engineering, network covering equipment, network access equipment and communication systems and equipment	25.12
17	Lootom Telcovideo Network Wuxi Co. Ltd.	300555 CH	1,666	Designs, produces, and offers communication, management, and broadcasting equipment, as well as maintenance, supporting, and other services	47.15
18	Hengtong Optic-Electric Co., Ltd.	600487 CH	34,967	Operates as an optical fiber and optical cable manufacturer and solutions provider. The company produces communication optical fibers, electricity fibers, rail transit cables, and more	11.47

Total number of selected comparable publicly listed companies in the PRC: 18

The range of the P/E multiple of the comparable companies:	11.47x to 58.41x
Lower quartile of the P/E multiple of the comparable companies (rounded):	21.81x
Annualised net profit of the Target Group for 2018 (based on the net profit for the 10 months ended on 31 October 2018):	RMB4.1 million
(Lower quartile of the P/E multiple) x (Annualised net profit of the Target Group):	RMB89.4 million
Add: control premium (5%)	RMB4.5 million
	RMB93.9 million
Less: discount of lack of marketability (28%)	(RMB26.3 million)
Implied market value of the Target Group	RMB67.6 million
Implied market value of the Target Group (rounded)	RMB68 million
Implied P/E multiple of the Target Group (Based on the unaudited consolidated net profit of the Target Group of approximately RMB4.9 million for the year ended 31 December 2018)	13.87x

The preliminary valuation range as at 31 March 2019 ranged from approximately RMB72 million (equivalent to approximately HK$82.8 million) to RMB80 million (equivalent to approximately HK$92.0 million) of the Target Group is not lower than the preliminary valuation of the Target Group as at 31 October 2018. Please view below the selection criteria and key assumptions of the Preliminary Valuation are set out as follows:

Selection criteria

(i) the selected companies are publicly listed companies in the PRC and principally engaged in provision of integrated solution for smart communities, smart cities projects or broadband infrastructure construction for residential properties;

(ii) the principal geographic operation of the selected companies are located in the PRC; and

(iii) the profit margins of the comparable companies did not deviate much from the Target Group.

Based on the above 3 selection criteria, the Independent Valuer considered that the comparable companies share sufficient similarities to the underlying business of the Target Group so as to provide a meaningful comparison.

Key assumptions

(i) the lower quartile multiple, which is the lower 25% of the comparable companies, assumed to reflect a fair and objective market expectation on the Target Group as net profit margin of the Target Group is between the lower quartile and median of the net profit margin of the comparable companies;

(ii) the lack of marketability discount of 28%, determined based on a professional valuation database which is commonly applied for companies similar to the Target Group, reflects the fact that there is no ready market for shares of the Target Group; and

(iii) the control premium of 5%, with reference to a professional valuation reference book which is commonly applied for companies similar to the Target Group, reflects the control advantages over the observed minority prices of the comparable companies.

The Board had performed the following work to review the reasonableness of the abovementioned Preliminary Valuation and the underlying basis of computation, assumptions and methodologies as prepared by the Independent Valuer:

(i) interviewed the Independent Valuer as to its expertise and independence and had obtained knowledge about the qualification and experience of the Independent Valuer;

(ii) reviewed the scope of work of the engagement relating to the Preliminary Valuation as to its appropriateness and whether there are any limitations on the scope of work which might have an adverse impact on the degree of assurance given by the Preliminary Valuation; and

(iii) reviewed and discussed with the Independent Valuer the assumptions used for the Preliminary Valuation and the approaches and basis of computation used by the Independent Valuer and was satisfied with their work performed, including the approaches, assumptions and bases in selecting the comparable companies are appropriate, fair and reasonable.

Having performed the aforesaid work, the Directors consider that the methodology and assumptions used for the Preliminary Valuation are fair and reasonable.

Valtech Valuation Advisory Limited, the Independent Valuer, is a Hong Kong professional third party valuer independent of the Company and its connected persons. Having reviewed the qualification and experience of the Independent Valuer, the Directors are of the view that the Independent Valuer is competent and is a third party independent of the Company and its connected persons (as defined under the Listing Rules).

Taking into consideration that the Consideration is within range of the market value of the Target Group under the Preliminary Valuation, the Board considers that the Consideration is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, the Consideration has not been paid to the Vendor. The expected payment date shall be any Business Days between the date of the issuance of the audited report of the Target for the financial year ending on 31 December 2019 and the tenth Business Day thereafter (solely based on the discretion of the Purchaser and subject to the fulfillment of all conditions precedent). The expected completion date of the audited report of the Target for the financial year ending on 31 December 2019 will be before 31 May 2020.

Indemnity

Under the Acquisition Agreement, the Vendor has granted indemnities in favour of the Purchaser to compensate for any damages or loss arising from events related to, *inter alia*, taxation liability, employment matters, business operation of the Target Group and breach of terms and conditions under the Acquisition Agreement.

Profit guarantee

Pursuant to the Acquisition Agreement, the Vendor has irrevocably warranted and guaranteed to the Purchaser that the aggregate consolidated net profit after tax as shown in the audited reports of the Target Group for the two years ending 31 December 2019 (the "**Aggregate Guaranteed Profit**") shall not be less than RMB10 million. In the event that the actual aggregate consolidated net profit after tax for the year ended 31 December 2018 and the year ending 31 December 2019 (the "**Actual Profit**") does not meet the Aggregate Guaranteed Profit, the Consideration should be adjusted as follows:

$$\text{Adjusted consideration} = \text{RMB68 million} - \frac{(\text{Aggregate Guaranteed Profit} - \text{Actual Profit})}{\text{Aggregate Guaranteed Profit}} \times \text{Consideration}$$

For avoidance of doubt, in the event that the Target Group records net loss for 2018 or 2019, the consolidated net profit after tax for the relevant loss-making year shall be regarded as zero when calculating and adjusting the Consideration. For the purpose of calculating the Aggregate Guaranteed Profit, the profit of the Target Group for the year ended 31 December 2018 would not be offset against any loss incurred by the Target Group for the year ending 31 December 2019. Having considered that (i) the financial performance of the Target Group for the six months ended on 30 June 2019 is similar to the financial performance of the Target Group for the six months ended on 30 June 2018; (ii) the Consideration was within range of the Preliminary Valuation and may be subject to the downward adjustment mechanism; and (iii) the Consideration was capped at RMB68,000,000 and will not be subject to upward adjustment in the event that the Aggregate Guaranteed Profit exceeds the Aggregated Guaranteed Profit for the two years ending 31 December 2019, the adjustment mechanism of the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as the whole.

The Board has assessed the achievability of and determined the Aggregate Guaranteed Profits based on (i) the financial performance of the Target; and (ii) the business prospects of the Target Group. As at the Latest Practicable Date, the Board is not aware of any material adverse change which may affect the achievability of the Aggregate Guaranteed Profit by the Target Group.

In any case, the total Consideration shall not be less than approximately RMB30.3 million (equivalent to HK$34.8 million) (the "**Base Price**"), which is determined with reference to the 2017 audited net asset value of the Target. Having considered that (i) the unaudited consolidated financial statement of the Target Group for the year ended 31 December 2018 as prepared in accordance with the accounting principles generally accepted in the PRC, the Target Group recorded net asset value of approximately RMB44.0 million as at 31 December 2018; and (ii) the Preliminary Valuation, the Board is of the view that the Base Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions precedent

Completion is conditional upon the fulfillment or waiver (as the case may be) of the following conditions:

i. the Purchaser being satisfied, at its sole discretion, with the results of the due diligence review on the Target (if applicable);

ii. all relevant, necessary, internal (including but not limited to the Independent Shareholders' approval) consents, filings and approvals, or any such consents, filings and approvals to be obtained from any third parties (including but not limited to the Stock Exchange, the counterparty(ies) of the Target in any agreements signed before the Completion Date), and from any related governmental organisations, which are required to be obtained on the part of the transaction in respect of the Acquisition Agreement and the transactions contemplated thereunder having been obtained and remaining in full force and effect;

iii. between the date of signing the Acquisition Agreement and the Completion Date, no material adverse effects have occurred or may occur to the Target Group or any of its business licenses; and

iv. the scope of the business licenses of the Target Group have been amended for the purpose of the transaction, such that the business scope of the Target Group does not contain businesses that are prohibited or restricted by the applicable laws of the PRC from having foreign investors to invest in.

With respect to condition precedent (iv) above, it should be noted that the current scope of the business license of the Target Group includes but not limited to mobile telecommunication business agency service, fixed telephone business agency service, fixed broadband business agency service, manufacturing of communication terminal/system equipment, installation of broadcasting television and signal equipment, and engineering service of satellite and common television system, communication system engineering service, building equipment automatic control system engineering service, and installation services of various engineering projects.

Among such scope and subject to the discretion of the local counterparts of the Administration of Industry and Commerce and the Ministry of Commerce when the share transfer procedures are processed, installation of broadcasting television and signal equipment, and engineering service of satellite and common television system may be regarded as prohibited businesses if they are deemed to involve installation of satellite television broadcasting ground receiving facilities, and manufacturing of communication terminal/system equipment may be regarded as restricted business if it is deemed to involve manufacturing of satellite television broadcasting ground receiving facilities or key components, whereas other businesses in the current scope of the business license of the Target Group are not expressly mentioned as prohibited or restricted business to foreign investment pursuant to the Negative List.

The Negative List refers to special administrative measures for access of foreign investment in specific fields in PRC. A foreign investor shall not invest in any field prohibited from foreign investment under the Negative List. A foreign investor shall meet the investment conditions or be subject to specific restrictions (such as shareholding proportion) stipulated under the Negative List for any restricted fields under the Negative List. For fields not mentioned in the Negative List, domestic and foreign investments shall be treated equally. According to the applicable laws of the PRC, the Company is regarded as a foreign investor. As such, the Target Group needs to amend the business scope to continue its business after the Completion, if required.

As at the Latest Practicable Date, the Target Group has not yet commenced the procedures to amend its business scope such that the business scope of the Target Group will no longer include any restricted or prohibited business pursuant to the Negative List, as whether and how to amend such business scope shall be subject to the discretion of the local counterparts of the Administration of Industry and Commerce and the Ministry of Commerce when the share transfer procedures are processed. If such amendment is required, the Company expects the amendment should be able to be completed before 31 August 2019.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Target Group is not currently engaged in any business that is regarded as prohibited or restricted business to foreign investors, including (i) installation of broadcasting television and signal equipment, and engineering service of satellite and common television system that involve installation of satellite television broadcasting ground receiving facilities, and (ii) manufacturing of communication terminal/system equipment that involves manufacturing of satellite television broadcasting ground receiving facilities or key components. Hence the Company believes that the amendment of the scope of the Target Group's business licenses, if required, would not have any impact on the Target Group's ability to continue the operation of its principal businesses.

The Purchaser may at any time at its absolute and sole discretion waive any of the conditions precedent set out above by notice in writing to Guangzhou Chong Dong. Any right of waiver would only be exercised by the Purchaser subject to the extent permissible under applicable laws and regulations including the Listing Rules. From the date of the Acquisition Announcement to the Completion Date, Guangzhou Chong Dong must comply with and procure the Target to strictly abide by the above conditions precedent, unless the Purchaser's prior written consent is obtained.

As at the Latest Practicable Date, none of the above conditions had been fulfilled.

Completion

Completion shall take place on the date on which the new business license of the Target is issued for the purpose of the Completion and change in shareholding is completed (or such other date as the Purchaser and Guangzhou Chong Dong may agree in writing).

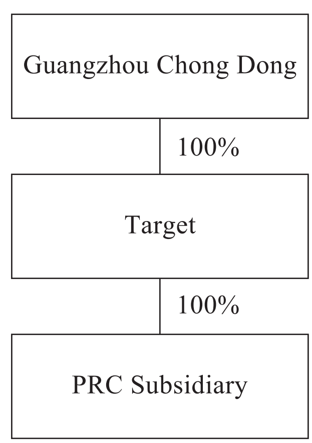
Upon Completion, the Target will become an indirectly wholly-owned subsidiary of the Company and its financial results will be consolidated into the financial statements of the Enlarged Group.

Although a long stop date was not set under the Acquisition Agreement, the Company expects the Acquisition should be able to be completed before 31 August 2019.

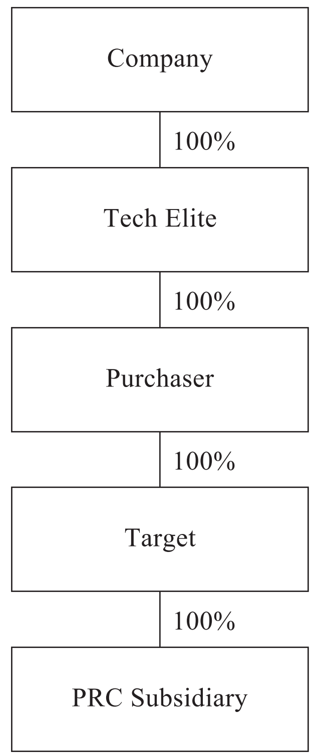
INFORMATION ON THE TARGET GROUP

Group structure

Set out below is the shareholding structure of the Target Group immediately before Completion:



Set out below is the shareholding structure of the Target Group immediately after Completion:



Background of the Target Group

The Target is wholly owned by Guangzhou Chong Dong as at the Latest Practicable Date. The PRC Subsidiary, which is indirectly wholly owned by the Target, is a wholly owned enterprise established in the PRC. The Target Group 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.

After the Completion, the Target Group wishes to expand its business by (i) networking with clients through after-sale services; and (ii) its salespersons located at different regions of the PRC. As at the Latest Practicable Date, the Company has made no commitment to the Target Group.

The service scope of the Target Group involves providing (i) upgrade and maintenance of smart home, smart community and smart city appliances for government, residential properties and public services buildings; and (ii) broadband infrastructure construction to property developers. The Target Group receives one off construction fees, which are paid to the Target Group by instalments according to the progress of the project, from the property developers and government or revenue share from telecom operators. The Target Group aims to be a leading player in the industry in the Greater Bay Area.

The Target was established by Mr. Zhang in June 2015 with a registered capital of RMB 10 million. Since its incorporation, Mr. Zhang has been an ultimate beneficial owner of the Target. As at 24 October 2018 being the date of the memorandum of understanding announcement of the Company, Mr. Zhang was the ultimate beneficial owner of 83.6% equity interest of the Target. As at the Latest Practicable Date, Mr. Zhang is the ultimate beneficial owner of the entire equity interest of the Target following acquisitions of 16.4% equity interest of the Target held by the minority shareholders of the Target at an aggregate consideration of approximately RMB21.6 million (equivalent to approximately HK$24.8 million) from November 2018 to January 2019. As such, the implied valuation of the acquisitions by Mr. Zhang was higher than the Preliminary Valuation conducted by the Independent Valuer.

Customers of the Target Group

The customers of the Target Group include leading telecom operator in the PRC, local government in the PRC and property developers. The Target Group has entered a number of contracts with customers including leading telecom operator in the PRC, local government in the PRC and property developers. The Target Group has entered into sales contracts/agreements with their respective customers in its ordinary course of business. The key terms of such contracts/agreements generally include installation and maintenance of smart home appliances and broadband infrastructure. The Target Group has entered into no less than 200 contracts with various customers and suppliers in which most of the contracts ranges from 12 months to 36 months. As disclosed in the announcements of the Company dated 14 June 2019 (the "**CCT Announcements**"), the Target has entered into the framework agreement with 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, pursuant to which the Target shall provide certain communication construction services for the term from the Completion Date to 31 December 2021 (the "**Construction Services Framework Agreement**"). For further details, please refer to the CCT Announcements.

Suppliers of the Target Group

The suppliers of the Target Group include smart house appliances producers, fiber optic and other broadband infrastructure relating companies. The Target Group has entered a number of framework agreements with the suppliers. The Target Group will enter into separate contracts with the suppliers including unit price of products, quantity and timing of delivery after the Target Group enters into contracts with its customers.

Financial information of the Target Group

Set out below is the unaudited financial information of the Target Group for each of the two financial years ended 31 December 2017 and 2018 as prepared in accordance with the accounting principles generally accepted in the PRC:

	For the year ended 31 December	
	2017	**2018**
	(RMB '000)	*(RMB '000)*
	(unaudited)	(unaudited)
Profit before taxation	3,817	5,711
Profit after taxation	2,979	4,864

The unaudited net asset value of the Target Group amounted to approximately RMB44.0 million (equivalent to approximately HK$50.6 million) as at 31 December 2018.

REASONS FOR AND BENEFITS OF THE ACQUISITION

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.

The Group has been looking for opportunity for diversifying and proactively seeking potential investment opportunities.

Market overview of the industry of the Target Group

According to the 2018 China's Smart Home Report published by iResearch the smart home appliance market scale will grow from approximately RMB261 billion to approximately RMB582 billion from 2016 to 2020 with an average annual growth rate of approximately 22% per year. Further, according to the Nation Bureau of Statistics in the PRC, the construction areas of residential houses were approximately 5,151 million square meters, 5,116 million square meters and 5,213 million square meters for 2014 to 2016, respectively, whilst the completed area of residential houses were approximately 809 million square meters, 738 million square meters and 772 million square meters for the same respective years. Having considered that the residential construction area and completed area in the PRC have remained at a high level, resulting in a large number of housing stocks that creates demand for the aftermarket, the Directors are of the view that market overview of the Target Group has a promising future.

As smart living including smart home solutions and smart city services has become increasingly popular, the Company believes there to be potential for growth of smart living-related business. As such, the Company is focusing on the business opportunities in development of technology applications around smart living and smart cities related business, including by way of acquisition. In light of the business prospects and experienced management team of the Target Group, the Company is confident that the Acquisition will allow the Group to capture the opportunities arising from the potential growth in smart living related business.

In addition to smart living related business, the Target Group which is located in the Greater Bay Area aims to be a leading player in the industry in the region. Having considered the future development of the Greater Bay Area, the Company considers that the Acquisition is in line with the Group's business diversification strategy and represents an attractive investment opportunity of the Group to tap into the smart living-related business in the Greater Bay Area with growth potential and to generate diversified income and additional cashflow through the Acquisition.

Relevant experience in the industry of the Target Group

As disclosed in the annual report of the Company for the year ended 31 December 2018, Mr. Zhang is a director of Seedland Construction Holdings Limited, a company incorporated in Hong Kong on 15 July 2008 with limited liability which, through its subsidiaries, principally engaged in real estate business. Having considered that (i) Mr. Zhang has more than 10 years of experience in the real estate business; and (ii) Mr. Zhang established the Target in June 2015 and oversees the operation of the Target Group since establishment, the Directors consider that the Company has the necessary expertise and relevant experience in the business of the Target Group. As at the Latest Practicable Date, the Company has no intention to introduce any major changes to the board of directors and key management of the Target Group.

In light of the aforesaid, the Board (including the independent non-executive Directors after taking into account the advice of the Independent Financial Adviser) considers that the terms of the Acquisition Agreement are fair and reasonable, and that the entering into of the Acquisition Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

GENERAL

As at the Latest Practicable Date, the Company has no intention or plan, or has entered into or proposed to enter into any agreement, arrangement, undertaking or negotiation to acquire any new businesses or dispose its existing businesses.

LISTING RULES IMPLICATIONS

As all of the applicable percentage ratios in respect of the Acquisition are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is therefore subject to the reporting and announcement requirements pursuant to Chapter 14 of the Listing Rules.

Guangzhou Chong Dong is wholly beneficially owned by Mr. Zhang, the chairman and an executive Director. Yoho Bravo, a company which is wholly owned by Mr. Zhang, is interested in approximately 75.0% of the issued share capital of the Company as at the Latest Practicable Date and is therefore the controlling shareholder of the Company. Accordingly, Guangzhou Chong Dong is regarded as a connected person of the Company under Chapter 14A of the Listing Rules, and the transactions contemplated under the Acquisition Agreement constitute a connected transaction of the Company under Chapter 14A of the Listing Rules, and is subject to reporting, announcement and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save for Mr. Zhang, no Shareholder has any material interest in the Acquisition Agreement and the transactions contemplated thereunder. Mr. Zhang will abstain from voting at the EGM to be convened to consider, and if thought fit, to approve the Acquisition Agreement and the transactions contemplated thereunder. Save for the foregoing, no other Shareholder is required to abstain from voting on the resolution(s) in respect of the Acquisition Agreement and the transactions contemplated thereunder at the EGM.

EGM

The Independent Board Committee, comprising of all the independent non-executive Directors, has been established to advise and provide recommendations to the Independent Shareholders on the voting in respect of the transactions contemplated under the Acquisition Agreement and the transactions contemplated thereunder. In this connection, the Company has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Acquisition Agreement and the transactions contemplated thereunder are fair and reasonable insofar as the Company and the Independent Shareholders are concerned and the entering into of the Acquisition Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on the voting in respect of the transactions contemplated under the Acquisition Agreement.

The EGM will be convened for considering, and if thought fit, approving the Acquisition Agreement and the transactions contemplated thereunder. The notice of EGM is set out on pages 58 to 59 of this circular. The voting on resolution will be conducted by way of poll in accordance with Rule 13.39(4) of the Listing Rules.

A proxy form is enclosed with this circular for Shareholders' use at the EGM. Whether or not you are able to attend the EGM, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon, and return it to the office of Tricor Investor Services Limited, the branch share registrar of the Company in Hong Kong, 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 holding the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjournment thereof in person should you so wish.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 24 of this circular, which contains its recommendation to the Independent Shareholders in relation to the Acquisition Agreement and the transactions contemplated thereunder, and the letter from the Independent Financial Adviser set out on pages 25 to 52 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in this regard.

The Board (including the independent non-executive Directors whose recommendation is set out in the letter from the Independent Board Committee) considers that the terms of the Acquisition Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and that the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

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

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

BRAINHOLE TECHNOLOGY LIMITED
脑洞科技有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2203)

30 July 2019

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE EQUITY INTEREST OF GUANGZHOU WEAVING

We refer to the circular of the Company dated 30 July 2019 (the "**Circular**") of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein shall have the same meaning as defined in the Circular.

We have been appointed by the Board as the members of the Independent Board Committee to advise the Independent Shareholders in connection with the Acquisition Agreement and the transactions contemplated thereunder. First Shanghai has been appointed as the Independent Financial Adviser to advise us in this respect. We wish to draw your attention to the letter from the Board and the letter from the Independent Financial Adviser as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser as set out in its letter of advice, we consider that the terms of the Acquisition Agreement and the transactions contemplated thereunder are not in the ordinary and usual course of business of the Company but are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and that the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of the Independent Board Committee
Brainhole Technology Limited

Xu Liang	**Chen Johnson Xi**	**Zhang Yibo**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the full text of the letter of advice from First Shanghai to the Independent Board Committee and the Independent Shareholders setting their opinion regarding the conditional acquisition of the entire equity interest of the Guangzhou Weaving pursuant to the Acquisition Agreement, prepared for the purpose of inclusion in this circular.

第一上海
FIRST SHANGHAI GROUP
FIRST SHANGHAI CAPITAL LIMITED
第 一 上 海 融 資 有 限 公 司
19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

30 July 2019

To the Independent Board Committee and
the Independent Shareholders

Brainhole Technology Limited
Office A, 31st Floor, Billion Plaza II
10 Cheung Yue Street
Cheung Sha Wan
Kowloon
Hong Kong

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE EQUITY INTEREST OF GUANGZHOU WEAVING

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the discloseable and connected transaction regarding the conditional acquisition of the entire equity interest of the Guangzhou Weaving pursuant to the Acquisition Agreement, details of which are contained in the circular to the Shareholders dated 30 July 2019 (the "**Circular**"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 5 March 2019, the Purchaser (an indirectly wholly-owned subsidiary of the Company), Guangzhou Chong Dong and the Target entered into the Acquisition Agreement, pursuant to which, among other things, the Purchaser conditionally agreed to acquire and Guangzhou Chong Dong conditionally agreed to sell the Sale Shares, which shall represent the entire equity interest of the Target as at the Completion Date, at the Consideration of RMB68.0 million in cash (equivalent to approximately HK$78.2 million) which is subject to adjustments.

IMPLICATIONS UNDER THE LISTING RULES

As all of the applicable percentage ratios in respect of the Acquisition are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is therefore subject to reporting and announcement requirements pursuant to Chapter 14 of the Listing Rules.

Guangzhou Chong Dong is wholly beneficially owned by Mr. Zhang, the chairman and an executive Director, as at the Latest Practicable Date. Accordingly, Guangzhou Chong Dong is regarded as a connected person of the Company under Chapter 14A of the Listing Rules and the transactions contemplated under the Acquisition Agreement constitute a connected transaction of the Company under Chapter 14A of the Listing Rules, and is subject to reporting, announcement and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Mr. Zhang and his associates will abstain from voting at the EGM to be convened to consider, and if thought fit, to approve the Acquisition Agreement and the transactions contemplated thereunder.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save for Mr. Zhang, no Shareholder has any material interest in the Acquisition Agreement and the transactions contemplated thereunder.

Mr. Zhang will abstain from voting at the EGM to be convened to consider, and if thought fit, to approve the Acquisition Agreement and the transactions contemplated thereunder. Save for the foregoing, no other Shareholder is required to abstain from voting on the resolution(s) in respect of the Acquisition Agreement and the transactions contemplated thereunder at the EGM.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all of the independent non-executive Directors, namely Mr. Xu Liang, Mr. Chen Johnson Xi and Ms. Zhang Yibo, has been established to advise the Independent Shareholders as to (i) whether the terms of the Acquisition Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, conducted on normal commercial terms or better and in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole; and (ii) give a recommendation to the Independent Shareholders in respect of the voting on the ordinary resolutions to be proposed at the EGM.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were not aware of any relationships or interests between the Company and First Shanghai during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to First Shanghai's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR ADVICE

In arriving at our recommendation, we have relied on the information and facts provided by the Company and have assumed that any representations made to us are true, accurate and complete. We have also relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company (the "**Management**"). We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and the Management, for which they are solely responsible for, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

We consider that we have (i) obtained and reviewed all information and documents of the Group and the Target Group relevant to an assessment of the fairness and reasonableness of the terms of the Acquisition including but not limited to, the duly signed Acquisition Agreement, copies of the business licences of the Target and Vendor, the audited financial statements of the Target and the PRC Subsidiary for each of the two FYs 2017 and 2018, the unaudited consolidated financial statements of the Target Group for the FY 2018 and the five months ended 31 May 2019; (ii) researched the relevant market and other conditions and trends relevant to the pricing of the Acquisition including the annual reports of each of 18 Comparables for their latest full FY and their share price information as quoted on the relevant stock exchanges in the PRC; (iii) reviewed the fairness, reasonableness and completeness of any assumptions or projections relevant to the Acquisition; and (iv) reviewed the opinions and the Preliminary Valuations relevant to the Acquisition provided by the Independent Valuer. Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Acquisition, as referred to in Rule 13.80 of the Listing Rules (including the notes thereto).

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular while the omission of which would make any such statement contained in the Circular misleading. We consider that we have been provided with sufficient information to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstances which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations while the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and the Management, nor have we conducted an independent investigation into the business and affairs of the Group, the Target Group and Guangzhou Chong Dong.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation regarding the Acquisition under the Acquisition Agreement, we have taken into consideration the following principal factors:

(I) THE ACQUISITION UNDER THE ACQUISITION AGREEMENT

1. Background of the Group

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.

2. Financial information on the Group

Overview

The Group's business operations in terms of turnover have been growing while its net profit had also grown up to the financial year ended 31 December (the "**FY(s)**") 2016, and then began to decline thereafter for the two FYs 2017 and 2018. For the FY 2018, the Group had a relatively lower net profit of approximately HK$34.6 million, mainly because of its overall gross profit margin had decreased obviously from approximately 33.3% to 26.1% between the two FYs 2017 and 2018. Despite the Group's declining operating performance in terms of net profit, the Group had a relatively stronger net current asset position coupled with a debt-free position as at 31 December 2018. The Group did not have interest-bearing borrowings, and hence no gearing position as at 31 December 2017 and 2018.

Review of operating performance

Set out below is a summary of the audited consolidated financial information of the Group for the two FYs 2017 and 2018 as extracted from the annual report of the Company for the FY 2018 (the "**2018 Annual Report**"):

	For the year ended 31 December	
	2017	**2018**
	HK$'000	*HK$'000*
Turnover	305,513	348,255
Cost of sales	(203,842)	(257,468)
Gross profit	101,671	90,787
Gross profit margin	33.3%	26.1%
Profit before tax	57,789	38,798
Profit for the year	45,354	34,643
Net profit margin	14.8%	9.9%

As extracted from the 2018 Annual Report, in order to diversify the Group's business and broaden the source of income of the Group, it has been proactively seeking potential investment opportunities. As smart living including smart home solutions and smart city services has become increasingly popular, the Group believes that the growth of the smart living business is promising. As such, the Group is proactively expanding its business development effort in technology applications around smart living and smart cities related business.

Following the change of control in the Company in April 2018, in light of the further development of the business of the Group and with a view to providing the Company with a more appropriate corporate identity and strategic direction, the Company's name had been changed to "Brainhole Technology Limited (脑洞科技有限公司)". The Company confirms that it currently does not have any intention or plan, or has entered into or proposed to enter into any agreement, arrangement, undertaking or negotiation to acquire any new businesses or disposed of its existing businesses.

For the FY 2018, the Group recorded turnover of approximately HK$348.3 million (2017: approximately HK$305.5 million), representing an increase of approximately 14.0% when compared to the previous FY 2017. Such increase was primarily attributable to the increase in the sales of the Group's trading segment as a result of customers purchasing proportionately more products sourced by the Group from third party suppliers during the FY.

Due to the proportionately higher rate of increase in costs of sales than the increase in turnover, the Group's gross profit for the FY 2018 was approximately HK$90.8 million, decreased by approximately 10.7% when compared to that of approximately HK$101.7 million for the FY 2017. The Group's gross profit margin also exhibited an obvious decrease from approximately 33.3% for the FY 2017 to 26.1% for the FY 2018, which was primarily attributable to a decrease in the gross profit margin in the sales of the Group's self-manufactured products due to rising material cost.

As a result of the foregoing, the Group's net profit after tax for the FY 2018 was approximately HK$34.6 million, representing a decrease of approximately 23.8% when compared to that of approximately HK$45.4 million for the FY 2017. Given the sharp increase in material costs and research and development expenses during the FY 2018, the net profit margin of the Group for the FY 2018 had decreased from approximately 14.9% for the FY 2017 to approximately 9.9% for the FY 2018.

Review of financial position

Set out below is the summary of the consolidated financial position of the Group as at 31 December 2017 and 2018 as extracted from the 2018 Annual Report:

	As at 31 December	
	2017	**2018**
	HK$'000	*HK$'000*
Non-current assets	136,915	159,270
Current assets	180,343	177,951
Total assets	317,258	337,221
Non-current liabilities	70	1,539
Current liabilities	67,406	58,187
Total liabilities	67,476	59,726

	As at 31 December	
	2017	**2018**
	HK$'000	*HK$'000*
Equity attributable to the owners of the Company	249,782	277,495
Bank balances and cash	42,135	39,868
Net current assets	112,937	119,764
Current ratio	2.7 times	3.1 times
Net gearing ratio	Nil	Nil
Operating cash inflow before movements in working capital	72,693	56,119
Net cash flows from operating activities	24,359	38,971
Net cash flows (used in) investing activities	(61,434)	(46,475)
Net cash flows from financing activities	325	4,553

As at 31 December 2018 versus 31 December 2017

As at 31 December 2018, the Group had current assets of approximately HK$178.0 million (2017: approximately HK$180.3 million), and current liabilities of approximately HK$58.2 million (2017: approximately HK$67.4 million), representing net current asset position and current ratio of approximately HK$119.8 million (2017: approximately HK$112.9 million) and 3.1 times (2017: approximately 2.7 times), respectively. The Group's current ratio was well above 1.0 times as at 31 December 2018 and 2017, indicating that the Group's liquidity was strong enough. As at 31 December 2018, the Group had bank balances and cash of approximately HK$39.9 million (2017: approximately HK$42.1 million).

The Group had no interest-bearing borrowings as at 31 December 2017 and 2018, and hence no gearing level as at the both year-end dates.

Conclusion

Having considered that (i) the Group has been operating profitably for at least five consecutive FYs though there was a declining trend starting from the FY 2017; (ii) the Group had strong net current asset positions as at 31 December 2017 and 2018; (iii) the Group did not have gearing positions in the recent years; and (iv) the Group had strong capability to generate operating cash inflow over at least the past FYs from 2016 to 2018, we consider that it is justifiable for the Group to conduct business diversification to improve its profitability, business prospects and outlook in the longer term, but it yet needs adequate funding to facilitate its business development and/or expansion.

3. Reasons for and benefits of the Acquisition

As mentioned in the "Letter from the Board" of the Circular, 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.

The Group has been looking for opportunity for diversifying and proactively seeking potential investment opportunities.

Market overview of the industry of the Target Group

According to the 2018 China's Smart Home Report published by iResearch, the smart home appliance market scale will grow from approximately RMB261 billion to RMB582 billion from 2016 to 2020 with an average annual growth rate of approximately 22% per year. Further, according to the National Bureau of Statistics in the PRC, the construction areas of residential houses were approximately 5,151 million square meters, 5,116 million square meters and 5,213 million square meters for 2014 to 2016, respectively; whilst the completed area of residential houses were approximately 809 million square meters, 738 million square meters and 772 million square meters for the same respective years. Having considered that the residential construction area and completed area in the PRC have remained at a high level, resulting in a large number of housing stocks that creates demand for the aftermarket, the Directors are of the view that market overview of the Target Group has a promising future.

As smart living including smart home solutions and smart city services has become increasingly popular, the Company believes there to be potential for growth of smart living-related business. As such, the Company is focusing on the business opportunities in development of technology applications around smart living and smart cities related business, including by way of acquisition. In light of the business prospects and experienced management team of the Target Group, the Company is confident that the Acquisition will allow the Group to capture the opportunities arising from the potential growth in smart living related business.

In addition to smart living related business, the Target Group which is located in the Greater Bay Area aims to be a leading player in the industry in the region. Having considered the future development of the Greater Bay Area, the Company considers that the Acquisition is in line with the Group's business diversification strategy and represents an attractive investment opportunity of the Group to tap into the smart living-related business in the Greater Bay Area with growth potential, and to generate diversified income and additional cash flow through the Acquisition.

Relevant experience in the industry of the Target Group

As disclosed in the 2018 Annual Report, Mr. Zhang is a director of Seedland Construction Holdings Limited, a company incorporated in Hong Kong on 15 July 2008 with limited liability which, through its subsidiaries, principally engaged in real estate business. Having considered that (i) Mr. Zhang has more than 10 years of experience in the real estate business; and (ii) Mr. Zhang established the Target Group in June 2015 and oversees the operation of the Target Group since establishment, the Directors consider that the Company has the necessary expertise and relevant experience in the business of the Target Group. As at the Latest Practicable Date, the Company has no intention to introduce any major changes to the board of directors and key management of the Target Group.

In light of the aforesaid, the Board (including the independent non-executive Directors) considers that the terms of the Acquisition Agreement are fair and reasonable, and that the entering into of the Acquisition Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

Having considered that (i) the positive prospect of the provision of smart community and smart city solutions in the PRC; and (ii) the proven profitable and growing operational trend of the Target Group with consolidated net profit of approximately RMB3.0 million and RMB4.9 million for each of the two FYs 2017 and 2018, respectively, representing an annual growth rate of about 63.3% there between, we are of the view that the Acquisition is in line with the business development strategy of the Group, and in the interests of the Company and the Shareholders as a whole. However, we consider that the Acquisition shall be regarded as an investing activity for long-term business development of the Group instead of its ordinary and usual course of business operation; while this business diversification by way of the Acquisition represents a good opportunity for the Group to expand its scale of business operation to a wider geographical coverage.

4. Principal terms and conditions of the Acquisition Agreement

On 5 March 2019, the Purchaser (an indirectly wholly-owned subsidiary of the Company), Guangzhou Chong Dong and the Target entered into the Acquisition Agreement, pursuant to which, among other things, the Purchaser conditionally agreed to acquire and Guangzhou Chong Dong conditionally agreed to sell the Sale Shares, which shall represent the entire equity interest of the Target as at the Completion Date, at the Consideration of RMB68.0 million in cash (equivalent to approximately HK$78.2 million) which is subject to adjustments.

Assets to be acquired

Pursuant to the Acquisition Agreement, the Purchaser conditionally agreed to acquire, and Guangzhou Chong Dong conditionally agreed to sell, the Sale Shares. The Sale Shares shall represent the entire equity interest of the Target as at the Completion Date.

Consideration

The Consideration of RMB68.0 million (equivalent to approximately HK$78.2 million) (subject to adjustments) shall be paid by the Purchaser (or its nominee(s)) to Guangzhou Chong Dong (or its nominee(s)) on the Payment Date. The Company expects that approximately 50% and 50% of the Consideration will be funded by internal resources and external financing, respectively. Having considered that (i) the current bank and cash balances of the Group are approximately HK$40.0 million as at the Latest Practicable Date; and (ii) the Consideration shall be paid after the issuance of the audited report of the Target for the FY 2019, the Company is confident that there will be sufficient internal resource for at least 50% of the Consideration at the relevant payment date. Further, the Company is still in discussion with various parties in relation to the external financing, including but not limited to debt and equity financing, and has not entered into any definite agreement as at the Latest Practicable Date. The Company expects to obtain the external funding (either debt or equity financing) by early 2020. In the event that the Company fails to obtain external financing, the Vendor agreed to (by itself or through its related parties) make available unsecured interest-free loan(s) to the Group for the aforesaid purpose.

As the Payment Date for settlement of the full Consideration shall be between the date of the issuance of the audited report of the Target for the FY 2019 and the tenth Business Day thereafter (solely based on the discretion of the Purchaser and subject to the fulfillment of all conditions precedent), the Purchaser needs not make initial deposit at the time of entering into the Acquisition Agreement or any progress payment prior to the Completion, so payment of the full Consideration will likely take place in May or June 2020. Accordingly, the Group shall have sufficient time to arrange funding for the Consideration in the coming one year, and therefore would not exert considerable pressure to the working capital of the Group at that time, and therefore is beneficial to the Purchaser, in the interests of the Group and the Shareholders as a whole.

The Consideration was determined after arm's length negotiations between the Purchaser and Guangzhou Chong Dong with reference to, among other things, the preliminary valuation of the Target Group as at 31 October 2018 (the "**Preliminary Valuation**"), which ranges from RMB62.0 million (equivalent to approximately HK$71.3 million) to RMB74.0 million (equivalent to approximately HK$85.1 million), as prepared by the Independent Valuer. There was no formal valuation report issued by the Independent Valuer at that time. Please refer to the "Letter from the Board" of the Circular for the key assumptions of the Preliminary Valuation adopted by the Independent Valuer. We have independently reviewed, among others, the valuation methodology, selection criteria of the Comparables (as defined below), the list of the Comparables and the key assumptions adopted in the Preliminary Valuation. Having considered that (i) the valuation methodology (i.e. the market approach) and the selection criteria are focusing on the similar industry to that of the Target Group in the PRC; (ii) control premium of 5% and discount for lack of marketability of 28% have been taken into consideration, which are normal practice for companies similar to the Target Group based on our discussion with and clarification from the Independent Valuer; and (iii) the valuation multiple (i.e., profit to earnings ratio) is generally used to evaluate the value of an enterprise from its operating performance in the overall market and suitable for comparison among different companies with positive net profit growth, it is appropriate, fair and reasonable for the Independent Valuer to adopt such market approach and selection criteria in the Preliminary Valuation. We have further assessed the opinions and conclusion in the Preliminary Valuation relevant to the Acquisition provided by the Independent Valuer by comparing with the data/ information collected on our own through other public channels/websites subsequent to 31 October 2018, where we have checked the valuation multiple (i.e. price to earnings ratio), market capitalisation, and other relevant information of the Comparables and found out the resultant P/E Ratio represented by the Consideration at approximately 13.6 times or 14.0 times fell into the range of P/E Ratio of the Comparables. In addition, we have performed analysis on all of the Comparables and please refer to below the "6. Comparables of the price-to-earning ("P/E Ratio") in the similar industry" of this letter for the details. As such, we consider the opinions and conclusions in the Preliminary Valuation to be appropriate, fair and reasonable for the Management's reference in determining the Consideration at the time of entering into the Acquisition Agreement.

Taking into consideration that the Consideration is within range of the market value of the Target Group under the Preliminary Valuation, the Board considers that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Indemnity

Under the Acquisition Agreement, the Vendor has granted indemnities in favour of the Purchaser to compensate for any damages or loss arising from events related to, *inter alia*, taxation liability, employment matters, business operation of the Target Group and breach of terms and conditions under the Acquisition Agreement.

Profit guarantee

Pursuant to the Acquisition Agreement, the Vendor has irrevocably warranted and guaranteed to the Purchaser that the aggregate consolidated net profit after tax as shown in the audited reports of the Target Group for the two years ending 31 December 2019 (the "**Aggregate Guaranteed Profit(s)**") shall not be less than RMB10 million. In the event that the actual aggregate consolidated net profit after tax for the two FYs 2018 and 2019 (the "**Actual Profit**") does not meet the Aggregate Guaranteed Profit, the Consideration should be adjusted as follows:

$$\text{Adjusted consideration} = \text{RMB68 million} - \frac{(\text{Aggregate Guaranteed Profit} - \text{Actual Profit})}{\text{Aggregate Guaranteed Profit}} \times \text{Consideration}$$

For avoidance of doubt, in the event that the Target Group records net loss for the FYs 2018 or 2019, the consolidated net profit after tax for the relevant loss-making year shall be regarded as zero when calculating and adjusting the Consideration. For the purpose of calculating the Aggregate Guaranteed Profit, the profit of the Target Group for the FY 2018 would not be offset against any loss incurred by the Target Group for the FY 2019, so as to ascertain whether or not the Aggregated Guaranteed Profit of RMB10.0 million can be achieved and the consideration adjustment mechanism would be triggered. Having considered that (i) the financial performance of the Target Group for the six months ended on 30 June 2019 is similar to that for the six months ended on 30 June 2018; (ii) the Consideration was within range of the Preliminary Valuation and may be subject to the downward adjustment mechanism; and (iii) the Consideration was capped at RMB68,000,000 and will not be subject to upward adjustment in the event that the Aggregate Guaranteed Profit exceeds the Aggregated Guaranteed Profit for the two FYs 2018 and 2019, the adjustment mechanism of the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole. We concur with the Directors' view in this regard.

The Board has assessed the achievability of and determined the Aggregate Guaranteed Profit based on (i) the financial performance of the Target; and (ii) the business prospects of the Target Group. As at the Latest Practicable Date, the Board is not aware of any material adverse change which may affect the achievability of the Aggregate Guaranteed Profit by the Target Group.

Based on our independent review of the unaudited consolidated financial statements of the Target Group prepared for the FY 2018 in accordance with the PRC GAAPs, it had recorded unaudited consolidated (i) revenue of RMB45.1 million and RMB52.8 million for each of the two FYs 2017 and 2018, respectively, representing an increase of approximately 17.0% between the two FYs; and (ii) net profit of approximately RMB3.0 million and RMB4.9 million for each of the two FYs 2017 and 2018, respectively, representing an annual growth rate of about 63.3% there between, of which, the net profit of approximately RMB4.9 million for the FY 2018 was very close to the average Aggregated Guaranteed Profit of RMB5.0 million for one FY. On such basis, we are of the view that the Aggregated Guaranteed Profit of RMB10.0 million for two FYs 2018 and 2019 (i.e. an average RMB5.0 million for each FY) shall not be unrealistic and unachievable for the Target Group, and therefore are fair and reasonable.

In any case, the total Consideration shall not be less than approximately RMB30.3 million (equivalent to HK$34.8 million) (the "**Base Price**"), which is determined with reference to the audited net asset value of the Target for the FY 2017. Having considered that (i) the unaudited consolidated financial statement of the Target Group for the FY 2018 as prepared in accordance with the accounting principles generally accepted in the PRC, the Target Group recorded net asset value of approximately RMB44.0 million as at 31 December 2018; and (ii) the Preliminary Valuation conducted by the Independent Valuer, the Board is of the view that the Base Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Based on the unaudited consolidated net profit of approximately RMB4.9 million for the FY 2018 and net asset value of approximately RMB44.0 million as at 31 December 2018, the Management does not anticipate this Base Price mechanism to be applicable on the grounds that the Target Group's financial position up to 31 December 2018 would never be damaged irrespective of whether it would incur a consolidated net loss for the FY 2019. If the Target Group would actually incur a consolidated net loss for the FY 2019, such a net loss would be regarded as zero for calculating the final Consideration and would never affect the consolidated net profit of approximately RMB4.9 million for the FY 2018. Based on such understanding, we are of the view that the original intention of setting the Base Price mechanism was to fix a maximum extent of downward adjustment pursuant to the profit guarantee mechanism, but which would never happen in reality because the Target Group had already recorded a consolidated net profit of approximately RMB4.9 million for the FY2018, which anyway, we consider the rationale behind to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

When we look into the components of the statement of financial position of the Target Group as at 31 December 2018, and noted that its net assets of about RMB44.0 million substantially comprised bank balances of approximately RMB6.1 million, trade receivables of approximately RMB17.0 million, inventory of approximately RMB4.6 million, fixed assets of approximately RMB8.1 million and construction in progress of approximately RMB10.9 million, all of which are concrete assets attributable to the Target Group's current business operations.

Nevertheless, if and only if, the Target Group might incur an unanticipated huge consolidated net loss of, say more than RMB15.0 million, for the FY 2019, its consolidated net asset value would then fall below RMB30.3 million at that time. In such a case, we would rather consider the Base Price mechanism to be unfavourable to the Purchaser, and not fair and reasonable so far as the Independent Shareholders are concerned, and not in the interests of the Company and the Shareholders as a whole on the grounds that there would be serious doubt on the Target Group's earning capability/sustainability whilst the original evaluation basis for the Acquisition in terms of P/E Ratio (as defined below) would no longer be reliable, practicable and meaningful.

Based on the above formulae, we may infer that the consideration adjusting mechanism (i) would only allow the final Consideration to be adjusted downward as if the Target Group could not meet the Aggregate Guaranteed Profit of RMB10 million; hence (ii) would never be adjusted upwards even the Actual Profit would be far above that RMB10 million, which shall be regarded as favourable to the Group, in the interests of the Company and the Shareholders as a whole, fair and reasonable so far as the Independent Shareholders are concerned.

Conditions precedent

Completion is conditional upon the fulfillment or waiver (as the case may be) of the following conditions:

(i) the Purchaser being satisfied, at its sole discretion, with the results of the due diligence review on the Target (if applicable);

(ii) all relevant, necessary, internal (including but not limited to the Independent Shareholders' approval) consents, filings and approvals, or any such consents, filings and approvals to be obtained from any third parties (including but not limited to the Stock Exchange, the counterparty(ies) of the Target in any agreements signed before the Completion Date), and from any related governmental organisations, which are required to be obtained on the part of the transaction in respect of the Acquisition Agreement and the transactions contemplated thereunder having been obtained and remaining in full force and effect;

(iii) between the date of signing the Acquisition Agreement and the Completion Date, no material adverse effects have occurred or may occur to the Target Group or any of its business licenses; and

(iv) the scope of the business licenses of the Target Group have been amended for the purpose of the transaction, such that the business scope of the Target Group does not contain businesses that are prohibited or restricted by the applicable laws of the PRC from having foreign investors to invest in.

As at the Latest Practicable Date, the Target Group has not yet commenced the procedures to amend its business scope such that the business scope of the Target Group will no longer include any restricted or prohibited business pursuant to the Negative List, as whether and how to amend such business scope shall be subject to the discretion of the local counterparts of the Administration of Industry and Commerce and the Ministry of Commerce when the equity transfer procedures are processed. If such amendment is required, the Company expects the amendment should be able to be completed before 31 August 2019.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Target Group is not currently engaged in any business that is regarded as prohibited or restricted business to foreign investors, including (i) installation of broadcasting television and signal equipment, and engineering service of satellite and common television system that involve installation of satellite television broadcasting ground receiving facilities, and (ii) manufacturing of communication terminal/system equipment that involves manufacturing of satellite television broadcasting ground receiving facilities or key components. Hence, the Company believes that the amendment of the scope of the Target Group's business licenses, if required, would not have any impact on the Target Group's ability to continue the operation of its principal businesses.

The Purchaser may at any time at its absolute and sole discretion waive any of the conditions precedent set out above by notice in writing to Guangzhou Chong Dong. Any right of waiver would only be exercised by the Purchaser subject to the extent permissible under applicable laws and regulations including the Listing Rules. From the date of the Acquisition Announcement to the Completion Date, Guangzhou Chong Dong must comply with and procure the Target to strictly abide by the above conditions precedent, unless the Purchaser's prior written consent is obtained. As at the Latest Practicable Date, none of the above conditions have been fulfilled.

Completion

Completion shall take place on the date on which the new business license of the Target is issued for the purpose of the Completion and change in shareholding is completed (or such other date as the Purchaser and Guangzhou Chong Dong may agree in writing).

Upon Completion, the Target will become an indirectly wholly-owned subsidiary of the Company, and its financial results will be consolidated into the financial statements of the Enlarged Group.

Although a long stop date was not set under the Acquisition Agreement, the Company expects that the Acquisition should be able to be completed before 31 August 2019, subject to the actual time required to fulfill the conditions precedent.

5. Background of the Target Group

Business and shareholding background

The Target is wholly owned by Guangzhou Chong Dong as at the Latest Practicable Date. The PRC Subsidiary, which is indirectly wholly owned by the Target, is a wholly owned enterprise established in the PRC.

The Target Group 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.

After the Completion, the Target Group wishes to expand its business by (i) networking with clients through after-sales services; and (ii) its salespersons located at different regions of the PRC. As at the Latest Practicable Date, the Company has made no commitment to the Target Group.

The service scope of the Target Group involves providing (i) upgrade and maintenance of smart home, smart community and smart city appliances for government, residential properties and public services buildings; and (ii) broadband infrastructure construction to property developers. The Target Group receives one off construction fees, which are paid to the Target Group by instalments according to the progress of the projects, from the property developers and government or revenue share from telecom operators. The Target Group aims to be a leading player in the industry in the Greater Bay Area.

The customers of the Target Group include leading telecom operator in the PRC, local government in the PRC and property developers. The Target Group has entered into a number of contracts with customers including leading telecom operator in the PRC, local government in the PRC and property developers. The Target Group has entered into sales contracts/agreements with their respective customers in its ordinary course of business. The key terms of such contracts/agreements generally include installation and maintenance of smart home appliances and broadband infrastructure. The Target Group has entered into no less than 200 contracts with various customers and suppliers in which most of the contracts ranges from 12 months to 36 months. As disclosed in the announcements of the Company dated 14 June 2019 (the "**CCT Announcements**"), the Target has entered into the framework agreement with 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, pursuant to which the Target shall provide certain communication construction services for the term from the Completion Date to 31 December 2021. For further details, please refer to the CCT Announcements.

The suppliers of the Target Group include smart house appliances producers, fiber optic and other broadband infrastructure relating companies. The Target Group has entered into a number of framework agreements with the suppliers. The Target Group will enter into separate contracts with the suppliers including unit price of products, quantity and timing of delivery after the Target Group enters into contracts with its customers.

The Target was established by Mr. Zhang in June 2015 with a registered capital of RMB10 million. Since its incorporation, Mr. Zhang has been an ultimate beneficial owner of the Target. As at 24 October 2018 being the date of the memorandum of understanding announcement of the Company, Mr. Zhang was the ultimate beneficial owner of 83.6% equity interest of the Target. As at the Latest Practicable Date, Mr. Zhang is the ultimate beneficial owner of the entire equity interest of the Target following acquisitions of 16.4% equity interest of the Target held by the minority shareholders of the Target at an aggregate consideration of approximately RMB21.6 million (equivalent to approximately HK$24.8 million) from November 2018 to January 2019. As such, the implied valuation of the acquisitions by Mr. Zhang was higher than the Preliminary Valuation conducted and concluded by the Independent Valuer. On such basis, we may infer that the previous consideration paid by Mr. Zhang per 1% equity interest of the Target shall amount to approximately RMB1.317 million, representing approximately RMB131.7 million for the entire equity interest in the Target as a whole at that time. Accordingly, it may imply that Mr. Zhang would suffer a loss of approximately RMB10.4 million (i.e. RMB68.0 million x 16.4% – RMB21.6 million = RMB10.4 million) on disposal of the 16.4% equity interest previously acquired now attributable to the Acquisition. Based on such understanding, we consider that the Consideration for the Acquisition when compared to the consideration paid by Mr. Zhang to those minority equity-holders for acquiring the 16.4% equity interest therein shall be fair and reasonable, and not prejudicial/detrimental to the interests of the Company and the Independent Shareholders as a whole.

Financial information of the Target Group

Set out below is the audited financial statements of the Target and the unaudited consolidated financial information of the Target Group for each of the two FYs from 2017 to 2018, respectively, as prepared in accordance with the accounting principles generally accepted in the PRC (the "**PRC GAAPs**"), as the PRC Subsidiary was not yet consolidated into the Target Group before the FY2018:

	For the year ended 31 December		**Increase from**
	2017	**2018**	**2017**
	(RMB '000)	*(RMB '000)*	*%*
	(audited)	(unaudited)	
Revenue	45,106	52,790	17.0
Profit before taxation	3,817	5,711	49.6
Profit after taxation	2,979	4,864	63.3

The unaudited consolidated net asset value of the Target Group amounted to approximately RMB44.0 million (equivalent to approximately HK$50.6 million) as at 31 December 2018.

6. Comparables of the price-to-earning ("P/E Ratio") in the similar industry

In order to assess the fairness and reasonableness of the Consideration, we have identified a full population of 18 companies, which (i) were relied upon by the Directors in determining the P/E Ratio at between 13.6 times (i.e. based on the average of the Aggregated Guaranteed Profit of RMB5.0 million for each of the two FYs 2018 and 2019) and 14.0 times (i.e. based on the actual unaudited consolidated net profit of the Target Group of approximately RMB4.9 million for the FY 2018) prior to entering into the Acquisition Agreement between the Purchaser and Guangzhou Chong Dong (the "**Vendor**"); (ii) are engaged in businesses similar to those of the Target Group (i.e. in the provision of integrated solution for smart communities, smart cities projects and broadband infrastructure construction for residential properties (collectively referred as "**Construction Service(s)**")); (iii) their business operations are principally engaged in the PRC; and (iv) the securities of which are listed on the stock exchanges in the PRC (collectively, the "**Comparables**"). Accordingly, we have compared the market statistics of the Comparables with the Consideration.

Name of companies (Stock Code)	Principal business activities	Net profit for the latest full FY *RMB' million*	Closing price as at 5 March 2019 *RMB*	Historical P/E Ratio as at 5 March 2019 *Times*
天夏智慧城市科技股份有限公司(Teamax Smart City Technology Corporation Limited) (000662 CH)	Provision of services on the planning, construction and operation of smart city	574.2	6.81	13.0
上海延華智能科技(集團)股份有限公司 (Shanghai Yanhua Smartech Group Co., Ltd.) (002178 CH)	Provision of professional planning, consulting, design, construction, integration and service of artificial intelligent architecture systems to digital communities	25.2	4.60	130.0
浙江大華技術股份有限公司(Zhejiang Dahua Technology Co., Ltd.) (002236 CH)	Research, design and manufacture of security and surveillance equipments, and modular-design both hardware and software with flexibility for different configurations, various scales of applications and future expansion	2,378.7	16.96	21.4
太極計算機股份有限公司 (Taiji Computer Corporation Limited) (002368 CH)	Development, design, manufacture, sales and repair of computer, integrated circuit, software and communication equipments, which include industry-specific solution, IT consulting, value-added services, and IT infrastructure services	291.9	30.03	42.6
深圳達實智能股份有限公司(Shenzhen Das Intellitech Co., Ltd.) (002421 CH)	Provision of smart information technology solutions for transportation network, healthcare and buildings	311.8	4.82	29.4
深圳市賽為智能股份有限公司(Shenzhen Sunwin Intelligent Co., Ltd.) (300044 CH)	Provision of intelligent system solutions for the transportation and construction industry, including security systems, passenger information systems, monitor and control systems, communication systems and automated ticketing systems	181.9	8.78	37.5
北京數字政通科技股份有限公司(Beijing eGOVA Co., Ltd.) (300075 CH)	Development and promotion of e-government platform of geographic information system applications, and provision of integrated solutions of e-government platforms of geographic information systems, management information systems and office automation for government departments	169.6	12.57	31.9

Name of companies (Stock Code)	Principal business activities	Net profit for the latest full FY *RMB' million*	Closing price as at 5 March 2019 *RMB*	Historical P/E Ratio as at 5 March 2019 *Times*
廣東安居寶數碼科技股份有限公司(Guangdong Anjubao Digital Technology Co., Ltd.) (300155 CH)	Research, design, production, sales and provision of services on building intercom systems, intelligent home systems and burglar alarm systems	13.3	5.41	221.2
萬達信息股份有限公司 (Wonders Information Co., Ltd.) (300168 CH)	Provision of public sector information technology software and service, covering application software, professional IT services and hardware and software systems integration	326.5	14.59	49.1
北京易華錄信息技術股份有限公司 (Beijing E-Hualu Information Technology Co., Ltd) (300212 CH)	Operating intelligent transportation systems application, including software development, data mining and decision support, production of intelligent transport and professional security products and systems, and provision of packaged solutions on police mobile systems and traffic information systems	201.1	27.06	60.8
北京飛利信科技股份有限公司(Beijing Philisense Technology Co., Ltd.) (300287 CH)	Provision of whole intelligent solutions for conference systems, electronic government information management systems, intelligent building and integrated business information systems with main products include conference systems hardware and software	404.1	4.92	17.5
北京旋極信息技術股份有限公司(Beijing Watertek Information Technology Co., Ltd.) (300324 CH)	Provision of embedded systems for defense and military testing products and technical services, information security products and embedded smart mobile devices embedded industry	389.3	7.88	34.6
恒鋒信息科技股份有限公司(HengFeng Information Technology Co., Ltd.) (300605 CH)	Provision of information technology services, development of smart city solutions such as providing smarter buildings and incorporation of software and hardware into structures to provide enhancement of people's lives and public safety	43.1	17.77	45.3

Name of companies (Stock Code)	Principal business activities	Net profit for the latest full FY *RMB' million*	Closing price as at 5 March 2019 *RMB*	Historical P/E Ratio as at 5 March 2019 *Times*
佳都新太科技股份有限公司 (PCI-Suntek Technology Co., Ltd.) (600728 CH)	Provision of customer service solutions for telecommunication service providers, banks, and securities firms, development of voice service systems, calling center systems, telecommunication operation and maintenance systems, and other value-added service solutions	212.5	12.01	91.5
南威軟件股份有限公司 (Linewell Software Co., Ltd.) (603636 CH)	Development, manufacture, sales and supporting of social management and public service systems, information technology products, and industrial applications support systems	103.0	11.55	59.0
廣州傑賽科技股份有限公司 (GCI Science & Technology Co.,Ltd.) (002544 CH)	Provision of information network construction technique service and related products	201.7	13.81	39.1
無錫路通視信網絡股份有限公司(Lootom Telcovideo Network(Wuxi) Co., Ltd.) (300555 CH)	Development and production of wired broadband network transmission system and related products and provision of integrated solutions regarding broadband intelligent connection and smart application	44.9	12.66	56.3
江蘇亨通光電股份有限公司 (Hengtong Optic-Electric Co., Ltd.) (600487 CH)	Production and sales of optical fiber and cable, covering optical communications network industry, intelligent power grid industry, maritime communications and energy connection industry, smart communities and new-energy vehicles	2,108.8	22.56	20.4

18 Comparables	**Maximum**	**221.2**
	Average	**55.6**
	Median	**40.8**
	Minimum	**13.0**
16 out of the 18 Comparables (see note below)	**Maximum**	**91.5**
	Average	**40.6**
	Median	**38.3**
	Minimum	**13.0**

Name of companies (Stock Code)	Principal business activities	Net profit for the latest full FY *RMB' million*	Closing price as at 5 March 2019 *RMB*	Historical P/E Ratio as at 5 March 2019 *Times*
The Target Group	Based on the average of the Aggregated Guaranteed Profit of RMB5.0 million for each of the two FYs 2018 and 2019)			**13.6**
	Based on the actual unaudited consolidated net profit of the Target Group of approximately RMB4.9 million for the FY 2018			**14.0**

Note:

We noted that there are two very extreme cases out of the 18 Comparables, namely 上海延華智能科技(集團)股份有限公司 (Shanghai Yanhua Smartech Group Co., Ltd.) and 廣東安居寶數碼科技股份有限公司 (Guangdong Anjubao Digital Co., Ltd.), with abnormally higher premium of 130.0 times and 221.2 times, respectively. For illustrative purpose only, the figures are calculated by excluding such two abnormal Comparables.

Source: Websites of Shanghai Stock Exchange and Shenzhen Stock Exchange

Given that there is no publicly available financial information on the privately-owned Construction Service providers for smart community and city projects in Hong Kong and the rareness of listed comparables in Hong Kong, we are of the view that it is appropriate to compare the market statistics of the Comparables which are engaged in similar business as the Target Group with operations located in the PRC as a measure of comparison. It should be noted that the 18 Comparables may have different principal business coverage, market capitalisation, profitability and financial positions as compared to those of the Target, all of such background factors may not be closely correlated with each others. However, as the 18 Comparables can provide a general understanding and usual market valuation for these similar types of companies in the PRC under the current market environment, we consider all of them to be relevant in assessing the fairness and reasonableness of the Consideration under the Acquisition even though there was a wide range of P/E Ratios among themselves. If selecting samples by market capitalisation or profitability only may distort this analysis or even mislead the Independent Shareholders because such short-listed information may not able to present a complete, comprehensive and representative picture or analysis of the relevant Comparables listed on the stock exchanges in the PRC at that time.

We noted that the Vendor has, through the mechanism of Aggregate Guarantee Profit, provided the Company with an assurance of a minimum level of profitability of the Target Group for the two FYs of 2018 and 2019 of not less than RMB10.0 million. As such, we consider that it is appropriate to (i) apply the actual unaudited consolidated net profit of the Target Group of approximately RMB4.9 million for the FY 2018; or (ii) use the working assumption that the Target Group would contribute to a minimal level of profitability for the two FYs 2018 and 2019 of not less than RMB10.0 million with an average net profit of RMB5.0 million for one FY, and derived the appropriate range of P/E Ratio as assessed in the following.

As shown in the above table, the P/E Ratio of all the 18 Comparables ranges very largely from approximately 13.0 times to 221.2 times with an average P/E Ratio of approximately 55.6 times. On the (1) assumption that the aggregate consolidated net profit after tax of the Target Group for the two FYs 2018 and 2019 is equal to RMB10.0 million; or (2) basis of the actual unaudited consolidated net profit of the Target Group of approximately RMB4.9 million for the FY 2018, the resultant P/E Ratio at approximately 13.6 times or 14.0 times are (i) close to the lowest end of the said range of approximately 13.0 times to 221.2 times, and (ii) far below the average P/E Ratio of the Comparables of approximately 55.6 times.

Based on our findings from above analysis, we have noted that the profitability of all of the 18 Comparables was generally very much larger than that of the Target, mainly because the Target was newly started up in June 2015 and commenced its business thereafter with fewer net profit of less than RMB5.0 million for the latest FY 2018. By only considering such four out of the 18 Comparables from the above analysis with net profit below RMB50.0 million, the average P/E Ratio of such four Comparables would be 113.2 times; while the one Comparable, namely 廣東安居寶數碼科技股份有限公司 (Guangdong Anjubao Digital Technology Co., Ltd.), with lowest net profit of RMB13.3 million had its P/E Ratio of 221.2 times.

Based on our findings from above analysis, we have noted that there are two very extreme cases out of the 18 Comparables, namely 上海延華智能科技(集團)股份有限公司 (Shanghai Yanhua Smartech Group Co., Ltd). and 廣東安居寶數碼科技股份有限公司 (Guangdong Anjubao Digital Co., Ltd.), with abnormally higher premium. By excluding such two abnormal Comparables from the above analysis, we can still maintain our view that the resultant P/E Ratio represented by the Consideration at approximately 13.6 times or 14.0 times are (i) close to the lowest end of the said range of approximately 13.0 times to 91.5 times, and (ii) far below the average P/E Ratio of the Comparables of approximately 40.6 times, and therefore are fair and reasonable.

Having considered the factors outlined above, including, (i) the market multiples for the Comparables; and (ii) the reasons for and benefits of the Acquisition, we are of the view that the initial Consideration or the probable lower final Consideration is on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

7. Financial effect of the Acquisition on the Group

Earnings

Upon the Completion, there is no immediate material impact on earnings of the Group, while the Target Group is expected to become wholly-owned subsidiaries of the Company and the financial results of the Target Group are expected to be fully consolidated into the Enlarged Group after the Completion.

Based on the audited financial statements of the Target and the PRC Subsidiary prepared in accordance with the PRC GAAPs for the FY 2018, they had audited net profit and net loss after tax of approximately RMB5.2 million and RMB0.4 million, respectively, we therefore concur with the Directors' view that the Acquisition will provide positive contribution to the earnings base of the Group but the quantification of such impact will depend on the future performance of the Target Group.

Working capital

Based on the 2018 Annual Report, the Group's net current assets (i.e. current assets less current liabilities) and bank balances and cash (i.e. excluding pledged deposit) as at 31 December 2018 amounted to approximately HK$119.8 million and HK$39.9 million, respectively. The initial Consideration of approximately RMB68.0 million (equivalent to approximately HK$78.2 million) shall be paid by the Purchaser to Guangzhou Chong Dong on the Payment Date (i.e. between the date of issuance of the audited report of the Target for the FY 2019 and the tenth Business Day thereafter (solely based on the discretion of the Purchaser and subject to the fulfillment of all conditions precedent)), the payment of Consideration will likely take place in May or June 2020, the Group shall have sufficient time to arrange funding for the Consideration in the coming one year, and therefore would not exert considerable pressure to the working capital of the Group at that time.

Based on our review of the annual reports for the past two FYs 2017 and 2018, we have noted that the Group had net cash inflow before movements in working capital of approximately HK$68.9 million, HK$72.7 million and HK$56.1 million over the past three FYs from 2016 to 2018, which had demonstrated that the Group has strong capability to generate sufficient operating cash inflow to finance its operations. On such basis, we concur with the Directors' belief that the Group would have sufficient cash resources to satisfy the financing needs for the Acquisition. As such, there would not be material adverse effect on the working capital position of the Group after the Acquisition.

Net asset value

According to the 2018 Annual Report, the Group's audited net asset value was approximately HK$277.5 million as at 31 December 2018. Since the Group intends to finance the Consideration by internal resources and/or external financing, if necessary, there will not be any significant adverse impact on the net asset value of the Group immediately following the Completion.

Gearing

According to the 2018 Annual Report, the Group did not have any interest-bearing borrowings as at 31 December 2018, and hence, no gearing level at all. As the Consideration will be funded by internal resources and/or external financing, if necessary, the Group may be required to obtain some external funding at that time. In such a case, we consider that the possible uplifting gearing level of the Enlarged Group would still be acceptable.

In light of the foregoing effects of the Acquisition on the earnings, working capital, net asset value and gearing position of the Group, we are of the view that the Acquisition would have no significant adverse impact on the Group's financial position save and except for the reduction in working capital which is inevitable as it intends to finance the Consideration by internal resources and/or external financing, if necessary. Therefore, we are of the view that while the Group's cash resources would be reduced, the Acquisition is an effective utilisation of its cash resources which is aimed at positioning the Group for better growth in the future which, in the long run, will benefit the Enlarged Group and the Shareholders as a whole.

RECOMMENDATION

Having taken into account the above principal factors and reasons, we are of the view that the Acquisition shall be regarded as an investing activity instead of usual operating activity of the Group, and therefore is not conducted in its ordinary and usual course of business; while the terms of the Acquisition Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Acquisition pursuant to the Acquisition Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
First Shanghai Capital Limited
Nicholas Cheng
Director

Note:

Mr. Nicholas Cheng has been the Responsible Officer of Type 6 (advising on corporate finance) regulated activity under the SFO, and has over 17 years of experience in corporate finance industry. He has been participating in the provision of independent financial advisory services for numerous connected transactions involving companies listed in Hong Kong.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquires, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) 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 they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were 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**") contained in the Listing Rules, were as follows:

(i) Long positions in the Shares or underlying Shares

Name of Director	Name of company in which interests were held	Nature of interests	Number of issued Shares held	Approximate percentage of the issued share capital of the Company
Mr. Zhang	The Company	Interest of controlled corporation *(Note)*	599,658,000	74.96%

Note:

Yoho Bravo is the beneficial owner of 599,658,000 Shares. As Yoho Bravo is wholly beneficially owned by Mr. Zhang, Mr. Zhang, a Director, is deemed to be interested in the 599,658,000 Shares held by Yoho Bravo pursuant to the SFO.

(ii) Long positions in the shares of the Company's associated corporation

Name of Director	Name of associated corporation	Nature of interests	Number of shares held	Approximate percentage of the issued share capital of the associated corporation
Mr. Zhang	Yoho Bravo	Beneficial owner	599,658,000	100%

Save as disclosed above, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) 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 or as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or short position in the shares or underlying shares of the Company which disclosure to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO is required.

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 (other than a Director or chief executive of the Company) had an interest or a short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

(i) Long positions in the Shares or underlying Shares

Name of Shareholders	Nature of interests	Number of issued Shares held	Approximate percentage of the issued share capital of the Company
Yoho Bravo	Beneficial owner *(Note 1)*	599,658,000	74.96%
China Galaxy International Financial Holdings Limited ("**Galaxy International Financial Holdings**")	Interest of controlled Corporation *(Note 2)*	599,658,000	74.96%
China Galaxy International Finance (Hong Kong) Co., Limited ("**Galaxy International Finance (HK)**")	Person having a security interest in shares	599,658,000	74.96%

Notes:

1. The entire issued share capital of Yoho Bravo is beneficially owned by Mr. Zhang.

2. The Shares are subject to security interest in favour of China Galaxy International Finance (Hong Kong) Co., Limited. China Galaxy International Finance (Hong Kong) Co., Limited is a wholly-owned subsidiary of China Galaxy International Financial Holdings Limited which in turn is wholly-owned by China Galaxy Securities Co., Ltd..

3. COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or the controlling shareholders (as defined under the Listing Rules) nor their respective close associates are interested in any business which operates 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.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Group which does not expire or is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

5. DIRECTORS' INTEREST IN ASSETS

As at the Latest Practicable Date, save as disclosed above, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2018 (being the date to which the latest published audited consolidated financial statements of the Company were made up) and up to the Latest Practicable Date, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

6. DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed above, there was no contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date in which any Director was materially interested and which was significant to the business of the Group.

7. MATERIAL ADVERSE CHANGE

On 25 July 2019, the Company made a profit warning announcement stating that based on the information available to the Board and the unaudited consolidated management accounts of the Group for the six months ended 30 June 2019, the Group is expected to record a significant decrease in the net profit for the six months ended 30 June 2019 by approximately 90%, as compared with the corresponding period in 2018. The decrease in the net profit of the Group for the six months ended 30 June 2019 was mainly attributable to (i) the decrease in revenue as a result of slowdown in orders from customers and the global trade dispute and tariff battle; and (ii) the decrease in gross margin as a result of the increase in costs driven by labour shortage and additional costs incurred for new quality assurance system to cope with customers' new technological standard and requirements.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

9. QUALIFICATIONS AND CONSENTS OF EXPERTS

(a) The following are the qualifications of the experts who gave opinion or advice contained in this circular:

Name	**Qualifications**
First Shanghai Capital Limited	a licensed corporation to carry out and type 6 (advising on corporate finance) regulated activity under the SFO
Valtech Valuation Advisory Limited	an independent professional valuer

(a) As at the Latest Practicable Date, First Shanghai did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(b) First Shanghai has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they appear respectively.

(c) As at the Latest Practicable Date, First Shanghai did not have any interest, direct or indirect, in any assets which have been, since 31 December 2018 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

10. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents or copies are available for inspection at our principal place of business in Hong Kong at Office A, 31/F, Billion Plaza II, 10 Cheung Yue Street, Cheung Sha Wan, Kowloon, Hong Kong, during the normal business hours for 14 days from the date of the circular:

(a) the Acquisition Agreement;

(b) the letter from the Independent Board Committee, the text of which is set out under the section headed "Letter from the Independent Board Committee" of this circular;

(c) the letter from the Independent Financial Adviser, the text of which is set out under the section headed "Letter from the Independent Financial Adviser" of this circular;

(d) the consent letter referred to in the paragraph headed "Qualifications and Consents of Experts" in this appendix; and

(e) this circular.

BRAINHOLE TECHNOLOGY LIMITED
脑洞科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2203)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Brainhole Technology Limited (the "**Company**") will be held at Luxembourg Room I-II, 3rd Floor, Regal Kowloon Hotel, 71 Mody Road, Tsimshatsui, Kowloon, Hong Kong at 2:30 p.m. on Tuesday, 20 August 2019, for the purpose of considering and, if thought fit, passing with or without modifications, the following resolution as ordinary resolution of the Company to be taken by way of poll:

ORDINARY RESOLUTION

1. "**THAT**

   (a) the Acquisition Agreement (as defined and described in the circular to the shareholders of the Company dated 30 July 2019 (the "**Circular**")) and the transactions contemplated under the Acquisition Agreement (a copy of the Acquisition Agreement is tabled at the meeting and marked "A" and initialed by the chairman of the meeting for identification purpose) be and are hereby confirmed, approved and ratified; and

   (b) any one director of the Company ("**Director**") be and is hereby authorised to do such acts and things, to sign and execute such other documents and to take such steps as he/she in his/her discretion consider necessary, appropriate, desirable or expedient to carry out or give effect to or otherwise in connection with or in relation to the Acquisition Agreement and the transactions contemplated thereunder."

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

Hong Kong, 30 July 2019

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

Principal place of business in Hong Kong:
Office A, 31/F, Billion Plaza II
10 Cheung Yue Street
Cheung Sha Wan, Kowloon
Hong Kong

Notes:

1. A member entitled to attend and vote at the EGM convened by the above notice shall be entitled to appoint another person as his proxy to attend and, subject to the provisions of the articles of association of the Company, vote instead of him. A proxy need not be a member of the Company.

2. Where there are joint holders of any Share, any one of such joint holders may vote, either in person or by proxy, in respect of such Share as if he were solely entitled thereto, but if more than one of such joint holders be present at the EGM the vote of the joint holder whose name stands first on the register of members of the Company in respect of the joint holding who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders.

3. In order to be valid, the form of proxy for use at the EGM must be deposited together with a power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority, at the office of the branch share registrar of the Company 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 for holding the EGM or adjournment thereof.

4. As at the date of this notice, the executive Directors are Mr. Zhang Liang Johnson and Ms. Wan Duo; and the independent non-executive Directors are Mr. Xu Liang, Mr. Chen Johnson Xi and Ms. Zhang Yibo.

5. The record date for determining the entitlement of the shareholders of the Company to attend and vote at the EGM will be Tuesday, 20 August 2019. All transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 14 August 2019.