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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your 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 the Company, you should at once hand the circular and the accompanying form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

This circular appears for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

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MADISON GROUP®

**Madison Holdings Group Limited**

**麥迪森控股集團有限公司**

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

**(Stock Code: 8057)**

**(1) DISCLOSEABLE TRANSACTION IN RELATION TO  
THE ENTERING INTO OF THE ACQUISITION AGREEMENT  
INVOLVING ISSUE OF CONSIDERATION SHARES  
UNDER SPECIFIC MANDATE;  
AND  
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

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

A notice convening the EGM to be convened at Flat A&B, 10/F, North Point Industrial Building, 499 King's Road, North Point, Hong Kong on Monday, 30 July 2018 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM and any adjournment thereof should you so desire and in such case, the proxy form shall be deemed to be revoked.

This circular will remain on the GEM website at <http://www.hkgem.com> on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the website of the Company at <http://www.madison-wine.com>.

13 July 2018

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## CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE

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**GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.**

**Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

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### A. DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Shares by the Purchaser pursuant to the terms of the Acquisition Agreement
“Acquisition Agreement”	the conditional acquisition agreement in relation to the Acquisition dated 26 April 2018 entered into among the Vendor, the Vendor’s Nominee, the Purchaser and the Company
“Board”	the board of Directors
“Business Day(s)”	a day (excluding Saturday, Sunday and other general holidays in Hong Kong and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a black rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are generally open for business
“Company”	Madison Holdings Group Limited, a company incorporated in the Cayman Islands, whose Shares are listed on GEM (Stock code: 8057)
“Completion Date”	a day falling the second Business Day following the fulfilment of all the conditions or such other date as the Purchaser and the Vendor may agree in writing on which completion of the Acquisition shall take place
“connected person”	has the meaning ascribed to it under the GEM Listing Rules
“Consideration Shares”	the new Shares to be allotted and issued by the Company to the Vendor (or its nominee) in order to satisfy part of the consideration payable under the Acquisition Agreement
“controlling shareholder”	has the meaning ascribed to it under the GEM Listing Rules

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## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

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“Data Center Service Provider”	a data center service provider offering data center lease and auxilliary services, such as electricity, technical operation, equipment and security monitoring, to clients across the world, which has been engaged by the Target Company for the said services
“Directors”	directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve, among other things, the Acquisition Agreement and the transactions contemplated thereunder including the grant of the specific mandate for the allotment and issue of the Consideration Shares
“GEM”	GEM operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM of the Stock Exchange
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Issue Price”	the issue price of HK\$1.84 per Consideration Share
“Latest Practicable Date”	10 July 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Long Stop Date”	31 July 2018 or such later date as the parties to the Acquisition Agreement may agree in writing
“Performance Fee”	the service fee payable to the Technical Support Company
“Purchaser”	Madison Future Games Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company

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## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

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“Repayment Date”	a day not later than 180 days of the Long Stop Date, where the Vendor shall return the Refundable Deposit (with interest earned thereon) to the Purchaser as a single bullet repayment
“Refundable Deposit”	US\$10,000,000 (equivalent to approximately HK\$78,477,000), being the refundable deposit payable by the Purchaser to the Vendor (or its nominee(s)) in cash on the date of Acquisition Agreement
“Sale Shares”	1,020 shares of the Target Company, representing 51% of the entire issued share capital of the Target Company as at the date of the Acquisition Agreement
“Share(s)”	the issued ordinary share(s) in the share capital of the Company
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Swedish Premises”	a data centre located in Norrbotten County, Sweden, leased by the Target Company for a term of 36 months commencing on 1 August 2018
“Target Company”	Diginex High Performance Computing Limited (formerly known as Digitas Limited), a company incorporated in Gibraltar with limited liability and the target under the Acquisition
“Technical Support Company”	a Switzerland-based technology company engaged by the Target Company to provide technical support for optimizing the cryptocurrency mining business
“Vendor”	Diginex Global Limited, a company incorporated in Hong Kong with limited liability, the vendor to the Acquisition Agreement

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## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

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“Valuation”	the market value of the Target Company as at 26 April 2018 shown in the valuation report in Appendix I to this circular which is prepared in compliance with the requirements of the GEM Listing Rules, on a discounted cash flow method under the income-based approach and such basis and assumptions as may be agreed by the Vendor and the Purchaser (or the Company)
“Valuation Report”	the Business Valuation Report of the Target Company set out in Appendix I to this circular in relation to the Valuation
“Valuer”	Asset Appraisal Limited, an independent professional valuer nominated by the Company for the purpose of the Acquisition
“Vendor’s Nominee”	Mr. Miles Pelham, the nominee of the Vendor holding all the issued shares of the Target Company as at the date of the Acquisition Agreement for and on behalf of the Vendor
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“US\$”	United States dollar(s), the lawful currency of the United States of America
“%”	per cent.

*In this circular, for reference only, the translation of United States dollars into Hong Kong dollars is based on the exchange rate of US\$1 = HK\$7.8477.*

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## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

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### B. GLOSSARY OF TECHNICAL TERMS

*This glossary contains explanations of certain terms used in this circular. The terms and their meanings may not correspond to the standard industry meaning or usage of these terms.*

“Block”	a data structure containing validated transactions data, if linked together will form a Blockchain
“Blockchain”	a digitized, decentralized, immutable ledger of the cryptocurrency transactions which is formed by a chain of Blocks and each Block is automatically linked to the previous Block
“Block Reward” or “block reward”	is the new cryptocurrency rewarding to cryptocurrency miners for successfully solving mathematical rules and/or algorithms in the Blockchain network
“CCTV”	closed-circuit television, also known as video surveillance
“cold wallet”	a physical cryptocurrency custodian device that is functioning as an E-Wallet but its functionality does not depend on the Internet connection
“Ether” or “ETH”	a cryptocurrency for operating the Ethereum platform, and as a form of payment adopted by the users of the Ethereum platform
“ETH Network Hashrate”	a measuring unit to measure computer capability of the Ethereum network
“Ethereum”	an open-source, public, Blockchain-based distributed computing platform and operating system featuring smart contract (scripting) functionality
“E-Wallet”	a software program where the cryptocurrency account is stored online
“GH/s”	gigahash per second, measurement of hashrate, and 1 GH/s equivalent to 1,000 MH/s



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## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

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“Graphics Processing Unit” or “GPU”	a specialized electronic chip primarily designed to perform and boost the performance of video and graphics creation and decoding, including cryptocurrency mining
“Hashrate”	the algorithm solving speed (i.e. computing capability) of a computer at which a higher hashrate means better chance to resolve the mathematical rules and/or algorithms of the Block for receiving the reward of cryptocurrency
“High Performance Computing” or “HPC”	enhanced computing capability performed by high performance computers compared to that performed by general-purpose computers
“IT audit”	the examination and evaluation of an organization’s information technology infrastructure, policies and operations
“keys”	predefined mathematical rules and/or complex open source code algorithms in the Blockchain network
“MH/s”	megahash per second, measurement of Hashrate
“kWs”	kilowatts, a unit of power, measurement of electricity power
“parallel processing techniques”	the techniques to divide a computation task into several sub-tasks and use multiple processors to perform these tasks simultaneously to maximize the efficiency
“Realised MHS”	megahash per second minus the assumed default rate of the rigs
“Reward (US\$)/MHS/Day”	revenue in US\$ generated with each MH/s per day
“rig”	an assembly of GPUs to form a computing equipment customized for cryptocurrency mining

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## DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

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“Smart Contract”	a computer protocol intended to digitally facilitate, verify, or enforce the negotiation or performance of a contract
“SWIFT”	the Society for Worldwide Interbank Financial Telecommunications, it is a vast messaging network used by banks and other financial institutions send and receive information such as money transfer instructions

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## LETTER FROM THE BOARD

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MADISON GROUP®

### Madison Holdings Group Limited

麥迪森控股集團有限公司

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

(Stock Code: 8057)

*Executive Directors:*

Mr. Ting Pang Wan Raymond (*Chairman*)  
Mr. Zhu Qin  
Mr. Zhou, Francis Bingrong  
Mr. Teoh Ronnie Chee Keong  
Ms. Kuo Kwan

*Independent Non-executive Directors:*

Ms. Fan Wei  
Mr. Chu Kin Wang Peleus  
Mr. Ip Cho Yin *J.P.*

*Registered office:*

Cricket Square  
Hutchins Drive  
PO Box 2681  
Grand Cayman  
KY1-1111  
Cayman Islands

*Principal place of business*

*in Hong Kong*  
Flat A & B, 10/F  
North Point Industrial Building  
499 King's Road, North Point  
Hong Kong

13 July 2018

*To the Shareholders*

Dear Sir/Madam,

**(1) DISCLOSEABLE TRANSACTION IN RELATION TO  
THE ENTERING INTO OF THE ACQUISITION AGREEMENT  
INVOLVING ISSUE OF CONSIDERATION SHARES  
UNDER SPECIFIC MANDATE;  
AND  
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

On 26 April 2018, the Board announced that the Acquisition Agreement was entered into among the Vendor, the Vendor's Nominee, the Purchaser and the Company pursuant to which the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the Sale Shares, representing 51% of the entire issued share capital of the Target Company, for the total consideration of US\$60,000,000 (equivalent to approximately HK\$470,862,000).

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with, among other things, further information on the Acquisition and to give you a notice of the EGM at which resolution will be proposed to consider and, if thought fit, approve the Acquisition Agreement and the transactions contemplated thereunder, including but not limited to the specific mandate to allot and issue the Consideration Shares.

### THE ACQUISITION AGREEMENT

Date: 26 April 2018

Parties: (1) Diginex Global Limited, as the vendor;

(2) Mr. Miles Pelham, as the vendor's nominee;

(3) Madison Future Games Limited, as the purchaser; and

(4) Madison Holdings Group Limited, as issuer of the Consideration Shares

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor, its ultimate beneficial owners and the Vendor's Nominee are third parties independent of and not connected with the Company and its connected persons.

### Asset to be acquired

Pursuant to the terms of the Acquisition Agreement, the Purchaser conditionally agreed to acquire and the Vendor conditionally agreed to sell the Sale Shares, representing 51% of the entire issued share capital of the Target Company.

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## LETTER FROM THE BOARD

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### Consideration

The total consideration for the Sales Shares is US\$60,000,000 (equivalent to approximately HK\$470,862,000), and will be settled in the following manner:

- (i) as to US\$10,000,000 (equivalent to approximately HK\$78,477,000) has been paid to Vendor (or its nominee(s)) in cash as a Refundable Deposit on the date of the Acquisition Agreement; and
- (ii) the balance of US\$50,000,000 (equivalent to approximately HK\$392,385,000) shall be satisfied by the Company allotting and issuing 213,252,717 Consideration Shares at the Issue Price, credited as fully paid, to the Vendor (or its nominee(s)) on the Completion Date.

If any of the conditions of the Acquisition Agreement has not been fulfilled on the Long Stop Date, either the Purchaser or the Vendor shall be entitled to rescind or terminate the Acquisition Agreement by giving written notice to the other party whereupon the Vendor shall return the Refundable Deposit (together with any interest earned thereon) in full on or before the Repayment Date as a single bullet repayment.

The Vendor undertakes that, if any of the conditions of the Acquisition Agreement has not been fulfilled on the Long Stop Date and it fails to repay the Refundable Deposit by the Repayment Date, it shall procure that assets of the Target Company be transferred to the Purchaser to discharge its repayment obligation of Refundable Deposit or part thereof which has not paid on the Repayment Date.

The consideration was determined after arm's length negotiations between the Company and the Vendor on normal commercial terms having regard to (i) the strong expertise of management team of the Target Company, (ii) value of hardware (mainly GPU) designated for cryptocurrency mining; (iii) the 36-month lease of the Swedish Premises with stable and inexpensive electricity power supply; (iv) the future business prospect of the Target Company; (v) the Valuation of the Target Company; and (vi) the benefits to be derived from the Acquisition as described under the paragraph headed "Reasons for and benefits of the Acquisition" in this circular.

In view of the above, the Directors consider that the consideration is fair and reasonable and the Acquisition Agreement is on normal commercial terms and is fair and reasonable, and the entering into of the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### Consideration Shares

On the Completion Date, the Company shall allot and issue a total of 213,252,717 Consideration Shares to the Vendor (or its nominee(s)) at the Issue Price to satisfy part of the consideration.

The Issue Price of HK\$1.84 per Consideration Share:

- (i) is equivalent to the closing price of HK\$1.84 per Share as quoted on the Stock Exchange on 26 April 2018, being the date of the Acquisition Agreement;
- (ii) represents a discount of approximately 0.97% to the average of the closing price of HK\$1.858 per Share as quoted on the Stock Exchange for the five trading days immediately prior to the date of the Acquisition Agreement;
- (iii) represents a discount of approximately 1.76% to the average of the closing price of HK\$1.873 per Share as quoted on the Stock Exchange for the ten trading days immediately prior to the date of the Acquisition Agreement; and
- (iv) represents a premium of approximately 8.24% over the closing price of HK\$1.700 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The 213,252,717 Consideration Shares represents:

- (i) approximately 5.24% of the existing issued share capital of the Company as at the Latest Practicable Date; and
- (ii) approximately 4.98% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming no change in the number of issued Shares since the Latest Practicable Date and up to the Completion Date).

The Consideration Shares are to be issued by the Company under specific mandate to be sought from the Shareholders at the EGM. The Consideration Shares, when allotted and issued, will rank pari passu in all respects with all the Shares then in issue.

The Issue Price was arrived at after arm's length negotiation between the parties to the Acquisition Agreement after taking into account the then prevailing market price of the Shares. The Directors consider that the Issue Price is fair and reasonable.

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

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## LETTER FROM THE BOARD

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### Conditions precedent

Completion of the Acquisition shall be conditional upon, the satisfaction of the following conditions by the Long Stop Date:

- (1) the Purchaser having received and being satisfied (acting reasonably) with a legal opinion and the due diligence report from qualified Gibraltar lawyer (engaged by the Purchaser) on the Target Company;
- (2) the Purchaser and the Company having received a valuation report of the Target Company issued by a professional valuer showing the value of Target Company of not less than US\$120,000,000 (equivalent to approximately HK\$941,724,000), and being satisfied with any forecasts, assumptions, qualifications and methodologies of such valuation report;
- (3) the Purchaser having received from the Vendor a valid, effective and legally binding lease agreement of the Target Company for a term of not less than 3 years in relation to the rental of a data centre in Sweden by the Target Company;
- (4) all outstanding shareholder loans in respect of the Target Company having been written off or cancelled such that the Target Company shall not owe any amount to any third party; and
- (5) all necessary consents and approvals required from the Stock Exchange, the Securities and Futures Commission, and/or the shareholders of the Company be obtained on the part of the Purchaser and the Company in respect of the Acquisition Agreement and the transactions contemplated thereunder having been obtained and remain in full force and effect.

All the conditions above cannot be waived by either party to the Acquisition Agreement. If the above conditions have not been fulfilled on or before the Long Stop Date, either the Purchaser or the Vendor shall be entitled to rescind or terminate the Acquisition Agreement by giving 3 Business Days prior written notice, and the Vendor shall forthwith return the Refundable Deposit in full. No party shall have any claim of any nature or liabilities thereunder against the other party. As at the Latest Practicable Date, save for conditions (1) and (3), none of the above conditions have yet been fulfilled.

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## **LETTER FROM THE BOARD**

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Each party to the Acquisition Agreement undertakes, and in favour of the other party, to exercise its reasonable endeavours to procure the fulfilment of the above conditions that are within its obligations to perform before the Long Stop Date, including without limitation, by making all necessary applications and the timely supply of information to the relevant government or regulatory authorities.

### **Completion**

Subject to the fulfillment of the conditions, completion of the Acquisition shall take place on the Completion Date.

Upon completion, the Target Company will become an indirect non wholly-owned subsidiary of the Company and therefore, the financial information of the Target Company will be consolidated into the consolidated financial statements of the Group.

### **Shareholders' Agreement**

Upon completion of the Acquisition, the shareholders of the Target Company, namely the Purchaser and the Vendor will enter into a shareholders' agreement with the Company, to record the respective rights and obligations as shareholders of the Target Company with respect to finance, management and operations of the Company.

### **Lock up undertaking**

The Vendor agrees and undertakes that the Consideration Shares shall be subject to a 2-month lockup period commencing from the date of issue of the Consideration Shares, during which the Vendor (or its nominee(s)) is/are restricted to transfer the legal and beneficial interests of the Consideration Shares whether for consideration or no consideration; and the Vendor shall not create any encumbrance over the Consideration Shares.

### **IRREVOCABLE UNDERTAKING**

Based on the benefits to be brought to the Company from the Acquisition as disclosed in the paragraph headed "Reasons for and benefits from the Acquisition" below, Mr. Ting Pang Wan Raymond, an executive Director and a controlling shareholder of the Company, executed an irrevocable undertaking in the capacity of a Shareholder, in favour of the Vendor, pursuant to which he has undertaken, among others, before the termination of the Acquisition Agreement, that (i) he will not sell, transfer or otherwise dispose of the Shares indirectly owned by him; (ii) he will vote in favour of any resolutions approving the Acquisition; and (iii) he will recommend other Shareholders to vote in favour of any resolutions approving the Acquisition.



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## LETTER FROM THE BOARD

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### EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming there being no other changes in the share capital of the Company from the Latest Practicable Date up to the Completion Date, set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date and (ii) immediately after the completion of the Acquisition.

Shareholders	As at the Latest Practicable Date		Immediately upon completion of the Acquisition	
	No. of Shares	Approx. %	No. of Shares	Approx. %
Royal Spectrum Holding Company Limited (“Royal Spectrum”) (note)	1,968,000,000	48.35	1,968,000,000	45.95
<b>Public Shareholders</b>				
Vendor	–	–	213,252,717	4.98
Other public Shareholders	<u>2,102,056,000</u>	<u>51.6</u>	<u>2,102,056,000</u>	<u>49.08</u>
<b>Total</b>	<u><u>4,070,056,000</u></u>	<u><u>100.0</u></u>	<u><u>4,283,308,717</u></u>	<u><u>100.00</u></u>

*Note:* These shares were held by Royal Spectrum, which is legally and beneficially owned as to 96.63% by Devoss Global Holdings Limited, which, in turn, is legally and beneficially wholly-owned by Mr. Ting Pang Wan Raymond, an executive Director.

### THE VALUATION

The Valuation carried out by the Valuer was based on discounted cash flow method under the income-based approach and based on the following major assumptions:

1. there will be no major changes in the laws, rules or regulations, financial, economic, market and political conditions where the Target Company operates which may materially and adversely affect its business;
2. there will be no major changes in the current taxation law;
3. the Target Company will fulfill all legal and regulatory requirements necessary to conduct its business;
4. the Target Company will not be constrained by the availability of finance and there will be no material fluctuation of the finance costs;

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## LETTER FROM THE BOARD

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5. there will not be any adverse events beyond the control of the Target Company's management, including natural disasters, catastrophes, fire, explosion, flooding, acts of terrorism and epidemics that may adversely affect its operations;
6. the future movement of exchange rates and interest rates will not differ materially from prevailing market expectations;
7. the Target Company will retain competent management, key personnel and technical staff for its operations and the relevant shareholders will support its ongoing operations;
8. the unaudited financial statements of the Target Company supplied to the valuer have been prepared in a manner truly and accurately reflected the financial position of the Target Company;
9. the Target Company has obtained all necessary permits and approvals to carry out its business and its ancillary services and shall be entitled to renew those permits and approvals upon their expiry subject to no legal impediment and costs of substantial amount;
10. except those stated in the financial statements, the Target Company is free and clear of any lien, charge, option, pre-emption rights or other encumbrances or rights whatsoever;
11. majority of the computing capacities of the Target Company are currently employed for mining of Ether. All existing capacities together with any new capacities to be added can be adapted for mining of all other major cryptocurrencies or switched to provide HPC service to third-party customers with minimal switching time and costs;
12. the unit price of Ether and its network efficiency, such as Hashrate, block time and block reward as prevailing on the date of the Valuation have been adopted and are assumed to remain constant throughout the projection period; and
13. the estimated fair value does not include consideration of any extraordinary financing or income guarantees, special tax considerations or any other typical benefits which may influence the ordinary business enterprise value of the Target Company.

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## LETTER FROM THE BOARD

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To ensure the above assumptions are fair and reasonable, the Board performed the following due diligence work:

1. reviewed the colocation agreement dated 29 April 2018 entered into by the Target Company and the Data Center Service Provider to understand the pricing of contracted electricity supply, staffing requirements, insurance costs, etc. Set out below are the salient terms of the colocation agreement:
  - a) the Data Center Service Provider intended to dedicate the Swedish Premises to the Target Company for developing cryptocurrency mining facilities;
  - b) initial term of the contract is 36 months starting from 1 August 2018 and is renewable for another 36 months provided that mutual written consent is given by both signing parties 6 months prior to the expiry of the data center leasing agreement;
  - c) the monthly rental price is US\$65/kW, including rent and power consumption, which has been reflected in the Valuation as the assumption of power, rent, Internet and insurance cost;
  - d) committed contracted power supply is 8,000 kW and in order to cater potentially larger electricity consumption for further business development of the Target Company, the Data Center Service Provider agrees to provide larger electricity supply (beyond 8,000 kW). The projected number of rigs adopted in the Valuation has taken into account that further power supply (beyond 8,000 kW) can be obtained from the Data Center Service Provider. Pursuant to the colocation agreement with the Data Centre Service Provider, the power supply should not be interrupted. According to Energiföretagen Sverige, a trade organization of the Swedish energy sector with 400 members, the electricity in Sweden has been supplied at a consistently reliable level, of over 99%, during the period from 2001 to 2015. However, as advised by the Target Company, to minimise the impact of a possible interruption of electricity to its cryptocurrency mining activities, the Target Company and the Data Centre Service Provider are negotiating the parameters of the compensation for such impact, which shall include, among others, the number of rigs being affected and the length of time, when the compensation shall be triggered and accumulated, and the maximum amount of compensation, in the service level agreement.

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## LETTER FROM THE BOARD

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Based on its business plan, the Target Company will deploy 36,710 rigs in year 2021, which will consume approximately 45,520 kW of power. According to the colocation agreement entered by the Target Company and the Data Centre Service Provider, the Data Centre Service Provider intends to dedicate the entire Swedish Premises to the Target Company, of which only one level is currently occupied by the Target Company. The maximum capacity of the entire Swedish Premises is 79,000 kW. In addition, the Data Center Service Provider also agreed in the colocation agreement that in order to cater further growth, once the Swedish Premises is full, a new data center will be built around the Swedish Premises with further power capacity. Additional capital expenditure for expanding power supply in the Swedish Premises or even building a new data center are to be borne by the Data Center Service Provider. The Target Company will incur additional rental and electricity cost at contracted monthly variable cost of US\$65/kW, which has been taken to account in the Valuation.

- e) for further growth, once the Swedish Premises is full, both the Data Center Service Provider and the Target Company agree to expand the facility in order to further increase the capacity, which has been reflected in the assumption in the Valuation that the Target Company can agree with the Data Center Service Provider to expand the facility to increase power supply in the second half of 2019;
  - f) the contracted monthly fee for monitoring services, such as access control system and CCTV, is US\$2,500, as reflected in the operating expenses in the Valuation;
  - g) the contracted cost of hiring support staff provided by the Data Center Service Provider is approximately US\$8,000 per staff, which is in line with staffing cost charged by the Data Center Service Provider in the Valuation.
2. reviewed product catalogue of the GPUs deployed by the Target Company and technical support service contract dated 24 April 2018 entered into by the Target Company and the Technical Support Company for optimizing, monitoring and maintaining GPU performance.

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## LETTER FROM THE BOARD

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Set out below are the salient terms of the technical support service contract:

- (a) term: 12 months commencing from 1 June 2018;
- (b) the Technical Support Company shall be responsible for
  - (i) the selection, training, supervision and management of a team of 6 to 9 staff dedicated to the maintenance of the IT hardware owned by the Target Company and its subsidiaries (if any) to ensure the proper functioning of the mining facilities, their updates as well as the maintenance of the hardware;
  - (ii) test of defective equipment; and
  - (iii) participate in drafting the maintenance protocol;
- (c) the Technical Support Company agrees to setup and optimize (i.e. improve hash/watt) the rigs owned by the Target Company. After the optimization, the Technical Support Company expects such rigs to produce at a Hashrate of 328 MH/s (and no less than 320 MH/s);
- (d) the Technical Support Company shall deploy its web-based monitoring tool as soon as practicable, such tool shall provide remote and secure user-specific access;
- (e) the Technical Support Company shall provide timely and historical information on all GPU-generated metrics as well as watt consumption and network data; and
- (f) the Technical Support Company shall be entitled to
  - (i) 10.0% of the earnings before interest and tax (“**EBIT**”) of the cryptocurrency mining operations of the Swedish Premises, which has been reflected in the operating expenses of the Valuation; and
  - (ii) monthly consulting fee is US\$60,000, which has been reflected in the operating expenses of the Valuation.

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## LETTER FROM THE BOARD

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The fee payable by the Target Company to the Technical Support Company comprises two parts, a fixed monthly consulting fee of US\$60,000; and a variable Performance Fee of 10.0% of EBIT. The monthly consulting fee of US\$60,000 is expected to be approximately 3.6% of total expenses of the Target Company in 2019, which is relatively low when compared with the staff costs if the Target Company were directly hiring in-house technical staff for its operation. The Technical Support Company will provide the Target Company with on-going GPU performance optimization and maintenance of mining facilities. In order to motivate the Technical Support Company to optimize the performance of GPUs and maintain the GPUs at its good condition at all the times (which affect the profitability), the Directors considers the Performance Fee of 10.0% of EBIT as an incentive bonus for motivating the Technical Support Company, and the Performance Fee arrangement is in the interest of the Enlarged Group as a whole.

There is lack of market information as to the pricing charged by an outsourcing technical support company. Nonetheless, having considered that the Technical Support Company is willing to charge a lower fixed monthly consulting fee before the Target Company can generating profit, and the latest publicly disclosed staff costs and performance bonus of the comparable listed companies purely engaging in cryptocurrency mining business were even higher than their respective total revenue, the Directors are of the view that the payment of the monthly consulting fee and Performance Fee of 10.0% of EBIT is fair and reasonable and in the interest of the Enlarged Group.

The Hashrate of 328 MH/s as expected by the Technical Support Company is not a commitment but merely an estimation based on the experience of the Technical Support Company. Based on the product catalogue of the GPUs, the rigs shall produce at a Harshrate of no less than 320 MH/s. During the demonstration of the performance of the GPUs before purchasing the GPUs in bulk from the supplier, the specified Hashrate of 320 MH/s of GPUs was shown to the management of the Target Company. After the purchase order has been made, the Technical Support Company engaged by the Target Company has performed product testing to ensure the GPUs are being operated at a specified Hashrate of 320 MH/s before confirming shipment from the supplier. Since the Sweden Premises has not yet commenced operation, there is no actual Harshrate for the mining facilities in Sweden. The actual Harshrate in Asia is about 180 MH/s. Unlike the GPUs to be deployed in the Swedish Premises, there is no specified Hashrate in the product catalogue of the GPU model deployed in Asia. The GPUs model deployed in Asia were initially designed for purposes other than cryptocurrency mining but the Target Group modified and optimized those GPUs for mining purpose. Since the product catalogue of the GPUs deployed in Asia did not specify the Hashrate, a particular parameter for calculating the speed for mining, the

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## LETTER FROM THE BOARD

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Director cannot conclude any difference between the specified hash rate and actual hash rate of the GPU deployed in Asia and the Company has relied on the actual Hashrate of GPUs deployed in China to assess their efficiency. Given that the GPUs used in Asia mining facilities are from different suppliers and are of different models, it is not meaningful to compare the Hashrate of mining facilities in Asia to those newer and more updated mining facilities to be installed in the Sweden Premises.

According to the information provided by the Target Company, the actual Hashrate of the rigs deployed in Asia after optimization had been operated in a range between 180 MH/s to 184 MH/s. The projection has adopted a conservative approach to assume that each rig deployed in Asia performs at 180 MH/s, which is consistent with the actual Hashrate.

If the GPU does not perform the designed performance (i.e., 320 MH/s for those to be deployed in the Swedish Premises and 180 MH/s for those deployed in Asia), the Target Company can request the GPU supplier to replace the defected GPUs with new GPUs of the designed performance.

Since mining operation in Swedish Premises is expected to commence in August 2018, there is no actual Hashrate of the rigs to be deployed in Sweden.

3. reviewed public domain to understand the efficiency parameters of Ethereum network, such as Ether award mechanism, average data processing time, price of Ether. Below is the detailed observation on the date of Acquisition Agreement from the public domain, which are all consistent with the assumptions in the Valuation:
  - a) the block time of the Ethereum network was 14.7 seconds for forming a Block;
  - b) the block reward of the Ethereum network was 3 Ether awarded for every Block to be formed;
  - c) Ethereum Network Hashrate is 267,359,000 MH/s per day; and
  - d) The spot price quoted from a public domain (<https://www.coindesk.com/ethereum-price/>) of US\$631.23 as at 26 April 2018 at 19:35 which is around the time when the Acquisition Agreement was signed by the Vendor and the Purchaser.

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## LETTER FROM THE BOARD

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The Directors observed that the Target Company's actual performance is in line with the efficiency data as learned from the public domain stated in items (a) to (c) above. Further, the Directors noted that the Ethereum network is composed of all miners located in different parts of the world and the Target Company is only one of them. Hence, in view that (i) there is no single miner can affect the efficiency parameters of the Ethereum network; (ii) the efficiency parameters, in particular, the ETH Network Hashrate (MH/s) (i.e. the overall computational power of the network), block time (number of seconds to solve a block), block reward (i.e. number of Ether awarded for every block solved) apply to all miners who have joined the Ethereum network; and (iii) the major factor which differentiate the miners would be their respective computational power of the hardware (i.e. MH/s of GPU), the Board agrees with the assumption that the Target Company's ability to mine Ether is comparable to the network's average;

4. reviewed the hardware (GPU) purchase agreement, purchase orders and invoices to understand the costs of those hardware, and noted that each GPU costs US\$550 and 8 pieces of GPUs will be assembled as a rig. Each rig costs additional US\$560 for auxiliary gadget installation, and the total cost of each rig of US\$4,960 is consistent with the assumptions in the Valuation;
5. reviewed national statistics information to understand that the annual inflation rate in Sweden in 2017 is 1.8% whereas the management of the Target Company has taken a conservative approach to assume an annual inflation rate of 2.0%;
6. reviewed the hardware product catalogue to understand that the "mining performance" on Ether is 320 MH/s per GPU to be deployed in the Swedish Premises; and the Valuation assumes that each rig to be deployed in the Swedish Premises performs at 320MH/s;
7. reviewed actual "mining performance" on Ether is not less than 180 MH/s per GPU deployed in Asia; and the Valuation assumes that each rig deployed in Asia performs at 180 MH/s;
8. discussed with the management of the Target Company on future business development plan; and
9. reviewed the website of Amazon Web Services Inc. ("AWS") to understand the fee charged for similar HPC service.



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## LETTER FROM THE BOARD

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Service fee of HPC service mainly depends on computational power offered by the hardware. Computational power means the speed of processing complex data given a period of time. The higher the computational power a hardware is equipped, the more data can the hardware process within a period of time, and in turn, the better pricing bargain does a HPC service provider have. Customers of HPC service tend to choose those service providers offering hardware with higher computational power. Nonetheless, sometimes, customers may be willing to pay a higher fee in light of the reputation and track record of the HPC service provider.

To the best of the Directors' knowledge, information and belief, AWS offers its HPC service by providing computational power through leasing its GPUs to customers, such as scientific research and development companies as well as engineering companies, for solving complex, compute-intensive problems. Since the Target Company intends to conduct similar HPC service with similar computational power (i.e. speed of processing complex data with a period of time), hence, the HPC service provided by AWS is comparable to the HPC service to be carried out by the Target Company.

The HPC charge adopted in the Valuation is made reference to the charge for similar services and similar computational power offered by AWS, which is a major service provider in the HPC market. The Directors have considered the specification of the hardware to be deployed by the Target Company and the market price offered by AWS and another HPC service provider, namely Penguin Computing. AWS is a well-known global HPC service provider and hence, the Director considers AWS as a benchmark for pricing differentiation of similar service. Penguin Computing is a United States based company offering HPC service. Its customers are large airlines and accommodation websites. The price offered by Penguin Computing compared to that offered by AWS is at a discount of approximately 27.64%. Although the Target Company possesses the computational power which is comparable to that of AWS and Penguin Computing and the computational power is the most crucial factor affecting the fee charged by HPC service provided, being a new market participant without significant reputation and track record, the Target Company intends to offer a significant discount to appeal to potential customers, which is almost twice of the discount offered by Penguin Computing, in order to penetrate into HPC market within a short period of time. The Valuation has assumed that HPC service to be offered by the Target Company is charged a fee with a discount of 50.0% to similar HPC service offered by AWS, and hence, the Directors' are of the view that the assumed HPC charge is fair and reasonable.

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## LETTER FROM THE BOARD

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Having considered that the assumptions of the Valuation are in line with (i) the observation from the due diligence work above; (ii) the historical data of efficiency of Ethereum network during the past 6 months up to the date of Acquisition Agreement; and (iii) the research in relation to electricity costs (major operating expenses for any cryptocurrency mining operation) in different major countries, the Directors considered that the above assumptions are fair and reasonable.

The Group's reporting accountant, TANDEM (HK) CPA Limited, has examined and reported on the calculations of the profit forecast for the year ending 31 December 2025 on which the Valuation were based.

The Board has reviewed the profit forecast of the Target Company and has discussed with the management of the Target Company the principal assumptions upon which the profit forecast were based. The Board has also considered the above report from the reporting accountant regarding the calculations of the profit forecast for year ending 31 December 2025 on which the Valuation in respect of the Target Group prepared by the Valuer were based on the basis of the foregoing, the Board confirms that the profit forecast has been made by the Directors after due and careful enquiry.

A letter from the Board regarding the profit forecast in the Valuation and the report from the reporting accountants are set out in the Appendices II and III to this circular respectively in compliance with Rule 19.62 of the GEM Listing Rules. The Group has submitted the report from the reporting accountant and the letter from Board regarding the profit forecast to the Stock Exchange in compliance with Rules 19.62(2) and (3) of the GEM Listing Rules.

### INFORMATION OF BLOCKCHAIN TECHNOLOGY AND ITS APPLICATIONS

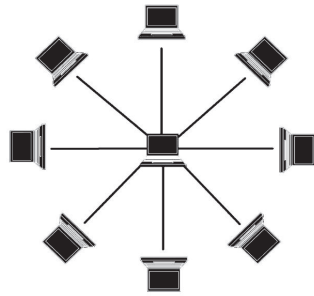
#### **Blockchain technology**

Unlike conventional online database which stores information in or validates online activities by a centralized server or a super computer, Blockchain technology is a distributed database system that acts as an "open ledger" to store and manage online transactions. The information of transaction is simultaneously recorded over multiple, distributed database systems across the globe. Each validated record in the database is called a "block" which contains details, such as identities of transacting parties, transaction amount and timestamp, etc. Since each "block" is mathematically linked to the previously validated "block", it is nearly impossible for anyone to alter information about the records retrospectively. Since Blockchain is immutable – information remains in the same state for as long as the network exists, Blockchain can be considered as a trustworthy "big database". Below is the diagram illustrating the functionality of Blockchain network,

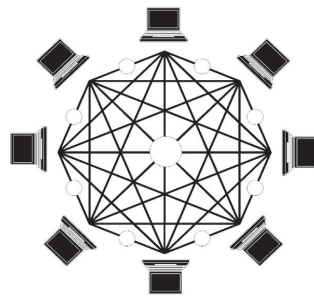
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## LETTER FROM THE BOARD

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Conventional database:  
All online activities are validated and recorded  
by a centralized server or super computer

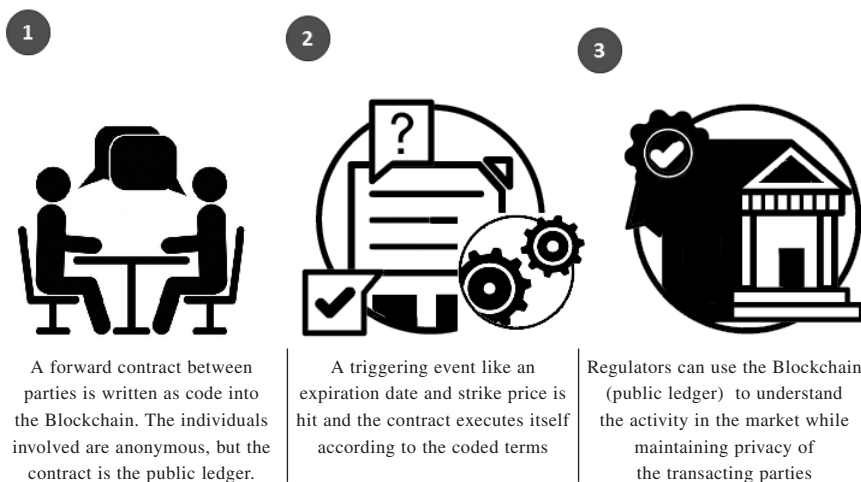


Blockchain network:  
All online activities are validated and  
recorded across multiple super computers  
across the globe

### Ethereum and Smart Contract

Ethereum is an open-source, public, Blockchain-based distributed computing platform and operating system featuring automatic contract (commonly known as “**Smart Contract**”) functionality. Ethereum is a decentralized programmable Blockchain-based software platform. The code written on the Ethereum Blockchain is immutable and distributed.

Smart Contract is the major application of Ethereum. A Smart Contract is a computer protocol intended to digitally facilitate, verify, or enforce the negotiation or performance of a contract. Smart Contract is able to facilitate the exchange of money, property, shares, or anything of value without a middleman. Terms of transaction are implemented and encoded in programming language, which can then be executed automatically once the pre-determined conditions are satisfied. The programmed code serves to imitate conventional commercial agreements by digitalizing transactions and authenticating them through the Blockchain technology. In order words, Smart Contract automates transaction process. Below is the diagram illustrating the functionalities Smart Contracts.



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## **LETTER FROM THE BOARD**

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### **Tokenization and Ether**

Tokenization is a process of embedding data of a real world transaction in a mathematical rules and/or open source code algorithms format (commonly known as “cryptocurrency”) on a Blockchain network. The cryptocurrencies are used in various applications (such as payment, Smart Contract) of the Blockchain network. They are transferrable and provide a secure and clear trace of ownership history. Ether is a cryptocurrency whose Blockchain is generated by the Ethereum platform. Ether can be transferred between transacting parties. Network participants (miners) will be rewarded with Ether by Ethereum network for validating Smart Contract transactions. Since supply of Ether is limited by the Ethereum network, Ether’s price is primarily driven by demand of use of Ethereum network. The more Smart Contract transactions are conducted, the higher is the demand for Ether and hence, the higher is the price of Ether.

### **INFORMATION OF THE VENDOR**

The Vendor is an investment holding company with its subsidiaries engaged in cryptocurrency mining business in Asia and Europe. The sole shareholder of the Vendor is an investment holding company with its other subsidiaries as service providers of distributed ledger technologies (DLT) with offices in Hong Kong and Tokyo. The ultimate shareholders of the Vendor include, the Vendor’s Nominee, senior management and an employee of the Target Company, individual investors, and their respective spouse. Save as disclosed hereto, these ultimate shareholders have no other relationship with the Vendor’s Nominee.

As at the Latest Practicable Date, the Vendor’s Nominee is holding all the issued shares of the Target Company for and on behalf of the Vendor. The Vendor’s Nominee shall, under the direction of the Vendor, transfer all the issued shares of the Target Company to the Vendor immediately prior to the completion of the Acquisition.

### **INFORMATION OF THE TARGET COMPANY**

The Target Company is a company incorporated on 21 December 2015 in Gibraltar with limited liability. Currently, the Target Company is principally engaged in cryptocurrency mining, in particular, the Ether, commonly known as “ETH” and in mid-to-long run, it plans expand the business scope into the provision of HPC service to third-party clients.

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## LETTER FROM THE BOARD

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### **Business model**

The hardware (mainly GPUs) deployed by the Target Company can be used for the existing cryptocurrency mining and the planned HPC service. Cryptocurrency mining is a technical term referring a business earning cryptocurrency awarded automatically by the Blockchain through verification of online transaction. Revenue is generated from trading of those awarded cryptocurrencies in secondary market. While HPC service is the provision of intensive computing services to third-party clients by using the same GPUs (after certain functionality adjustments). Fixed service income is earned from the customers who subscribe the Target Company's HPC service. Simply speaking, HPC service is similar to leasing of existing GPUs to third party customers for computation services. In order to switch from cryptocurrency mining business to HPC service, the Target has engaged the Technical Support Company for to adjust the functionality of its hardware (mainly GPUs). The Target Company does not need to employ any additional technical expertise and can rely on existing management and the Technical Support Company for technical know-how. However, the Target Company may consider recruiting a marketing team to promote HPC service to third party customers.

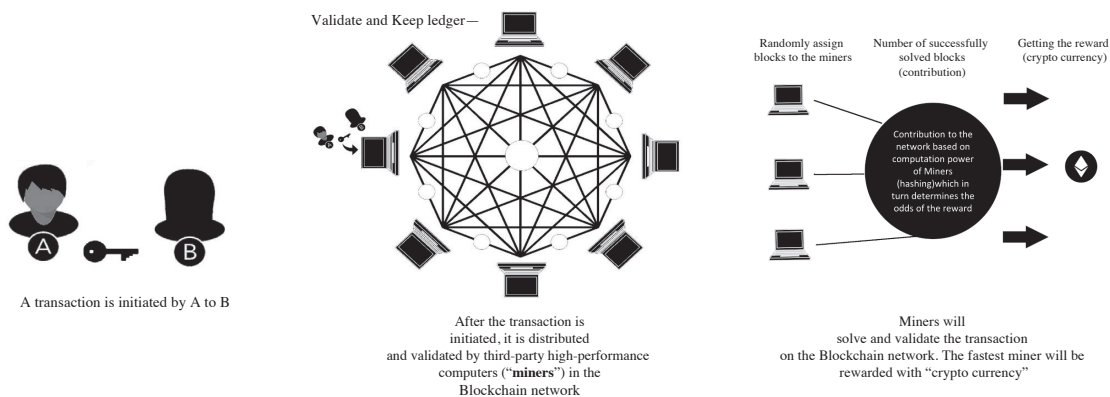
### **Cryptocurrency Mining**

Cryptocurrency (e.g. Ether) is not issued by a central bank or any government, and therefore is not legal tender. It is issued and managed according to predefined mathematical rules and/or complex open source code algorithms (i.e. the keys) in the Blockchain network. Each unit of cryptocurrency has a unique set of keys. Whenever there is an activity (such as online transaction) using the cryptocurrency on a Blockchain network, the keys need to be solved and validated by third parties before completion the activity (i.e. online transaction). Other than purchasing cryptocurrency on secondary market (such as cryptocurrency exchange), people can also be awarded with or "earn" unit(s) of cryptocurrency by conducting automatic calculations to solve and validate the keys, with the use of high-performance computers (the "**miners**"). The process of solving and validating the unique set of keys for cryptocurrency award is called mining. Miners are competing with each other to solve and validate the unique set of keys in order to "earn" the cryptocurrency. The Target Company initially aims at conducting automatic calculation over the Ethereum network for the reward of Ether. Below is the diagram illustrating how cryptocurrency mining works.

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## LETTER FROM THE BOARD

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### Business flow

As disclosed above, the Target Company will be rewarded with Ether when it solves the mathematical rules and algorithms to create the latest Block on the Ethereum network. On average, a new Block is added to the Blockchain for the latest transactions successfully validated by the network every 15 seconds. In general, 3 Ether will be rewarded for solving the mathematical rules and algorithms, and such awarded Ether will automatically be deposited into the E-Wallet of the Target Company.

There are two channels of selling Ether, (i) the cryptocurrency exchanges and (ii) over-the-counter (“OTC”) transactions.

- (i) The most common channel for transacting cryptocurrency is through different cryptocurrency exchanges all over world, each of which has different level of reputation, number of registered users, liquidity, transaction spreads, etc. The Target Company will only open a trading account with those cryptocurrency exchanges regulated by a developed jurisdiction (such as Japan and the United States). After completing account opening process, the Target Company will either (i) link its E-Wallet (with awarded Ether) to the exchange platform or (ii) open another E-Wallet maintained in the exchange platform and then transfer the Ether inventory to the E-Wallet designated for that particular exchange platform. Also, bank account information will be provided to the cryptocurrency exchange for settlement of cryptocurrency transaction with fiat currency. For instance, whenever the Target

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## LETTER FROM THE BOARD

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Company inputs a “sale order” online (such as number of Ether subject to the disposal, market order or limit order) and if such transaction order has been matched, the exchange platform will notify the Target Company for any successful transaction and will deduct the cryptocurrency from the Target Company’s E-Wallet and at the same time transfer the corresponding cash amount to the Target Company’s registered bank account via SWIFT international wire transfer. Currently, the Target Company is only using Kraken exchange to sell their Ether inventory. Kraken is a cryptocurrency exchange that was founded in July 2011 in San Francisco and has commenced operation since 2013. Kraken is currently partnering with the Munich-based Fidor Bank to offer its European customers regulated bitcoin trading services and it is the first exchange to display its market data on the Bloomberg Terminal. Kraken currently supports trading in 17 different cryptocurrencies with Euro, USD, Canadian Dollar and Japanese Yen.

- (ii) The relative uncommon way of selling cryptocurrency is to sell it directly to a counter party, known as the over-the-counter trade. For the over-the-counter trade, the Target Company will negotiate with the counter party for the units of cryptocurrency and price subject to the proposed transaction and exchange their cryptocurrency with fiat currency with the counter party directly without using an exchange platform. Over-the-counter trade requires case-by-case approval from the Board subject to background check of the counter-parties.

Historically, the Target Company did not sell its Ether over-the-counter. The Target Company did not and will not initiate its Ether trade over-the-counter. The Target Company will only enter into over-the-counter trade for its Ether trade at the request of its customers taking into account factors such as the length of relationship with the customers, the credibility of the customers, the quantity of Ether involved and the offer price for the Ether made by the customers.

### **Fixed assets and capital expenditures**

The Target Company is currently deploying 2,200 rigs of total 2,200 kW power capacity mainly in Asia, and expects to deploy additional rigs in the Swedish Premises in the second half of 2018 to conduct cryptocurrency mining. According to the data center (with electricity supply) leasing agreement dated 29 April 2018 entered into by the Target Company and the Data Center Service Provider, the committed electricity supply of the Swedish Premises is 8,000 kW. The Target Company has also partnered with the Technical Support Company well-known for optimizing, monitoring, and maintaining GPU performance. In addition, the Target Company’s GPU supplier is also a globally-renowned manufacturer and supplier of computer graphic card, personal computers and other components.

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## LETTER FROM THE BOARD

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The existing 2,200 rigs mainly deployed in Asia were acquired from a third party. In order to fully utilize the capacity of the rigs, the Target Company has partnered with the Technical Support Company to monitor and improve the cryptocurrency mining efficiency. In addition, the Target Company should ensure stable electricity supply and sufficient land area for accommodating the deployment of rigs without any interference.

Target Company plans to deploy 5,000 rigs at a purchase cost of US\$24.8 million of expected power consumption of 6,200 kW out of total capacity of 8,000 kW in the Swedish Premises in the second half of 2018. Power supply for the number of rigs increases to 36,710 in 2021 is 45,520 kW. The additional rigs to be deployed in the Swedish Premises is expected to commence operation from August 2018. Nevertheless, the management of the Target Company has taken a conservative view in the Valuation, expecting that the Target Company will gradually deploy a total of 5,000 rigs until first half of 2019 with an annual inflation rate of 2.0% on the purchase cost of rigs.

The projected number of rigs adopted in the Valuation Report of 3,773 in 2018 and gradually to 36,710 in 2021 is based on the assumptions that

- (i) cash generated from operation will mostly be reinvested as capital expenditures, which are mostly the purchase cost of additional rigs;
- (ii) the Target Company does not obtain any borrowing from financial institutions for further capital expenditures on purchase of rigs; and
- (iii) rigs are expected to be deployed for either mining or HPC service

The Directors consider that the above assumptions (ii) and (iii) are very conservative because the Target Company would be able to pledge the rigs to secure borrowings from financial institutions for purchasing more rigs to enlarge the scale of cryptocurrency mining. In addition, in reality, rigs, once being installed, will operate without interruption.



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## LETTER FROM THE BOARD

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The Directors has reviewed the purchase cost and product specification of the GPUs, Ethereum Network efficiency and operating records of the Target Company and are of the view that cash generated from operation derived from the projection adopted in the Valuation is fair and reasonable and hence, the assumption (i) is also fair and reasonable.

As shown in page I-23 of the Valuation Report, the capital expenditure of the Target Company will be increased from US\$19.7 million for 2018 to US\$76.3 million for 2021 and the capital expenditure for 2025 will be US\$191.9 million. Such capital expenditure projection is based on the unit cost of a rig of US\$4,960 with an annual inflation rate of 2.0%, which is similar to the annual inflation rate in Sweden in 2017 of 1.8%. The Directors has reviewed the purchase orders of the GPUs (which are assembled together to form rigs for mining purposes) and ancillary gadgets and are of the view that the assumptions of capital expenditure in the Valuation is factually supportable. Further, the Board noted that the selling price of the GPUs has been decreasing over time, of which a GPU model similar to the one the Target Company is currently using in Asia mining operation has decreased approximately 41.5% as at 9 July 2018, as compared to the price as at 9 July 2017. Our Chief Strategy Officer, Mr. Tong Yi, Tony, is also of the view that the price of computing hardware (including GPU) is unlikely to increase in the long run in light of continuous technological advancement. Based on the historical trend of the price of the GPUs and the view of Mr. Tong Yi, Tony, the Directors agreed with the projections on the capital expenditures for the acquisition of the rigs for the four years ended 31 December 2021 in the Valuation.

The Target Company will primarily finance its capital expenditure by internal resources generated from its operation and, as disclosed above, the Target Group would also be able to secure borrowings from financial institutions for future capital expenditure given that it has sufficient assets, i.e. rigs as security for future loans.

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## LETTER FROM THE BOARD

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### Financial Information

Set out below is the financial information of the Target Company for the two years ended 31 March 2018) based on the unaudited financial statements for the same period and prepared in accordance with generally accepted accounting principles in Hong Kong, as provided by the Vendor:

	<b>For the period from the date of incorporation to 31 March 2017</b>	<b>For the year ended 31 March 2018</b>
	<i>(note 1)</i>	<i>(note 2)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
	(approximately)	(approximately)
Turnover	not applicable	15,789
Loss before taxation	not applicable	5,939
Loss after taxation	not applicable	5,939

*Note 1:* As advised by the Target Company, the financial figures for the year ended 31 March 2017 is not applicable as the Target Company only commenced its operation from 1 June 2017.

*Note 2:* The loss after taxation for the year ended 31 March 2018 included a management fee of HK\$12,003,431 charged by its parent company. Such management fee represents the distribution of sales proceed of Ether to its sole immediate holding company. After completion of the Acquisition, no management fee of the aforementioned nature will be paid. Instead, the distribution of profits of the Target Company will be through declaration of dividend.

As advised by the Target Company, for the year ended 31 March 2018, the Target Company mined approximately 2,406 units of Ether generating revenue of HK\$15.8 million and transacted approximately 1,944 units of Ether within the price range from approximately US\$529 to US\$1,171 of an average price of approximately US\$841.

The unaudited net liabilities of the Target Company as at 31 March 2018 was approximately HK\$5.9 million. As at 31 March 2018, the Target Company has 2,200 rigs deployed with book value of HK\$34.8 million as its major assets, and shareholder's loan and management fee payable to the Vendor as HK\$42.9 million as its major liabilities. Pursuant to the Acquisition Agreement, the Vendor has undertaken that the Target Company shall not owe any amount to any shareholder upon completion of the Acquisition.

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## LETTER FROM THE BOARD

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### FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION ON EARNINGS, ASSETS AND LIABILITIES OF THE GROUP

Following completion of the Acquisition, the Target Company will become an indirect non wholly-owned subsidiary of the Company and the financial information of the Target Company will be consolidated into the financial statements of the Group. Assuming that the completion of the Acquisition has been taken place at 31 March 2018 and no amount will be owed to the shareholders by then pursuant to the Acquisition Agreement, the effect on earnings, assets and liabilities of the Group are as follow:

#### Earnings

The Acquisition has no immediate effect on the turnover and loss of the Company. The Acquisition is expected to enhance the earnings potential of the Group in the near future.

#### Assets

Upon waiving of amount owed to shareholders, the Acquisition would increase the total assets and net assets of the Group by the amount of HK\$38.4 million and HK\$37.0 million.

#### Liabilities

Upon waiving of amount owed to shareholders, the Acquisition would increase the total liabilities of the Group by the amount of approximately HK\$1.4 million.

### ACCOUNTING TREATMENT OF CRYPTOCURRENCIES

#### (a) Revenue from cryptocurrencies mining

After completion of the Acquisition, the Enlarged Group shall generate revenue from cryptocurrencies mining. The Group receives consideration for providing such cryptocurrencies mining activities in the form of cryptocurrencies. The Group has determined that the substance of its cryptocurrencies mining activities falls under service provision under the scope of HKAS 18 Revenue notwithstanding that there is no contractual arrangement with such open source software (being the cryptocurrencies protocol). Furthermore, given the nature of the cryptocurrencies protocol the Group is unable to determine in advance the consideration that it will receive, if any, for the cryptocurrencies mining services that it provides and, therefore, the Group is unable to estimate reliably the outcome of its mining activities in advance of actual receipt of consideration in the form of cryptocurrencies. Due to the uncertainty over both the timing and amount of the consideration that the Group will receive for undertaking mining activities, revenue should only be recognised on actual receipt of cryptocurrencies as consideration for services provided.

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## LETTER FROM THE BOARD

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Cryptocurrencies received for mining activities are, therefore, recognised as revenue at fair value on the day of receipt in a private cryptocurrencies wallet controlled by the Group and at the same time recognised as cryptocurrencies received as an asset in the financial statements. As revenues from cryptocurrencies mining activity is measured on an as received basis, revenues are neither earned on a constant basis over time, nor necessarily in a direct relationship to computer processing capacity utilised. As a consequence, future generation of cryptocurrencies and, therefore future revenues, from cryptocurrencies mining activities may be subject to volatility due to factors outside the Group's control.

**(b) Cryptocurrencies received**

Hong Kong Financial Reporting Standards do not define the term “commodity”. However, the guidance in HKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (“**HKAS 8**”) allows an entity to consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practice to the extent that these do not conflict with the requirements of the HKFRS and the Hong Kong Accounting Standards Board Conceptual Framework. Under United States Generally Accepted Accounting Principles (US GAAP) as set out in the Master Glossary of the Accounting Standards Codification, a commodity has been defined as “products whose units are interchangeable, are traded on an active market where customers are not readily identifiable, and are immediately marketable at quoted prices.” Based on such definition and the guidance in HKAS 8, cryptocurrencies are considered as a commodity notwithstanding that cryptocurrencies lack physical substance.

The Group's activities include trading cryptocurrencies, primarily the buying and selling of cryptocurrencies and to a lesser extent trading in other cryptocurrencies trading products and, therefore, subsequent to initial recognition, cryptocurrencies received (whether received as consideration for mining activities or acquired through purchase) is held at fair value less costs to sell, reflecting the Group's purpose of holding such cryptocurrencies received as a commodity broker-trader in accordance with HKAS 2 Inventories. As a result of the cryptocurrencies protocol, costs to sell cryptocurrencies received are immaterial and no allowance is made for such costs. Changes in the amount of cryptocurrencies based on fair value are included in profit or loss for the period.

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## LETTER FROM THE BOARD

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**(c) Sale of Ether or other cryptocurrencies**

Cryptocurrencies received is derecognised when the Group sells the cryptocurrencies through its trading activities or when the Group otherwise loses control, and, therefore, access to the economic benefits associated with ownership of the cryptocurrencies received.

**(d) Fair value of cryptocurrencies**

The Target Company recognised the cryptocurrencies received which is measured at fair value using the quoted price in the CoinDesk at 23:59 Coordinated Universal Time as at 31 March 2018. CoinDesk is an information services providing company for the cryptocurrencies and blockchain technology community which published a Bitcoin Price Index and is widely referenced by several financial journalism such as Bloomberg, NASDAQ, The New York Times, CNBC, Business Insider, The Wall Street Journal, Financial Times, etc.

The fair value will be a Level 1 input under the HKFRS 13 Fair Value Measurement fair value hierarchy as the price on the CoinDesk represents a quoted price (unadjusted) in an active market for identical assets. Changes in the amount of cryptocurrencies based on fair value will be included in profit or loss for the period.

**(e) Contingent consideration arrangement**

The Vendor warranted and indemnified the Company that the Target Company could produce certain amount of Ether for the agreed period. It constitutes a contingent consideration arrangement under HKFRS 3 Business Combinations.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration is measured at fair value at each reporting date and changes in fair value are recognised in profit or loss.

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## LETTER FROM THE BOARD

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### KEY FACTORS AFFECTING THE PERFORMANCE OF THE BUSINESS

The performance of the business will be affected by the following key factors:

- (a) volatility of market price of Ether;
- (b) technological change resulting in change in network efficiency parameters, deterioration of which may affect the number of Ether mined or increases in operating expenses;
- (c) the renewal of the lease of data center with stable and inexpensive power supply.

As contracted with the Data Centre Service Provider and the Technical Support Company, the mining efficiencies (such as MHS and power consumption per rigs) and operating expenses (such as electricity and rental expenses) will be maintained within agreed service level. Under certain circumstances that the rigs are being operating below the contracted service level, the Target Company will be compensated by the respective service providers.

Management of the Target Company acknowledges that historical trading price of Ethers was volatile. Therefore, the Target Company intends to deploy part of the GPUs to provide HPC service to third party clients in mid-to-long run for earning fixed fee income which is not correlated to any cryptocurrency market price volatility. HPC is an emerging industry by the use of super computers and parallel processing techniques for solving complex computational problems of different industries, such as biosciences, oil and gas industry modeling, electronic design automation, etc. The Target Company is considering to utilize a portion of its existing rigs to provide computation services to customers to solve their complex and computation-intensive problems specific to their respective industry.

### KEY STAFF OF THE TARGET COMPANY

As at the Latest Practicable Date, the Target Company had 6 staff including directors and senior management. Below are the roles and responsibilities of the key staff:

#### **Miles Pelham**

Mr. Pelham is the founder and currently the Chief Executive Officer of the Target Company. He has 21 years of experience in finance industry, during which time he had managed investment portfolios for leading global banks (such as Credit Suisse, Nomura, and Barclays). Before founding the Target Company, he was the Global Head of Convertible Bonds for Mizuho Bank.

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## LETTER FROM THE BOARD

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Mr. Pelham is responsible for the overall management of the Target Company and executing the business plan and budget given by the Board of directors after the completion of the Acquisition. Mr. Pelham also manages the Know-Your-Client procedure of the counter parties such as cryptocurrency exchanges.

### **Laurent Bruchez**

Mr. Bruchez is currently responsible for the operation in Europe, in particular the Swedish Premises area. He has 15 years of experience in risk and portfolio management of traditional and alternative asset classes. He has been providing cryptocurrency related advisory services to institutional investors since 2013.

Mr. Bruchez oversees the deployment, optimization and monitor of the GPUs performance in the Swedish Premises. He is going to continue monitor and communicate with the Technical Support Company to ensure the GPUs are being operated according to the signed contract. Mr. Bruchez also handles the trading activities of cryptocurrencies.

### **Gemini Lo**

Mr. Lo is currently responsible for the operation in China. He has well over 15 years solid marketing and business development experience. Mr. Lo held senior management positions at corporations in various industries such as Internet marketing, management consulting and media.

Mr. Lo manages the deployment, optimization and daily operation of the GPUs in China. He is also monitoring the mining performance of Data Center Service Provider in China.

### **Adam Barker**

Mr. Barker is currently the Chief Strategy Officer of the Target Company. Adam has spent the last 10 years working in finance, both at investment banks (Merrill Lynch, Barclays) and hedge funds (Bridgewater).

Mr. Barker has been responsible for reviewing and negotiating the terms and conditions of the contracts with the major contracting parties such as the Technical Support Company, and the Data Center Service Provider. He is also responsible for negotiation with those service providers and will also communicates with external investor for fund-raising.

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## LETTER FROM THE BOARD

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### MANAGEMENT OF BUSINESS OF THE TARGET COMPANY

After the completion of the Acquisition, the Target Company will become a 51%-controlled subsidiary of the Group. Pursuant to the shareholders' agreement to be entered upon completion of the Acquisition, the Group and the Vendor are entitled to appoint two members and one member respectively into the board of directors of the Target Company. In addition to Mr. Teoh Chee Keong Ronnie, the chief executive officer of the Group, who is responsible for overall management of business of the Group, including the Target Company, the Group has also hired Mr. Tong Yi, Tony to assist in managing the Target Company after the Completion of the Acquisition. Mr. Tong has over 3 years of experience in Blockchain industry and 18 years of experience in finance industry. He is currently the chief strategic officer of the Group. Mr. Tong is the co-founder of Hong Kong Blockchain Association, a non-profit organization whose mission is to educate the general public of Blockchain technology and promote its commercial application. Recently, Mr. Tong had been invited as a guest speaker on cryptocurrencies, Blockchain Technologies and gaming business at the Singapore Blockchain Economic Forum, Gaming Expo Macau, and APEC, Asia Gaming Summit.

### INTERNAL CONTROL OF BUSINESS OF THE TARGET COMPANY

Set out below are the specific internal control measures to be implemented on cryptocurrency mining business of the Target Company.

#### **Cryptocurrency inventory**

The Target Company shall prepare a statement of cryptocurrency inventory balance within seven business days after each month end, together with balance of beginning of the month, Ether (or other cryptocurrency) being produced during the month, Ether (or other cryptocurrency) being sold during the month and balance of end of the month. The monthly statement will be reconciled against the Ethereum platform, which is an open domain, recording all new Ether being "mined" and transaction record. The statement will be signed-off by the staff preparing the monthly statement, another staff performing reconciliation and Miles Pelham, the chief executive officer of the Target Company before being submitted to the Group.

At the beginning of each financial year, a minimum number of Ether to be produced will be mutually agreed by the Group, the Vendor and the Target Company. The Vendor warranted and indemnified the Purchaser that the Target Company could produce certain amount of Ether during the period between the Completion Date and the first anniversary date of the Completion Date.



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## LETTER FROM THE BOARD

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### **Sale of cryptocurrency**

Sale of cryptocurrency shall be approved by both the board of directors of the Target Company and the chief executive officer of the Group, who mainly consider the price of Ether and the reputation of counterparty. The Target Company shall submit the application for disposal, detailing information of cryptocurrency exchange, information of the counter-party (in case of over-the-counter transaction), types of trade order with target price (market order or limit order), expected time of disposal (within 7 days), expected gross proceeds and net proceeds after transaction fees. After obtaining the approval of application for disposal by the chief executive officer of the Group, the Target Company is permitted to sell the Ether (or other cryptocurrency) in accordance with the application.

However, the Group also acknowledges price volatility of cryptocurrencies. To allow the Group after the completion of the Acquisition to execute transaction order in timely manner, save for over-the-counter transactions which the Board shall have the absolute authority, the Group plans to grant a general mandate annually to the Target Company for selling Ether (or other cryptocurrencies) at cryptocurrency exchanges that Target Company held account with.

Under the general mandate, the Target Company is required to sell the Ether being awarded from the Ethereum network within 24 hours from the time of obtaining such reward. The sale should be transacted through an approved exchange platform at the quoted spot price, subject to the condition that the selling price in any event must not be lower than 120.0% of cost of mining. The cost of mining is determined by the actual cost structure of mining business of the Target Company, including rental and electricity cost contracted with the Data Center Service Provider, insurance cost, security monitoring cost, staff cost, hardware maintenance cost, payment to Technical Support Company. Please also refer to the section headed “The Valuation” in the Letter from the Board for the contracted cost amount.

The cost components of mining business have been contracted with different service providers and it is the Group’s internal control policy to request all operating subsidiaries to submit monthly management accounts to the Company for monitoring purpose. In addition, any one-time expenses over US\$50,000 can only be incurred by the Target Company with the prior consent of the Company.

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## LETTER FROM THE BOARD

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In order to protect the Group from the downside market price movement of Ether, whenever the price of Ether reaches 120.0% of cost of mining, the chief executive officer of the Group will convene a board meeting (in person or by telephone conference) as soon as practicable to decide that the authority of selling Ether will be dedicated to the Board within a price range of 120.0% of cost of mining. If the market price of Ether falls below 120% of cost of mining, the Target Company will continue the mining operation. The Ether will be held as the inventory for future trading until the market condition and the trading price of Ether has improved. During the period of adverse market condition, the Board and senior management of the Target Group will closely monitor the market and decide the Ether trading manner in order to cope with and adapt to the situation.

Since all selling orders must be conducted through an approved exchange platform, any executed buy-and-sell order shall be automatically matched by the exchange platform according to the best ask price and bid price available. The Target Company is required to submit the daily report within 24 hours from the time of order execution to the chief executive officer of the Group to demonstrate the order being executed at the best price then available. The chief executive officer will review and assess whether the daily aggregate executed orders are the best execution based on the principle of “taking all reasonable steps to obtain the best possible result”, taking into account price, costs, speed, likelihood of execution and settlement, size of the order. Pursuant to the trading policy, the management of the Target Company shall not execute the sale order at an average price of a discount more than 30.0% of highest execution price of the preceding 24-hour period. While the Board has full discretion to revise or even suspend any granted general mandate from time to time, it will normally review the general mandate in each financial year. To the best knowledge of the Directors, so far the cryptocurrency market seldom happened an abrupt drop in price of Ether of 30.0% or more in a period of 24 hours. In the event of a sudden devastating drop in the price of Ether, the Board will hold an urgent meeting to evaluate the conditions and take direct control of the sale order from the Target Company in order to tackle the abrupt market situation.

Such specified trading rule will be pre-set by the Board in advance in the cryptocurrency trading account. No trade orders could be made by the Target Company if such order deviates from the specified trading rule set in the cryptocurrency trading account. Such trading policy will become effective after Completion.

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## LETTER FROM THE BOARD

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Since the Target Company is principally engaged in cryptocurrency mining business, the Group does not expect the Target Company will actively purchase any cryptocurrency on the secondary market. As such, the general mandate is only limited to sale of cryptocurrency on the approved exchange platform. Any purchase of cryptocurrency (if any) is required to obtain approval from the Board on a case-by-case basis, with reasons for such purchase being clearly specified for consideration.

For the avoidance of doubt, the decision of transacting cryptocurrencies completely rests on the Board. The Target Company can only transact cryptocurrencies either with the Board's written consent on case-by-case basis or with general mandate (only for the case of sale and subject to annual review).

It is the Group's policy that cryptocurrency trading platforms regulated by a developed jurisdiction (such as Japan and the United States) are the mostly preferred transacting parties. However, subject to the approval of the Board and results of background check of the counterparties, over-the-counter transaction may also be considered on a case-by-case basis, in particular the long-standing customers of the Group. All approval for trading cryptocurrency made and executed (together with consideration given for such approval) is required to be documented for at least 7 years.

### **Security of Cryptocurrency inventory**

Since cryptocurrency is considered as a tradable and liquid asset, the security of which is of highly importance to the Group. Cryptocurrency is either stored in the online network (commonly known as "E-Wallet") of the regulated cryptocurrency exchange (as a custodian) or the E-Wallet of the Group. Before opening accounts with a new cryptocurrency exchange, a thorough due diligence process will be undertaken to security of cryptocurrency exchange as a custodian. Area of consideration include (i) how the exchange manages clients' cryptocurrencies; (ii) how the authentication on accounts works; (iii) whether or not the exchange is regulated by a developed jurisdiction; and (iv) reputation of the exchange and its executives.

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## LETTER FROM THE BOARD

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It is also the Group's policy to request all cryptocurrencies never be left on the exchange's network when no active trading is taking place. All cryptocurrencies not being actively traded should be transferred from all exchanges' network to those managed by the Group. In order avoid hacking or technical shutdown of the Group's network, all cryptocurrencies will be stored in the offline devices (commonly known as "cold wallet") owned by the Group. Every cryptocurrency will be stored in several multi-signature cold wallets, and each cold wallet will be managed by a computer network physically isolated from unsecured networks, such as the public Internet or an unsecured local area network. These multi-signature cold wallets are stored in individual safes, that are stored within a larger safe within a secured room or facility with no windows, cameras or WIFI connection that can only be accessed by high security clearance personnel. Security cameras are placed outside of this room to monitor personnel movements and checked daily to ensure that they are operational. The location of this room should be known only to high security clearance personnel. All passwords to the cold wallet will be recorded on a non-flammable material, such as Titanium. Several copies of this non-destructible password record should be made per wallet, and each copy should be stored in a separate safe within a bank, per geography, for example one in a Hong Kong bank, another in a Swiss bank. Only select members of the senior management can request one seed key copy from each bank, so that one executive is not able to access all the stored seed key copies.

### **Operating expenses**

Land and electricity is indispensable for cryptocurrency mining business. Other salient operating expenses of operating a cryptocurrency mining business are mainly for setup, optimization, monitoring and maintenance of the rigs operated in the data centre. In order to control the operating expenses of the Target Company, the Group and the Vendor shall mutually agree the following operation at the beginning of each financial year:

- a) the engagement of data centre service provider;
- b) the engagement of technical support service provider;
- c) the monthly fee for the rental of data centre building and shelves, including power consumption;
- d) the monthly fee for the technical consultancy fee; and
- e) any alternation of the agreed terms.

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## LETTER FROM THE BOARD

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The Target Company has selected a Switzerland-based technology consultancy firm as a service provider for the setup, optimization, monitoring and maintenance of the GPU performance. In addition, the Target Company has entered into a data center (with electricity supply) leasing agreement on 29 April 2018 with a global data center infrastructure service provider to confirm the lease of Swedish Premises and electricity supply.

Save for the costs described above, there are no other operating expenses, charges and fees which would be payable by the Target Company for its daily operation at the Swedish Premises, and any one-time expenses over US\$50,000 can only be incurred with the prior consent of the Group.

### **Independent verification**

The Group intends to engage an independent audit firm to perform IT audit to regularly examine the management controls within the information technology infrastructure of the Target Company. The purpose of conducting IT audit is to ensure proper infrastructure and procedures are in place and being implemented by the Target Company in carrying on its business operation.

### **REASONS FOR AND BENEFITS FROM THE ACQUISITION**

The Group is principally engaged in (i) the retail sales and wholesales of wine products and other alcoholic beverages; and (ii) the provision of financial services including corporate financial advisory services and asset management services.

As disclosed above, cryptocurrency (including Ether) will be automatically rewarded from third-party validation in the Blockchain network, some of which can be traded on easily accessed secondary market (such as, cryptocurrency exchanges) with high liquidity. According to CoinMarketCap, Ether has been the second highest trading volume among all other cryptocurrencies as of 15 June 2018. Hence, Ether has been gradually considered as an asset class with monetary value.

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## LETTER FROM THE BOARD

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Given that Blockchain technology has the features that (i) data to be exchanged directly between different contracting parties within a network without the need for intermediaries; (ii) the contracting parties can interact with encrypted identities (anonymously); and (iii) each transaction is then added to an immutable record and distributed to different database systems across the globe, the Board is of the view that Blockchain technology is expected to offer enormous potential for bringing about radical change in wide range of industries, business models and operating processes, such as payment settlement, accounting or customer loyalty programs, and hence, this new technology is likely to catch on gradually and the extensive commercialisation will depend on how it develops in the near future. Thus, it is expected that with the widespread of the application of the Blockchain technology across different industries, automatic third-party transaction validation for the reward of cryptocurrency (i.e., cryptocurrency mining) can be one of the prospective emerging industries.

According to the Acquisition Agreement, the Vendor undertakes to the Purchaser that the Target Company shall produce 45,000 Ether during the 12-month period commencing from the Completion Date. If the Target Company fails to deliver the minimum number of Ether undertaken by the Vendor, the compensation will be settled on Ether basis, which means the Vendor is required to compensate (from its internal resources) the exact shortfall number of Ether to the Purchaser.

The minimum number of Ether undertaken by the Vendor is determined by the Ethereum network parameters, the efficiencies of rigs deployed and number of rigs deployed. Such minimum number of Ether could be calculated as follow:

Number of Ether = Number of rigs deployed x Realized MH/s per rig x MH/s of the Ethereum network per year (*note 1*) x (1 – mining pool fee)

*Note:*

1. MH/s per year = Block reward per day (*note 2*)/Hashrate of Ethereum network per day x 365 days.
2. Block reward per day = 60 sec/Block time x 60 minutes x 24 hours x Block Reward.

Number of Ether expected to be contributed by operation in Asia:

2,200 rigs x 180 MH/s per rig x (1 – 1.5% default rate) x 0.0241 MH/s of the Ethereum network per year (*note 1*) x (1 – 1.0% mining pool fee) = 9,296 Ether

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## LETTER FROM THE BOARD

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Number of Ether expected to be contributed by operation in Swedish Premises:

5,000 rigs x 320 MH/s per rig x (1 – 1.5% default rate) x 0.0241 MH/s of the Ethereum network per year (*note 1*) x (1 – 1.0% mining pool fee) = 37,558 Ether

Total number of Ether expected to be contributed by the Target Company:

9,296 Ether + 37,558 Ether = 46,854 Ether

*Note 1:* MH/s of Ethereum network per year is calculated as follows:

60 seconds/14.7 seconds to create a Block (i.e. Block Time) x 60 minutes per hour x 24 hours x 3 Ether awarded for every Block created (i.e. Block Reward) / 267,359,000 MH/s Hashrate of the Ethereum Network x 365 days = 0.0241 MH/s

The Company and the Purchaser have agreed on the minimum of 45,000 Ether to be undertaken by the Vendor to cater the possibility of delay in delivery of 5,000 rigs for the mining operation in the Swedish Premises.

The Board acknowledges the price of Ether are highly volatile and expects to sell it as soon as practicable for profit. Nevertheless, the Target Company is also working with the GPU supplier to adjust the purchased GPUs to be capable of both performing cryptocurrency mining function and providing HPC service to third parties customers. HPC is the use of super computers and parallel processing techniques for solving complex computational problems of different industries, such as biosciences, oil and gas industry modeling, electronic design automation, etc. Since providing computation services to customers is a fee earning business which is not subject to market volatility, the Target Company is considering to utilize a portion of its existing rigs to provide computation services to customers to solve their complex and computation-intensive problems in long run.

The Board expects that with the Blockchain technology becoming widely adopted, in particular the Ethereum network, the Group would be able to be benefited from the number of Ether being mined and the general increase in the price of Ether in long term. As such, the Board considers that the Acquisition will broaden the source of revenue for the Group in the future.

Having considered the factors set out above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Acquisition Agreement (including the Issue Price) are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### GEM LISTING RULES IMPLICATIONS

As the relevant applicable percentage ratios (as defined under the GEM Listing Rules) in respect of the Acquisition is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction on the part of the Company under Chapter 19 of the GEM Listing Rules.

The Consideration Shares will be allotted and issued under a specific mandate to be sought for approval from the Shareholders at the EGM.

The EGM will be held to consider and, if thought fit, pass the requisite ordinary resolution to approve, among other things, the grant of the specific mandate to allot and issue the Consideration Shares.

### EGM

A notice convening the EGM to be held at Flat A&B, 10/F, North Point Industrial Building, 499 King's Road, North Point, Hong Kong on 30 July 2018 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

To the best of the knowledge, information and belief of the Directors, no Shareholder has a material interest in the transactions contemplated under the Acquisition Agreement (including the allotment and issue of Consideration Shares under the specific mandate). As such, no Shareholder will be required to abstain from voting on the resolution(s) to approve the Acquisition and the transactions contemplated thereunder including the grant of the specific mandate to allot and issue the Consideration Shares.

The resolution proposed to be approved at the EGM will be taken by poll and an announcement on the results of the EGM will be made by the Company after the conclusion of the EGM in accordance with the GEM Listing Rules.



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## LETTER FROM THE BOARD

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### APPLICATION FOR LISTING

The Company shall make an application to the Stock Exchange for the listing of, and the permission to deal in, the Consideration Shares.

**Shareholders and potential investors of the Company should be aware that the Acquisition and the transactions contemplated thereunder are subject to certain conditions being satisfied, and consequently the Acquisition may or may not proceed. Accordingly, they are advised to exercise caution when dealing in the securities of the Company**

### RECOMMENDATION

The Board considers that the terms of the Acquisition Agreement are fair and reasonable and that the entering of the Acquisition Agreement is in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors would recommend the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the grant of the specific mandate and the transactions contemplated thereunder.

### RESPONSIBILITY STATEMENT

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

By Order of the Board  
**Madison Holdings Group Limited**  
**Ting Pang Wan Director**  
*Chairman and executive Director*

*The following is the report prepared for the purpose of incorporation in this circular as received from Asset Appraisal Limited, an independent valuer, in connection with their valuation of the Target Company as at 26 April 2018.*



**Asset Appraisal Limited**  
中誠達資產評值顧問有限公司

Rm 901, 9/F., On Hong Commercial Building  
145 Hennessy Road, Wanchai, Hong Kong  
香港灣仔軒尼詩道145號  
安康商業大廈9字樓901室  
Tel : (852) 2529 9448 Fax : (852) 3554 5854

Date: 13 July 2018

**The Board of Directors**

**Madison Holdings Group Limited**

Flat A & B 10/F

North Point Industrial Building

No. 499 King's Road

North Point Hong Kong.

Dear Sirs,

**Re: Valuation of 100% Equity Interest in Diginex High Performance Computing Limited  
(the "Target Company")**

**INSTRUCTIONS**

In accordance with the instructions from **Madison Holdings Group Limited** (the "**Company**"), we have completed a valuation of 100% equity interest in **Diginex High Performance Computing Limited** (the "**Target Company**") as at 26 April 2018 (the "**Valuation Date**").

We confirm that we have made relevant enquiries and obtained such information as we consider necessary for the purpose of this valuation.

This report identifies the assets being valued, describes the basis and methodology of valuation, investigation and analysis, assumptions, limiting conditions and presents our opinion of value.

We must point out that this valuation report does not constitute a technical report and does not express opinions on technologies employed by the Target Company, legal title on any of its operating assets (whether tangible or intangible), environmental issues and contractual rights involved in its business operations.

The opinions expressed in this report have been based on the information supplied to Asset Appraisal Limited (“AAL”) by the Company or the management of the Target Company. Whilst AAL has confirmed that the Company or the management of the Target Company has represented to AAL that full disclosure has been made of all material information and that to the best of its knowledge and understanding, such information is complete, accurate and true. AAL has no reason to doubt this representation. No responsibility is assumed by AAL for any errors or omissions in the supplied information and AAL does not accept any consequential liability arising from commercial decisions or actions resulting from them.

Our valuation of the business enterprise has involved projections by the Target Company’s and/or the business enterprise’s management on the business enterprise’s future revenues and profits. These are inherently forward looking statements which will necessarily differ from the actual performance of the business enterprise. The variances in such projections result from the inherent uncertainties in the future regulatory and economic conditions, in variations in the implementation of the business plans, in the ability to meet business development schedules due to numerous factors including but not limiting to availability of necessary equipment, supplies and manpower, fluctuating product and service prices, changes in government policies, regulations and directives.

#### **PURPOSE OF VALUATION**

It is our understanding that this report is prepared solely for the use as one of the references for the transaction involving the equity interest of the Target Company.

The objective of AAL is to assess the fair value of the Target Company in order to provide the Company with an independent value opinion. The responsibility for determining the agreed consideration of any transaction or share transfer involving the Target Company rests solely with the Company or its subsidiaries. The results of our analysis should not be construed to be an investment recommendation. No one should rely on our report for any purchase price determination purpose or as a substitute for their own due diligence. It is inappropriate to use this valuation report for purpose other than its intended use or by third parties. These third parties should conduct their own investigation and independent assessment of the appraised assets and underlying valuation assumptions.

**Cryptocurrency Mining**

A cryptocurrency (e.g. Ether) is not issued by a central bank or any government, and therefore is not legal tender. It is issued and managed according to predefined mathematical rules and/or complex open source code algorithms (the “keys”) in the blockchain network.

A cryptocurrency is a medium of exchange, created and stored electronically in the blockchain, using encryption techniques to control the creation of monetary units and to verify the transfer of funds. Miners are rewarded with units of cryptocurrencies for validating transactions and adding blocks to the chain.

The table below shows the top 5 cryptocurrencies by market capitalization at 8 May 2018.

Name	Market Cap. <i>(Billion USD)</i>	Mining Required	Algorithm	Supply Limit Protocol
BTC	162.4	Yes	POW	21 million in total
ETH	76.7	Yes	POW	linear growth rate (capped at 18 million annually)
Ripple	33.9	No	POW	1 trillion in total
Bitcoin Cash	29.3	Yes	POW	21 million in total
EOS	14.5	Yes	POW/POS(1)	N/A

POW: proof of work; POS: proof of stake

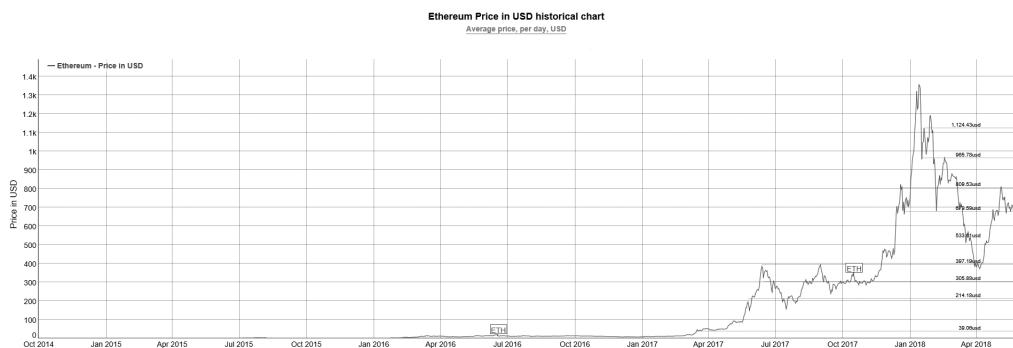
EOS is still under development, algorithm is subject to change.

**Cryptocurrency Mining – Ethereum**

Each unit of cryptocurrency has a unique set of keys. Whenever there is an activity (such as online transaction) using the cryptocurrency of blockchain network, the keys need to be solved and validated by third parties before completion. Other than purchasing cryptocurrency on the secondary market (such as a cryptocurrency exchange), people can also be awarded with (or “earn”) unit(s) of cryptocurrency by conducting automatic calculations to solve and validate the keys, with the use of powerful computers (the “miners”). This process of solving and validating the unique set of keys is called cryptocurrency mining. Since the supply of cryptocurrency is limited (as pre-defined by the blockchain network), miners are competing with each other to solve and validate the unique set of keys in order to “earn” the cryptocurrency.

Launched in 2015, Ethereum is a peer-to-peer network of virtual machines that any developer can use to run distributed applications. Ethereum uses its own decentralized public blockchain to cryptographically store, execute, and protect these contracts. Ethereum and other major cryptocurrencies use the Proof of Work algorithm (“PoW”) to produce new blocks to the chain. With PoW, miners compete against each other to complete the following tasks: verify the legitimacy of transactions, secure the network and, stop any double-spending and add new currencies to existing circulations. The currency of the Ethereum network is called Ether (“ETH”).

ETH, the cryptocurrency mined by the Target Company, now holds about 20% market share and ranks second among all digital currencies. According to [www.cryptocompare.com](http://www.cryptocompare.com), as of the Valuation Date, ETH has a market capitalization of around US\$65 billion and a circulating supply of 99 million. The table below shows the ETH/US\$ price since 2015.



Source: <https://bitinfocharts.com>

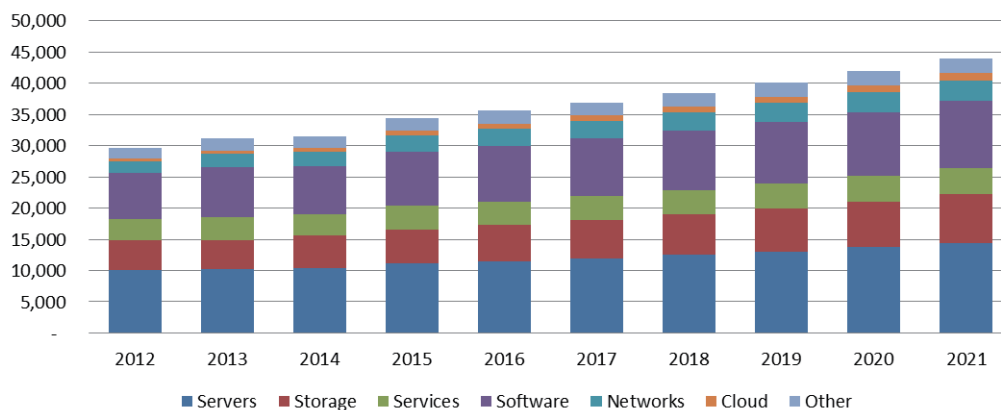
**High Performance Computing Services**

High Performance Computing (“HPC”) is the use of super computers and parallel processing techniques for solving complex computational problems. HPC technology focuses on developing parallel processing algorithms and systems by incorporating both administration and parallel computation techniques.

HPC is typically used for solving advanced problems and performing research activities through computer modelling, simulation and analysis. HPC has evolved to meet increasing demands for intensive tasks and has overcome limitations by using specialized or high-end hardware. It is implemented in multidisciplinary areas including biosciences, oil and gas industry modeling, electronic design automation, etc.

According to the High Performance Computing Market report issued by MarketsandMarkets, the global HPC service market is expected to grow from US\$30 billion from 2017 to US\$45 billion by 2022, registering at a CAGR of 7%. Major players in the HPC market include IBM, Intel, Fujitsu, AMD, Oracle, Microsoft, Dell and Cisco. According to Target Company’s Management, Amazon web services (“AWS”) is the Target Company’s main competitor in the HPC space.

**Total HPC Revenue by Product Category (USD Million)**



Source: “Intersect 360 Research” HPC Market Update.

**COMPANY DESCRIPTION**

The Target Company was incorporated on 21 December 2015 in Gibraltar with limited liability. The Target Company is principally engaged in cryptocurrency mining, in particular, the Ether, commonly known as “ETH” and will begin providing HPC service from its Swedish data centre in September 2018.

The Target Company is currently deploying 2,200 rigs of total 2,200 kilowatts (“kW”) power capacity in Asian data centre, and expects to deploy additional rigs in the Swedish data centre from the second half of 2018 to conduct cryptocurrency mining and HPC service.

Through a colocation agreement, the Target Company has engaged a Data Centre Service Provider which provides workspaces, racks, power supply and power distribution systems, internet connections, security services, regular rig visual checking services, preventive maintenance operations and equipment insurance protection for its Swedish data centre. The initial term of the agreement is 36 months expiring in 2021 and is renewable for another 36 months provided that the mutual written consent is given by both signing parties 6 months prior to the expiry of the agreement.

The Target Company has planned to add more rigs to its Swedish data centre to leverage on the low-cost renewable energy sources of the location. The Target Company also cooperates with suppliers of GPUs to ensure an efficient mining model is in place.

**BASIS OF VALUATION**

The valuation was prepared on the basis of fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**SOURCE OF INFORMATION**

In the course of our valuation, we have been furnished by the management of the Company or the Target Company with the financial, operational and projection information of the Target Company. We made reference to or reviewed the following major documents and data:

1. Brief description of the Target Company;
2. Financial statements of the Target Company;
3. Description of operating assets held and engaged by the Target Company in undertaking its normal operations;
4. The projections and the assumption of the Target Company, the future trend of the business operation and the supporting document, if available; and
5. Service agreements entered into between the Target Company and Data Centre Service Providers ("**Swedish Data Centre Service Agreements**");
6. Pool status of ETH from website <https://ethermine.org>; and
7. Cryptocurrency statistics from website <https://bitinfocharts.com>.

We assumed that the data and information we obtained in the course of the valuation, along with the opinions and representations provided to us by the Company and the Target Company are true and accurate and accepted them without independent verification except as expressly described herein. We have no reason to suspect that any material facts have been omitted, nor are we aware of any facts or circumstances, which would render the information, opinion and representations made to us to be untrue, inaccurate or misleading.

In addition, we have also obtained market data, industrial information and statistical figures from Bloomberg database and other publicly available sources.

**SCOPE OF WORK AND KEY ASSUMPTIONS**

Our investigation included discussion with the management of the Company with regard to the history, operation and prospects of the businesses of the Target Company, an overview of certain financial data, an analysis of the industry and competitive environment, analysis of historical and prospective financial results, projections and the future operation assumptions, review of transaction documents, operating statistics and other due diligence documents.



In arriving at our opinion of value, we have considered the following principal factors:

- the economic outlook, the development and specific competitive environments of cryptocurrency mining activities and high performance computing service industry;
- the existing and projected computing capacities of the Target Company;
- the mechanism and systems engaged for the issue and circulation of cryptocurrencies in general;
- the business and operational risks of the Target Company;
- the business and financial projection of the Target Company as provided by the Company; and
- the existing financial position of the Target Company.

The following general assumptions have to be made in arriving at our value conclusion:

- there will be no major changes in the laws, rules or regulations, financial, economic, market and political conditions where the Target Company operates which may materially and adversely affect its business;
- there will be no major changes in the current taxation law;
- the Target Company will fulfill all legal and regulatory requirements necessary to conduct its business;
- the Target Company will not be constrained by the availability of finance and there will be no material fluctuation of the finance costs;
- there will not be any adverse events beyond the control of the Target Company's management, including natural disasters, catastrophes, fire, explosion, flooding, acts of terrorism and epidemics that may adversely affect its operations;
- the future movement of exchange rates and interest rates will not differ materially from prevailing market expectations;
- the Target Company will retain competent management, key personnel and technical staff for its operations and the relevant shareholders will support its ongoing operations;

- the unaudited financial statements of the Target Company supplied to us have been prepared in a manner truly and accurately reflected the financial position of the Target Company;
- the Target Company has obtained all necessary permits and approvals to carry out its business and its ancillary services and shall be entitled to renew those permits and approvals upon their expiry subject to no legal impediment and costs of substantial amount;
- except those stated in the financial statements, the Target Company is free and clear of any lien, charge, option, pre-emption rights or other encumbrances or rights whatsoever;
- majority of the computing capacities of the Target Company are currently employed for mining of ETH. All existing capacities together with any new capacities to be added can be adapted for mining of all major circulating cryptocurrencies including but not limiting to ETH and HPC with minimal switching time and costs;
- the unit price of ETH, its network hashrate, block time and block reward as prevailing on the Valuation Date have been adopted and are assumed to remain constant throughout the projection period; and
- the estimated fair value does not include consideration of any extraordinary financing or income guarantees, special tax considerations or any other typical benefits which may influence the ordinary business enterprise value of the Target Company.

## **VALUATION METHODOLOGY**

### **Selection of Valuation Approach**

In the appraisal of the Target Company, we have considered three generally accepted approaches namely Cost Approach, Income Approach and Market Approach.

Cost approach established value based on the cost of reproducing or replacing the assets less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable. This approach might be considered the most consistently reliable indication of value for assets without a known used market or separately identifiable cash flows attributable to assets appraised.

Income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the property than an amount equal to the present worth of anticipated future benefits (income) from the same or equivalent property with similar risk.

Market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparable. Assets for which there is an established used market may be appraised by this approach.

Among these 3 valuation approaches, the cost approach is generally not considered applicable to the valuation of a going concern business, as it does not capture future earning potential of the business. Therefore, this method is not appropriate in the valuation. The Target Company, which commenced its business operations in mid-2017, is still in its early development stage and does not have sufficient track records for providing comparative economic measures for the purpose of valuation by market approach.

We adopt the income approach which can fully reflect and represent the Target Company future plan, including growth rate and thus the future earning potentials in the valuation.

### ***Income Approach***

This approach allows for the prospective valuation of future profits and there are numerous empirical and theoretical justifications for the present value of expected future cash flows. However, this approach relies on numerous assumptions over a long time horizon and the result may be very sensitive to certain inputs. It also presents a single scenario only.

In this method, value depends on the present worth of future economic benefits to be derived. Thus, an indication of value is developed by discounting future debt free cash flows (DFCFs) available for distribution to the owners to their present worth at market-derived rates of return appropriate for the risks and hazards of investing in similar business.

$$\text{DFCF} = \text{EBIT} + \text{DEPR} - \text{Tax} - \text{CAPEX} - \Delta \text{WC}$$

Where:

DFCF	=	projected debt free cash flows
EBIT	=	earnings before interest and tax
DEPR	=	depreciation and amortization expenses
Tax	=	profit tax on EBIT
CAPEX	=	capital expenditures
$\Delta \text{WC}$	=	change in working capital

A discount rate is the expected rate of return that an investor would have to give up by investing in the subject asset instead of available alternative investments that are comparable in terms of risk and other investment characteristics. When developing a discount rate, the cost of equity of companies engaging in operations similar to the appraised asset would provide a relevant proxy.

In applying the DCF method to calculate the fair values of the identifiable intangible assets, it is necessary to determine an appropriate Weighted Average Cost of Capital (WACC) in order to determine the discount rate for intangible assets valuation. WACC is the weighted average of the estimated rate of return required by equity and debt holders for an investment of assets to be valued.

A calculation of a firm's cost of capital in which each category of capital is proportionately weighted. All capital sources – common stock, preferred stock, bonds and any other long-term debt – are included in a WACC calculation. All else equal, the WACC of a firm increases as the beta and rate of return on equity increases, as an increase in WACC notes a decrease in valuation and a higher risk. Consideration of risk also involves elements such as quality of management, degree of liquidity, and other factors affecting the rate of return acceptable to a given investor in a specific investment. An adjustment to risk is a discount rate increment to compensate for the extent of risk which is believed to be inherent in the investment.

WACC is calculated by multiplying the cost of each capital component by its weight and then summing all subtotal:

$$\text{WACC} = [(\%D) \times (Rd) \times (1 - T)] + [(\%E) \times (Re)]$$

Where:

Re	=	cost of equity
Rd	=	cost of debt
%D	=	% of debt financing
%E	=	% of equity financing
T	=	corporate tax rate

The cost of equity (Re) is determined through the Capital Asset Pricing Model (“CAPM”) of which the formula is shown as follows:

$$\text{Re} = \text{Rf} + \text{Beta} \times (\text{Rm} - \text{Rf}) + \varepsilon$$

Where:

Rf	=	risk free rate (long-term Government bond rates were taken)
Beta	=	coefficient of market equity premium for the specified industry to the market equity premium for the well diversified portfolio
Rm – Rf	=	market equity premium (premium required from a well-diversified portfolio)
ε	=	specific risk

**Selection of Comparable Companies**

In determining the beta, we have made reference to the adjusted levered betas of comparable companies engaging in similar line of businesses as extracted from the database of Bloomberg L.P..

In selecting appropriate comparable companies, we have adopted the following selection criteria, all of which must be satisfied:

- the companies are principally participating in cryptocurrency mining and/or high-performance computing (HPC).
- share trading prices and financial information are publicly available.

We have attempted to search for as many comparable companies as possible through Bloomberg and other public internet resources. The list of selected comparable companies is considered to be fair and representative list based on the aforementioned criteria.

Given the above selection criteria, the following comparable companies have been identified for comparison purpose:

Company Name	Ticker	Revenue for the latest reported financial year <i>(USD mil)</i>	Market Capitalisation as at the Valuation Date <i>(USD mil)</i>	Business Description
Atlas Cloud Enterprises Inc	AKE CN	0.08512	74.05	Atlas Cloud Enterprises Inc. operates as a Colocation business for IT and Telecom equipment. The Company provides power, cooling and bandwidth to small and medium businesses in Western Canada
HIVE Blockchain Technologies Ltd	HIVE CN	2.58	377.47	HIVE Blockchain Technologies Ltd. operates as a cryptocurrency mining firm. The Company validates transactions on block chain networks, as well as provides cryptocurrency mining and builds bridges between cryptocurrency and traditional capital markets. HIVE Blockchain Technologies serves customers worldwide

Company Name	Ticker	Revenue for the latest reported financial year (USD mil)	Market Capitalisation as at the Valuation Date (USD mil)	Business Description
Hashchain Technology Inc	KASH CN	0.172	28.14	HashChain Technology Inc. provides cryptocurrency mining services. The Company owns cryptocurrencies which are used to obtain rewards for confirming transactions on specific blockchain applications. HashChain Technology serves clients in Canada
Mercury Systems, Inc	MRCY US	116.34	1,749.3	Mercury Systems, Inc. designs, manufactures, and markets real-time digital signal processing computer systems. The Company's systems transform sensor generated data into information which can be displayed as images for human interpretation or subjected to additional computer analysis. Products are marketed to the defense electronics and medical diagnostic imaging businesses
Cray, Inc.	CRAY US	79.60	993.7	Cray, Inc. designs, develops, manufactures, markets, and services high performance computing systems commonly known as supercomputers. The Company's products provides sustained performance on critical applications, scalability to handle larger problems, and the reliability to run jobs to completion.
CSP Inc.	CSPI US	21.98	44.85	CSP Inc. develops, manufactures, markets, installs, and supports a range of multicomputer products and systems, including digital signal processing for real time applications in defense and commercial markets. The Company also commercializes technology to automate parcel sortation capabilities

Company Name	Ticker	Revenue for the latest reported financial year (USD mil)	Market Capitalisation as at the Valuation Date (USD mil)	Business Description
Blockchain Power Trust	BPWR-U CN	4.00	50.05	Blockchain Power Trust develops renewable energy projects. The Company owns and operates hydroelectric facilities, solar and wind parks, and hydro projects. Blockchain Power Trust serves customers in Canada

### Discount Rate Determination

The parameters used in determining the discount rate are shown as below:

Valuation Date	26 April 2018
Country	Sweden
Indicated Risk Free Rate ( <i>Note 1</i> )	0.748%
Market Premium ( <i>Note 2</i> )	9.523%
Tax Rate ( <i>Note 3</i> )	22%
D/E ratio	0%
Estimated Unleveraged Beta ( <i>Note 4</i> )	0.96134
Estimated Re-leveraged Beta ( <i>Note 5</i> )	0.96134
Cost of Equity ( <i>Note 6</i> )	25.49%
WACC	25.49%

*Notes:*

1. The risk free rate represents the yield of long term sovereign bond of Sweden as at the Valuation Date.
2. The excess return of market return of Sweden as at respective valuation date over the risk free rate as cited from Bloomberg L.P..
3. Corporate profit tax rate as prevailing on the Valuation Date as cited from Deloitte International Tax Rates 2014-2018.



4. Estimated unleveraged beta applicable to the Target Company is based on the median of the unleveraged betas of the comparable companies as set out as follows:

Ticker	Adjusted leveraged Beta (source: Bloomberg)	Unleveraged beta
AKE CN	0.92700	0.92700
HIVE CN	1.49000	1.49000
KASH CN	1.59500	1.59500
MRCY US	1.04600	0.96134
CRAY US	1.47600	1.47600
CSPI US	0.54400	0.54400
BPWR-U CN	0.79800	0.48699
	Median	0.96134

5. Unleveraged beta is translated into re-leveraged beta based on the following formula:

$$\beta L = \beta U \{1 + [(1 - t) \times \text{debt/equity}]\} \text{ where}$$

$\beta L$  = leveraged beta

$\beta U$  = unleveraged beta

$t$  = profit tax rate  $\times$  (22%)

debt/equity = the median debt/equity ratio of the comparable companies

6. Cost of equity is calculated from Indicated Risk Free Rate + Risk Premium  $\times$  Estimated Re-leveraged Beta + Size Premium (5.59%) + Company Specific Risk.

We have concluded that the post-tax discount rate of 25.49% is appropriate for valuing the Target Company through the discounted cash flow model.

### Major Assumption of Cash Flow Projection

#### *Revenue Model*

Revenue of the Target Company consists of the mining business and the high performance computing business (HPC service). As confirmed by the Target Company, the rigs can be used for the mining business and HPC service subject to minimal switching time and costs such that there is flexibility for the Target Company to allocate its computing capacities for cryptocurrencies mining and HPC service.

Given the supply limit laid down by the protocols of various cryptocurrencies, there is uncertainty on the long term viability of cryptocurrency mining. The Target Company's management has targeted to gradually shift the weighting of computing capacity allocation from mining activity to HPC. According to management's projection, virtually all capacities shall be allocated to HPC operations after 2021.

Revenue forecast on mining activities is set out as follows:

Projection on mining revenues are set out below:

Year		2018	2019	2020	2021
<b>Asia</b>					
Designed MHS per rig	<i>Note 1</i>	180.0	180.0	180.0	180.0
Default Rate	<i>Note 2</i>	1.5%	1.5%	1.5%	1.5%
Realised MHS per rigs ("a")	180 x (1-1.5%)	177.3	177.3	177.3	177.3
No. of operating days ("b")	Commenced revenue generating activities in December 2017	245	365	365	365
Average no. of rigs	based on projection provided by the Target Company	2,138	2,100	2,100	2,100
Average no. of operating rigs ("c")	based on projection provided by the Target Company	2,138	2,100	2,100	2,100
Realised MHS ('000) ("g")	("a" x "b" x "c"), discrepancy due to rounding	92,850	135,900	135,900	135,900
<b>Sweden</b>					
Designed MHS per rig	<i>Note 3</i>	320	320	320	320
Default Rate	<i>Note 2</i>	1.5%	1.5%	1.5%	1.5%
Realised MHS per rigs ("d")	320 x (1-1.5%)	315.2	315.2	315.2	315.2
No. of operating days ("e")	To commence operation from August 2018	153	365	365	365
Average no. of rigs	based on projection provided by the Target Company (including no. of rigs allocated for HPC operations)	3,773	8,801	22,323	36,710
Average no. of operating rigs allocated for mining business ("f")	based on projection provided by the Target Company	3,207	5,167	12,843	24,896
Realised MHS ('000) ("h")	("d" x "e" x "f"), discrepancy due to rounding	154,657	594,484	1,477,601	2,864,210
Total Realised MHS ('000) (i)	("g" + "h"), discrepancy due to rounding	247,507	730,385	1,613,502	3,000,111
Block Reward in USD/MHS/Day ("j")	<i>Note 4</i>	0.0416	0.0416	0.0416	0.0416
Mining Pool Fees ("k")	Mining pool fees is payable to the mining pool operator. The rate of 1% is based on the pool fees charged by Ethmine. ( <a href="https://ethpool.org">https://ethpool.org</a> )	1%	1%	1%	1%
Total Mining Revenue (USD'000)	"i" x "j" x (1-k%) discrepancy due to rounding	10,201	30,102	66,499	123,647

*Notes:*

1. Target Company's management assumes that the designed MHS per Asian rig is 180 MHS. This is consistent with the recent actual average Hashrate of 184 MHS per rig during the period from 1 February 2018 to 26 April 2018 provided by Target Company's management.
2. The default rate represents Target Company's management's estimate of the proportion of time when a rig is expected to temporarily suspend operation for both cryptocurrency mining and HPC service. The suspension mainly refers to the time required for repair and maintenance. We note that recent actual average Hashrate of 184 MHS is higher than the realized MHS under the estimated default rate. The application of 1.5% default rate does not appear to be unreasonable.
3. The designed MHS per Swedish rig is assumed to be 320 MHS based on the specification of the GPUs to be purchased and used in the Swedish Premises. We also note that the technical support service contract entered into on 24 April 2018 by the Target Company and the Technical Support Company states that the Technical Support Company expected the Hashrate of the Swedish rigs would be 328 MHS after they have been optimized (and no less than 320 MH/s).

The assumption of effective Hashrate of the rigs of the Target Company which is based on the Hashrate expected by the technical support service provider (a swiss-based specialists in the areas of cryptocurrency mining and blockchain technology) engaged by the Target Company and is considered to be reliable.

4. Block reward per MHS per day as at the Valuation Date is determined as follows:

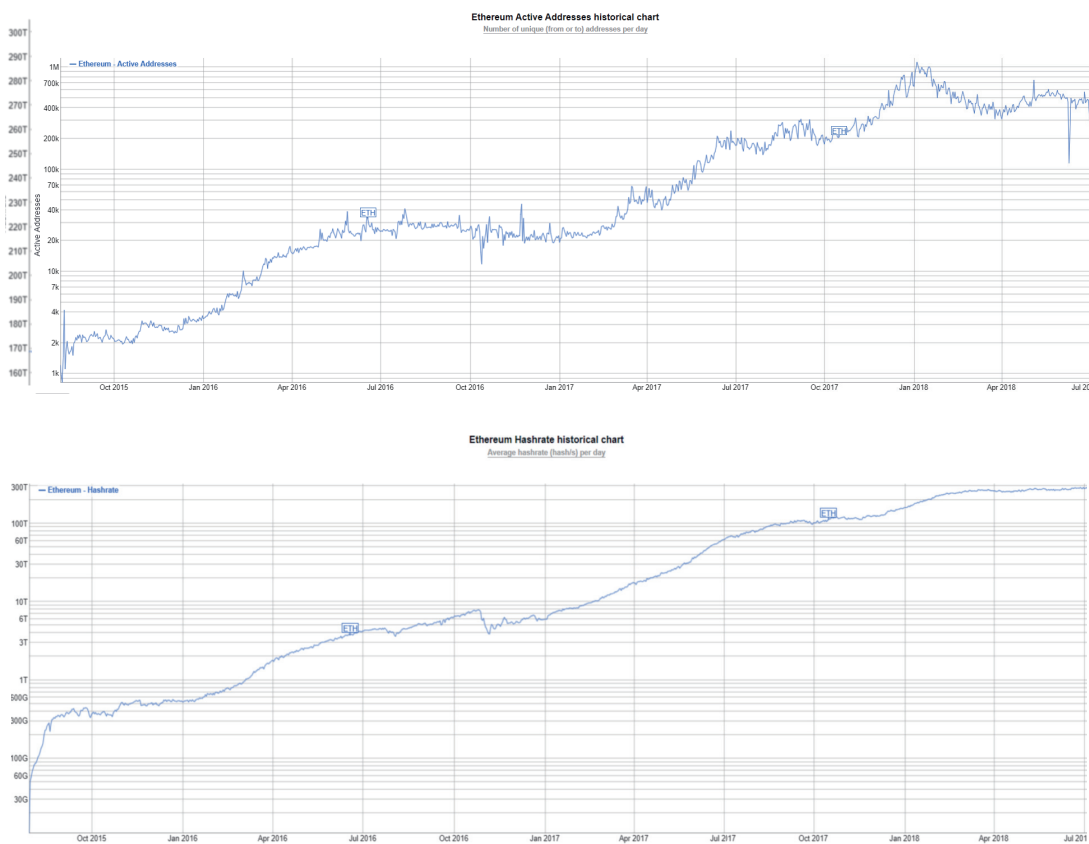
Price of ETH (USD) ("a")	631.231	cited from <a href="https://bitinfocharts.com">https://bitinfocharts.com</a>
Block Time in second ("b")	14.700	cited from <a href="https://bitinfocharts.com">https://bitinfocharts.com</a>
Block Reward ("c")	3.0	As per prevailing specification of Ethereum
ETH Network Hashrate (MHS/Day) ("d")	267,359,000	cited from <a href="https://bitinfocharts.com">https://bitinfocharts.com</a>
Block Reward/day ("e")	17,632.65	= (60 / "b" × 60 × 24 × "c")
Block Reward in USD/day ("f")	11,130,277	= "e" × "a"
Block Reward in USD/MHS/Day	0.0416	= "f" / "d"

The block time, the block reward and the ETH network Hashrate shown above are mining parameters of the entire Ethereum network, which is made up of all the computers all over the world that are mining Ethereum.

The price of ETH shown above is the spot price as at the valuation date provided by [bitinfocharts.com](https://bitinfocharts.com), which sources its pricing information from 20 cryptocurrency exchanges.

The ETH Network Hashrate is the measuring unit to measure the processing power of the Ethereum network. Hashrate is a unit measured in hashes per second or h/s. When number of miners competing for block reward increases, the ETH Network Hashrate will generally increase, which means that it takes more processing power for the computers in the Ethereum network to obtain block rewards.

The table below illustrated the active addresses (*note 1*) and Hashrate from August 2015 to July 2018.



Source: <https://bitinfacharts.com>

*Note 1:* Active addresses (number of miners) is the number of unique sending and receiving addresses participating in transaction on the given day.

The tables above illustrated that ETH Network Hashrate generally increased with number of active addresses (i.e. number of miners).

The ETH Network Hashrate is the spot rate as at the valuation date published by bitinforcharts.com. The figure is directly observed from the website.

The block reward per MHS per day calculated using the above data represents the average block reward in USD for the entire Ethereum network. This average block reward for the entire network is then applied to the Target Company's realized MHS to calculate the block reward that the Target Company is expected to earn per day. This assumes that the Target Company's ability to mine Ether is comparable to the network's average. This assumption does not appear to be unreasonable because of the following reasons.

1. The Target Company participates in a mining pool, which uses the computational power contributed by all of its members to mine Ether and distributes the reward it receives to its participants based on the computational power they contributed to the mining pool. This means the Target Company receives the average block reward per MHS of all the participants of the mining pool.
2. Most of the Target Company's projected mining revenues is attributable to the Swedish data centre, which has not commenced operating and will use different GPUs to those used in the Asian data centre. As such, no relevant historical performance is available.

Revenue forecast on HPC service is set out as follows:

Year	2018	2019	2020	2021	2022	2023	2024	2025
No. of operating day <i>(Note 1)</i>	122	365	365	365	365	365	365	365
Total no. of Operating Rigs-allocated for HPC service	108	596	2,266	4,393	4,611	4,884	5,035	5,136
HPC Charge (USD)/Rig/Day <i>(Note 2)</i>	86.24	86.24	86.24	86.24	86.24	86.24	86.24	86.24
HPC Revenue – Sweden <i>(USD'000)</i> discrepancy due to rounding <i>(Note 3)</i>	1,136	18,765	71,342	138,291	145,144	153,733	158,498	161,668

*Notes:*

1. The Swedish data centre will commence operating the HPC service in September 2018.
2. The assumed HPC charge is USD86.25 per rig per day. Target Company's management advised that the HPC charge is made reference to the charge for similar services and similar computational power offered by AWS, which is a major service provider in the HPC market. The Target Company's management have considered the specification of the hardware to be deployed by the Target Company and the market price offered by AWS (with specification of Amazon EC2 G3 Instances) and another HPC service provider, namely Penguin Computing (with specification of its GPU Accelerated Computing). AWS is a well-known global HPC service provider and hence, the Target Company's management considers AWS as a benchmark for pricing differentiation of similar service. Penguin Computing is a United States based company offering HPC service. Its customers are large airlines and accommodation websites. The price offered by Penguin Computing compared to that offered by AWS is at a discount of approximately 27.64%. Although the Target Company possesses the computational power which is comparable to that of AWS and Penguin Computing and the computational power is the most crucial factors affecting the fee charged by HPC service provided, being a new market participant without significant reputation and track record, the Target Company's management intends to offer a significant discount to appeal to potential customers, which is almost twice of the discount offered by Penguin Computing, in order to penetrate into HPC market within a short period of time.

The following table provided by the Target Company has illustrated the price of the other comparable companies on the same basis as Swedish rigs:

Company Name	Price/day against	Business Description
	Swedish rigs in USD*	
AWS (Amazon EC2 G3 Instances)	175.10	AWS is a subsidiary of Amazon.com, Inc. that provides cloud HPC platforms to individuals, companies and governments, on a paid subscription basis.
Penguin Computing (GPU Accelerated Computing)	126.70	Penguin Computing is a private supplier of cloud HPC service for industry-specific uses and HPC solutions to enterprise.
Target Company	86.25	The Target Company is a private company that provides cloud HPC service to individual and institutional clients.

\* *The pricing has considered comparable computational power of AWS and Penguin Computing to the computational power of the Swedish rigs.*

The Company has engaged external well-known technical support specialist to maintain the quality of services, therefore, we considered that the assumption of HPC charges is reasonable to reference the aforesaid benchmark pricing and the HPC charges is considered to be reasonable.

- HPC Revenue is calculated by the formula No. of Operating Day X Total No. of Operating Rigs X HPC Charge per Rig.

### Operating Expense Projection

Operating expenses include such major costs as electricity expenses, rental costs of warehouse, monitoring, maintenance cost and fees payable to Data Centre Service Provider to be incurred for the data centers by the Target Company. The projected operating expenses are set out as follows:

USD'000	2018	2019	2020	2021	2022	2023	2024	2025
Asia: power, rent, internet and insurance (Note 1)	1,541	2,301	2,347	2,394	0	0	0	0
Sweden: power, rent, internet and insurance (Note 2)	1,491	6,348	16,975	42,107	37,779	32,012	16,502	16,502
Maintenance Fee Payable to the Data Centre Service Provider (Note 3)	420	721	721	721	736	750	765	781
Monthly fee for Video Monitoring (Note 4)	13	30	30	30	31	31	32	33
Dedicated Support Staff (Note 5)	320	789	1,363	2,504	2,554	2,604	2,657	2,710
Overhead (Note 6)	202	357	364	371	379	386	394	402
Performance Fee Payable to the Data Centre Service Provider (Note 7)	524	3,502	11,279	21,915	10,367	11,795	13,815	14,124

*Notes:*

1. Power, rent internet and insurance fees in Asia have been projected in term of total charges per realized MHS of total rigs in place over the concerned period based on historical costs incurred by the Asia data center and have been calculated as follows:

<b>Year</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Realised MHS per rigs ("a")	177.3	177.3	177.3	177.3
No. of Operating days ("b")	245	365	365	365
Average no. of rigs in place ("c")	2,138	2,100	2,100	2,100
Power, rent internet and insurance costs/MHS/day (USD)	0.0166	0.0169	0.0173	0.0176
Power, rent internet and insurance costs (USD'000) (discrepancy due to rounding)	1,541	2,301	2,347	2,394

2. Power, rent internet and insurance fee in Sweden is based on the Swedish Data Centre Service Agreements and have been calculated as follows:

<b>Year</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
Realised MHS per rigs ("a")	315.2	315.2	315.2	315.2	315.2	315.2	315.2	315.2
No. of Operating days ("b")	134	365	365	365	365	365	365	365
Average no. of rigs in place ("c")	3,773	5,763	15,110	36,710	32,936	27,908	14,387	14,387
Power, rent internet costs and insurance/MHS/day (USD)	0.0094	0.00957	0.00977	0.00997	0.00997	0.00997	0.00997	0.00997
Power, rent internet and insurance costs (USD'000) (discrepancy due to rounding)	1,491	6,348	16,975	42,107	37,779	32,012	16,502	16,502

3. Maintenance Fee Payable to the Data Centre Service Provider is based on the colocation agreement.
4. Monthly Fee for Video Monitoring is based on the colocation agreement.
5. Dedicated Support Staff is based on the budget costs provided by the Target Company.
6. Overhead is based on the budget costs provided by the Target Company.
7. Performance Fee is based on the technical support service agreement which is charged at 10% on EBIT to be generated by the Swedish date center.

**Inflation**

Inflation of 2% is adopted with reference to both forecast inflation of Sweden and Asia.

**Tax Expenses**

Taxation has been estimated by adopting the corporate tax rate in Sweden of 22% as cited from Deloitte International Tax Rates.

**Capital Expenditures**

According to the Target Company's management forecast, capital expenditures (capex) of the Target Company is mainly relating to the procurement of additional or replacement rigs for the Swedish data centre.

We note that it is assumed that the Target Company will maximize its mining capacity during the projection horizon in which it is operating mainly as a cryptocurrency miner (i.e. 2018 to 2021). As such, most of the surplus cash generated by the Target Company during that period will be used as capital expenditures (capex) for purchasing additional computers (mining rigs) for Sweden Centre:

	2018	2019	2020	2021
Projected EBITDA	6,826	34,819	104,762	191,895
Total Capex	19,667	25,639	70,318	76,301
The number of rigs to be purchased for Sweden Centre and its capex				
Total no. of rigs in Sweden	3,773	8,801	22,323	36,710
No. of rigs purchased	3,773	5,028	13,522	14,387
USD/Swedish Rig ( <i>Note</i> )	4,960	5,059	5,160	5,264
Capex for the acquisition of the rigs ( <i>USD'000</i> )	18,715	25,437	69,777	75,725

*Note:*

Based on an agreement entered on 1 May 2018 between the Target Company and the Technical Support Company the average cost of a rig is USD4,960. The cost is assumed to increase at an inflation rate of 2% per annum. We noted a decrease in the historical pricing of GPUs (which are assembled together to form rigs for mining purposes). For example, the price of a GPU model similar to the one the Target Company is currently using in Asia mining operation has decreased approximately 41.5% as at 9 July 2018, as compared to the price as at 9 July 2017. As discussed with the Company (including the chief strategy officer of the Company), the price of computing hardware (including GPU) is unlikely to increase in the long run in light of continuous technological advancement. In view of the above, we agree that the acquisition cost for the rigs has taken into consideration the inflation rate of 2% per annum only.



The Target Company is planning to discontinue the operations of the Asian data centre by end of 2021 when the rigs over there are ripe for retirement. By then, all operations shall be taken place in its Swedish data centre. As per the Target Company's management, there shall be no significant cash flow effect on the closure of the Asian data centre.

According to the business plan, starting from 2022, the Target Company will focus on the HPC service by gradually utilizing the computing capacity that is originally taken up for ETH mining. As such, no procurement of new rigs is necessary during the period from 2022 to 2024. In addition, it is the Target Company's view that there is no impediment for renewing the Swedish Data Centre Service Agreements upon expiry of their initial term and therefore no relocation of the Swedish data centre is expected in 2021 (when the initial term expires).

### Forecast Horizon

According to the Target Company's management, the annual net cash flow of the Target Company will converge to a steady state after 2025. As such, the cash flow model with a forecast horizon spanning between the Valuation Date and 2024 plus terminal year has been adopted.

The projected debt free cash flow of each time step of the forecast horizon are set out as follows:

Year	2018	2019	2020	2021	2022	2023	2024	2025
Revenue	11,337	48,867	137,841	261,938	145,144	153,733	158,498	161,668
Operating Expenses	(4,511)	(14,048)	(33,079)	(70,043)	(51,845)	(47,580)	(34,165)	(34,551)
Depreciation	(1,016)	(5,932)	(12,342)	(29,921)	(47,981)	(43,064)	(36,655)	(19,075)
EBIT	5,811	28,887	92,420	161,974	45,318	63,089	87,678	108,041
Tax	(1,278)	(6,355)	(20,332)	(35,634)	(9,970)	(13,880)	(19,289)	(23,769)
Net Income	4,532	22,532	72,088	126,340	35,348	49,209	68,389	84,272
add Depreciation	1,016	5,932	12,342	29,921	47,981	43,064	36,655	19,075
less Capex	(19,667)	(25,639)	(70,318)	(76,301)	-	-	-	(19,075)
FCF	(14,119)	2,825	14,112	79,960	83,329	92,274	105,043	84,272
Period	0.34	1.2	2.2	3.2	4.2	5.2	6.2	7
Discount factor	0.93	0.76	0.61	0.49	0.39	0.31	0.25	
Terminal factor								4.26
PV of CF	(13,066)	2,160	8,597	38,819	32,237	28,446	25,804	88,118
Sum of PV of CF	211.1							

### Calculation of Terminal Factor

The terminal value was determined based on the below formula:

$$1/(\text{Discount rate} - \text{Terminal growth rate})$$

In which

Terminal growth rate = 2% (in line with the adopted inflation rate)

Discount rate = WACC

=  $1/(25.49\% - 2\%) = 4.26$

Calculation of Terminal Value

CF7 × Terminal factor × PV factor

=  $84,272 \times 4.26 \times 0.25$

= 88,118 (discrepancy due to rounding)

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

Discount for lack of marketability (referred to as “**DLOM**”) is the valuation adjustment with the largest single monetary impact on the final determination of value. Marketability is defined as the ability to convert an investment into cash quickly at a known price and with minimal transaction costs. DLOM is a downward adjustment to the value of an investment to reflect its reduced level of marketability.

DLOM reflects the fact that there is no ready market for shares in a closely held company. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in publicly listed companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly listed company.

As the shares of the Target Company are not being listed on any stock exchange or not marketable in any over-the-counter market, ownership interest in the Target Company is not readily marketable. Thus, DLOM was adopted to adjust such marketable interest market value to market value of equity interest that is not publicly tradeable.

According to the “Determining Discounts for Lack of Marketability – A Companion Guide to The FMV Restricted Stock Study” (referred to as the “**FMV Restricted Stock Study**”), published by Business Valuation Resources, LLC in 2016, DLOM is estimated as the percentage difference between the private placement price per share and the market trading price per share. The adopted DLOM is based on the aforesaid study with analysis of 736 observed transactions which have been subdivided into 1st to 5th Quintile having median discount of each of the five quintiles ranging from 14.3% to 32.7% with an overall discount rate of 24.7% or 29.7% after adjusting for high market volatility.

Given the amount of Enterprise Value (EV) before DLOM as determined above, the audited financial statement of the Target Company as at the Valuation Date and the adjustment on DLOM as mentioned above, the fair value of 100% equity interest in the Target Company is calculated as follows:

	<b>USD</b> (’000)
EV before DLOM	211,115
Less Non-operating liabilities ( <i>Note 1</i> )	(179)
Add Inventories ( <i>Note 2</i> )	757
Add Cash and cash equivalents	26
Add Non-operating assets ( <i>Note 3</i> )	131
Fair Value of 100% equity interest of the Target Company before DLOM	211,850
Less DLOM 30%	(63,555)
Fair Value of 100% equity interest of the Target Company after DLOM	148,295
Round to	148,000

*Notes:*

1. As at the Valuation Date, the Target Company is subject to an amount due to Diginex Limited (US\$4.9 million) and some shareholder loans (US\$0.15 million). As confirmed by the Target Company, the aforesaid amount dues will be written off before the transaction is completed.
2. Inventories comprise ETH held by the Target Company. They have been booked at market value as at the Valuation Date.
3. Non-operating assets comprise amount due from related parties and shall be recoverable in due course.

**SENSITIVITY ANALYSIS**

Sensitivity analysis for the Fair Values of the Target Company arrived at using the income approach have been performed whereby such parameters as “market price of ETH”, “ETH Network Hashrate”, “ETH Block Reward”, “ETH Block Time” and “HPC Charge” involved in the valuation have been tested independently in order to test the fair value change in response to variations of the magnitudes of the parameters.

The cryptocurrency mining business and HPC service are still in their nascent stages of the business cycle.

For the purpose of this sensitivity analysis, variation of the major parameters up to the following percentages from base case is considered as the extreme cases for the businesses of the Target Company in medium to long run:

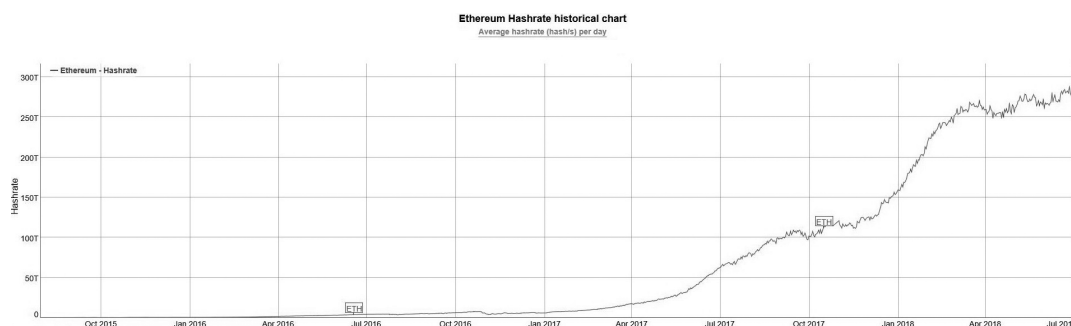
- the “market price of ETH”: 80%;
- the “ETH Network Hashrate”: 80%;
- the “ETH Block Reward”: 80%;
- the “ETH Block Time”: 30%; and
- the “HPC Charge”: 80%.



Source: <https://bitinfocharts.com>

The Ether price before April 2017 is in the stealth phase with relatively low transaction volume. After April 2017, the price started to increase with increased transaction volume and therefore, the trading of Ether is considered to have moved from the stealth phase to the awareness phase. The price went through a volatile period during which it increased from USD50.256 at 1 April 2017 to USD373.107 at 14 June 2017, before decreasing to USD156.388 at 16 July 2017. It continued on an upward trend until January 2018. The price of USD156.388 is 75.2% below the market price of USD631.231 at the Valuation Date. Accordingly, we have adopted a variation of the “market price of ETH” of up to 80% to be considered as the extreme case.

<b>ETH Price</b> <i>(USD)</i>	<b>Variance from base case</b>	<b>Valuation Outcome</b> <i>(USD'000)</i>	<b>% change from base case value</b>
1,136	80%	288,000	94.6%
947	50%	226,000	52.7%
757	20%	181,000	22.3%
726	15%	174,000	17.6%
694	10%	166,000	12.2%
663	5%	159,000	7.4%
631	0%	148,000	0.0%
600	-5%	134,000	-9.5%
568	-10%	121,000	-18.2%
537	-15%	111,000	-25.0%
505	-20%	100,000	-32.4%
316	-50%	30,000	-79.7%
126	-80%	(8,000)	-105.4%



Source: <https://bitinfocharts.com>

The “ETH Network Hashrate” has been on an upward trend. At 16 July 2017, it was 70.2143 THS (1 THS is equal to 1 million MHS), which is 73.7% of the “ETH Network Hashrate” 267.359 THS at the Valuation Date. Accordingly, we have adopted a variation of the “ETH Network Hashrate” of up to 80% to be considered as the extreme case.

**ETH Network  
Hashrate**

**(GH/s)  
per day**

**Variance from  
base case**

**Valuation  
Outcome  
(USD'000)**

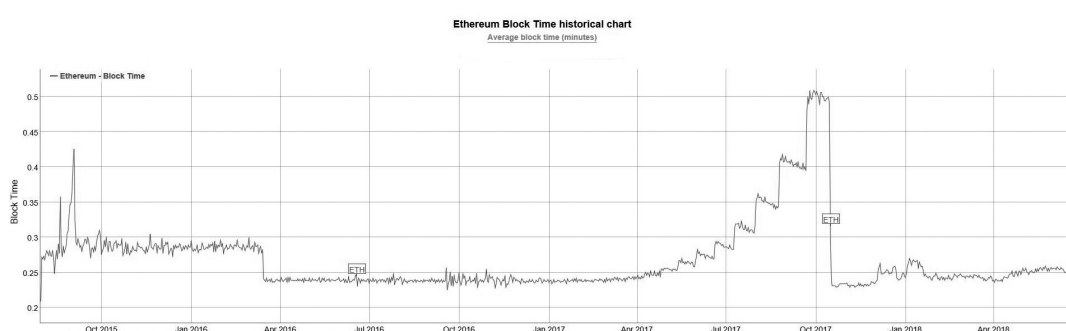
**% change from  
base case value**

481,246	80%	42,000	-71.6%
401,039	50%	71,000	-52.0%
320,831	20%	107,000	-27.7%
307,463	15%	114,000	-23.0%
294,095	10%	124,000	-16.2%
280,727	5%	135,000	-8.8%
267,359	0%	148,000	0.0%
253,991	-5%	160,000	8.1%
240,623	-10%	168,000	13.5%
227,255	-15%	178,000	20.3%
213,887	-20%	187,000	26.4%
133,680	-50%	339,000	129.1%
53,472	-80%	4,387,000	2,864.2%

As the “ETH Block Reward” is determined by the specification of Ethereum, there is insufficient historical data available for the development of variance benchmark for this sensitivity analysis. As such, we have adopted a variation of the “ETH Network Hashrate” of up to 80% as the extreme case to cover the possible range of any change.

<b>Block Reward</b>	<b>Variance from base case</b>	<b>Valuation Outcome (USD'000)</b>	<b>% change from base case value</b>
5.4	80%	288,000	94.6%
4.5	50%	226,000	52.7%
3.6	20%	181,000	22.3%
3.5	15%	174,000	17.6%
3.3	10%	166,000	12.2%
3.2	5%	159,000	7.4%
3.0	0%	148,000	0.0%
2.9	-5%	134,000	-9.5%
2.7	-10%	121,000	-18.2%
2.6	-15%	111,000	-25.0%
2.4	-20%	100,000	-32.4%
1.5	-50%	30,000	-79.7%
0.6	-80%	(8,000)	-105.4%





Source: <https://bitinfocharts.com>

As shown in the chart above, the “ETH Block Time” tends to be under 0.3 minutes (i.e. 20 seconds) in most of the history of Ethereum. Given that a block time of 20 seconds is 22.4% higher than the block time of 14.7 seconds at the Valuation Date, we have adopted a variation of the “ETH Block Time” of up to 30% to be considered as the extreme case.

<b>Block Time (s/Block)</b>	<b>Variance from base case</b>	<b>Valuation Outcome (USD'000)</b>	<b>% change from base case value</b>
19.11	30%	95,000	-35.8%
17.64	20%	107,000	-27.7%
16.91	15%	114,000	-23.0%
16.17	10%	124,000	-16.2%
15.44	5%	135,000	-8.8%
14.70	0%	148,000	0.0%
13.97	-5%	160,000	8.1%
13.23	-10%	168,000	13.5%
12.50	-15%	178,000	20.3%
11.76	-20%	187,000	26.4%
10.29	-30%	214,000	44.6%

Since the Target Company has not commenced providing HPC service, there is insufficient historical data available for the development of variance benchmark for this sensitivity analysis. Given that the assumed price is 50% lower than the price charged by Amazon Web Services Inc. for equivalent computational power, we have adopted a variation of the “HPC Charge (USD)/Rig/Day” of up to 80%.

<b>HPC Charge (USD)/ Rig/Day</b>	<b>Variance from base case</b>	<b>Valuation Outcome (USD'000)</b>	<b>% change from base case value</b>
155.23	80%	362,000	144.6%
129.36	50%	282,000	90.5%
103.49	20%	204,000	37.8%
99.17	15%	191,000	29.1%
94.86	10%	178,000	20.3%
90.55	5%	165,000	11.5%
86.24	0%	148,000	0.0%
81.93	-5%	131,000	-11.5%
77.61	-10%	115,000	-22.3%
73.30	-15%	100,000	-32.4%
68.99	-20%	86,000	-41.9%
43.12	-50%	24,000	-83.8%
17.25	-80%	1,000	-99.3%

**LIMITING CONDITIONS**

During the course of our valuation, we have reviewed the financial information, management representations and other pertinent data and the information made available to us. We have no reason to doubt the truth and accuracy of the information provided to us. We were also advised by the Company that no material factors have been omitted from the information to reach an informed view, and have no reason to suspect that any material information has been withheld.

We shall not be required to give testimony or attendance in court or to any government agency by reason of this valuation and with reference to the project described herein unless prior arrangements have been made. No responsibility is assumed for matters legal in nature. No investigation has been made of the title to or any liabilities against the business enterprise and its operating assets valued. In this valuation, it is presumed that, unless otherwise noted, the owners' claim is valid, the property rights are good and marketable, and there are no encumbrances which cannot be cleared through normal processes.

No opinion is intended to be expressed for matters which require legal or other specialised expertise or knowledge, beyond that customarily employed by valuers.

Our conclusions assume continuation of prudent management policies over whatever period of time considered to be necessary in order to maintain the character and integrity of the assets valued. We assume that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect their market value. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

We do not investigate any industrial safety and health related regulations in association with this particular operations. It is assumed that all necessary licenses, procedures and measures were implemented in accordance with the government legislation and guidance.

No allowance has been made in our valuation for any off-balance sheet charges, debts or amounts owing on the assets valued nor for any expenses or taxation which may be incurred in effecting a sale. It is assumed that the assets valued are free from any off-balance sheet encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

**CONCLUSION OF VALUE**

Based on the investigation and analysis stated above and on the valuation method employed, in our opinion, fair value of 100% equity interest of the Target Company as at **26 April 2018** is **USD148,000,000 (US DOLLARS ONE HUNDRED AND FORTY EIGHT MILLION ONLY)**.

We hereby certify that we have neither present nor prospective interest in the appraised assets or the value reported.

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

Yours faithfully,

For and on behalf of

**Asset Appraisal Limited**

**Tse Wai Leung**

*CFA*

*Director*



MADISON GROUP®  
**Madison Holdings Group Limited**  
**麥迪森控股集團有限公司**  
*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 8057)**

13 July 2018

The Listing Division  
The Stock Exchange of Hong Kong Limited  
12th Floor, One International Finance Centre  
1 Harbour View Street  
Central, Hong Kong

Dear Sirs,

**DISCLOSEABLE TRANSACTION**

We refer to the valuation report dated 13 July 2018 prepared by Asset Appraisal Limited (the “**Valuer**”) in relation to the valuation of the fair value of 51% equity interest in Diginex High Performance Computing Limited (formerly known as Digitas Limited) as at 26 April 2018 (the “**Valuation**”). The Valuation, which is prepared based on discounted cash flow method, is regarded as a profit forecast under Rule 19.61 of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited (the “**Forecast**”).

We have discussed with the Valuer about different aspects including the bases and assumptions upon which the Valuation has been prepared, and reviewed the Valuation for which the Valuer is responsible. We have also considered the report from our reporting accountant, TANDEM (HK) CPA Limited, regarding whether the Forecast was compiled properly so far as the calculations are concerned.

On the basis of the foregoing, we hereby confirm that the Forecast has been made by the Directors after due and careful enquiry.

Yours faithfully,

For and on behalf of the board of directors of

**Madison Holdings Group Limited**

**Ting Pang Wan Raymond**

*Chairman and executive Director*

**TANDEM** TANDEM (HK) CPA Limited  
灝天(香港)會計師事務所有限公司**INDEPENDENT ASSURANCE REPORT ON THE CALCULATION OF DISCOUNTED  
FUTURE CASH FLOWS IN CONNECTION WITH THE VALUATION OF 100% EQUITY  
INTEREST IN DIGINEX HIGH PERFORMANCE COMPUTING LIMITED****TO THE BOARD OF DIRECTORS OF  
MADISON HOLDINGS GROUP LIMITED**

We have completed our assurance engagement to report on the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the business valuation (the “**Valuation**”) dated 13 July 2018 prepared by Asset Appraisal Limited in respect of the appraisal of the fair value of the entire equity interests in Diginex High Performance Computing Limited (the “**Target Company**”) as at 26 April 2018 is based. The Valuation is in connection with the announcement of Madison Holdings Group Limited (the “**Company**”) dated 27 April 2018 (the “**Announcement**”) relating to the acquisition agreement involving issue of consideration shares under specific mandate. The Valuation based on the discounted future estimated cash flows is regarded as profit forecast under Rule 19.61 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”).

**Directors’ Responsibilities for the Discounted Future Estimated Cash Flows**

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors and as set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountant’s Responsibilities**

It is our responsibility to report, as required by Rule 19.62(2) of the GEM Listing Rules, on the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation is based. We are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows are based and our work does not constitute any valuation of the Target Company.

We conducted our work in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. This standard requires that we plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the arithmetical accuracy of the calculations are concerned, has been properly compiled in accordance with the bases and assumptions as set out in the Valuation. We reviewed the arithmetical calculations and the compilation of the discounted future estimated cash flows in accordance with the bases and assumptions.

The discounted future estimated cash flows do not involve the adoption of accounting policies. The discounted future estimated cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Further, since the discounted future estimated cash flows relates to the future, actual results are likely to be different from the discounted future estimated cash flows because events and circumstances frequently do not occur as expected, and the differences may be material. Our work has been undertaken for the purpose of reporting solely to you under Rule 19.62(2) of the GEM Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

**Opinion**

In our opinion, based on the foregoing, so far as the calculations are concerned, the discounted future estimated cash flows, has been properly compiled in all material respects in accordance with the bases and assumptions made by the directors of the Company as set out in the Valuation.

**TANDEM (HK) CPA Limited***Certified Public Accountants***Tang Chi Chiu**

Practising Certificate Number: P05736

Hong Kong

13 July 2018



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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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MADISON GROUP®

**Madison Holdings Group Limited**

**麥迪森控股集團有限公司**

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

(Stock Code: 8057)

### NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of Madison Holdings Group Limited (the “Company”) will be held at Flat A&B, 10/F, North Point Industrial Building, 499 King’s Road, North Point, Hong Kong on Monday, 30 July 2018 at 10:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following ordinary resolutions:

#### ORDINARY RESOLUTIONS

“THAT:–

- (a) the conditional acquisition agreement (the “**Acquisition Agreement**”) dated 26 April 2018 entered into among Diginex Global Limited, as the vendor (the “**Vendor**”), Mr. Miles Pelham, as the vendor’s nominee, Madison Future Games Limited, a wholly-owned subsidiary of the Company, as the purchaser, and the Company as the issuer, in relation to the acquisition (the “**Acquisition**”) of 1,020 shares in the share capital of Diginex High Performance Computing Limited (formerly known as Digitas Limited) (the “**Target Company**”), representing 51% of the issued share capital of the Target Company, at a total consideration of US\$60,000,000, a copy of the Acquisition Agreement having been produced to the EGM and marked “A” and initialed by the chairman of the Meeting for the purpose of identification, and the transactions contemplated thereby be and are hereby approved, confirmed and ratified;

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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- (b) subject to the fulfillment or waiver of the conditions precedent set out in the Acquisition Agreement, the directors (the “**Directors**”) of the Company be and are hereby granted a specific mandate to allot and issue 213,252,717 new shares of HK\$0.001 each in the capital of the Company (the “**Consideration Shares**”) to the Vendor (or its nominee(s)), credited as full paid up, at the issue price of HK\$1.84 per Consideration Share pursuant to the terms and conditions of the Acquisition Agreement; and
- (c) any one Director be and are hereby authorised to sign and execute such documents, including under seal where applicable, and to do all such acts and things as he/she considers necessary, desirable or expedient in connection with the implementation or giving effect to the Acquisition Agreement and the transactions contemplated thereunder.”

Yours faithfully,  
For and on behalf of the board of Directors  
**Madison Holdings Group Limited**  
**Ting Pang Wan Raymond**  
*Chairman and executive Director*

Hong Kong, 13 July 2018

*Registered office:*

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

*Head office and principal place of business in Hong Kong*

Flat A&B, 10/F  
North Point Industrial Building  
499 King’s Road  
North Point, Hong Kong

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*Notes:*

1. A member entitled to attend and vote at the EGM is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his/her/its behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the EGM in person, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof, should he/she/it so wish.
3. In order to be valid, the form of proxy, 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 must be deposited at the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.
4. In the case of joint holders of shares, any one of such joint holders may vote at the EGM, either in person or by proxy, in respect of such share as if he/she/it was solely entitled thereto, but if more than one of such joint holders are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
5. If typhoon signal No. 8 or above, or a "black" rainstorm warning is in effect any time after 7:00 a.m. on the date of the EGM, the meeting will be postponed. The Company will publish an announcement on the website of the Company at <http://www.madison-wine.com> and on the GEM website at <http://www.hkgem.com> on the "Latest Company Announcements" page to notify shareholders of the Company of the date, time and place of the rescheduled meeting.