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Application Proof of

BITMAIN

BitMain Technologies Holding Company

比特大陸科技控股公司

(the “Company”)

(A company controlled through weighted voting rights and incorporated in the Cayman Islands with limited liability)

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BITMAIN

BitMain Technologies Holding Company

比特大陸科技控股公司

(A company controlled through weighted voting rights and incorporated in the Cayman Islands with limited liability)

[REDACTED]

Number of [REDACTED] under : [REDACTED] (subject to the
the [REDACTED] [REDACTED])
Number of [REDACTED] : [REDACTED] (subject to reallocation)
Number of [REDACTED] : [REDACTED] (subject to reallocation
and the [REDACTED])
Maximum [REDACTED] : HK\$[REDACTED] per [REDACTED]
plus brokerage of 1%, SFC
transaction levy of 0.0027% and Stock
Exchange trading fee of 0.005%
(payable in full on application in Hong
Kong dollars, subject to refund)
Nominal value : US\$0.0000001 per [REDACTED]
[REDACTED]

Sole Sponsor



[REDACTED]

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The [REDACTED] is expected to be fixed by agreement between the [REDACTED] (for themselves and on behalf of the [REDACTED]) and our Company on the [REDACTED]. The [REDACTED] is expected to be on or around [REDACTED] and, in any event, not later than [REDACTED]. The [REDACTED] will be not more than [REDACTED] and is currently expected to be not less than [REDACTED] unless otherwise announced. If, for any reason, the [REDACTED] is not agreed by [REDACTED] between the [REDACTED] (for themselves and on behalf of the [REDACTED]) and our Company, the [REDACTED] will not proceed and will lapse.

The [REDACTED] (on behalf of the [REDACTED]) may, with our Company’s consent, reduce the number of [REDACTED] being [REDACTED] under the [REDACTED] and/or the indicative [REDACTED] below that stated in this document at any time on or prior to the morning of the last day for lodging applications under the [REDACTED]. In such a case, an announcement will be published in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese), and on the websites of the Stock Exchange (www.hkexnews.hk) and our Company (<https://www.bitmain.com>) not later than the morning of the last day for lodging applications under the [REDACTED]. For further information, please refer to the sections headed “Structure of the [REDACTED]” and “How to apply for [REDACTED].”

The obligations of the [REDACTED] under the [REDACTED] to subscribe for, and to procure subscribers for, the [REDACTED], are subject to termination by the [REDACTED] (on behalf of the [REDACTED]) if certain events shall occur prior to 8:00 a.m. on the [REDACTED]. Such grounds are set out in the section headed “[REDACTED]” in this document.

The [REDACTED] have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged, or transferred within the United States or to, or for the account or benefit of U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The [REDACTED] are being [REDACTED] (i) solely to QIBs as defined in Rule 144A pursuant to an exemption from registration under the U.S. Securities Act and (ii) outside the United States in offshore transactions in accordance with Regulation S.

Our Company is controlled through weighted voting rights. Prospective investors should be aware of the potential risks of investing in a company with a WVR structure, in particular that the WVR Beneficiaries, whose interests may not necessarily be aligned with those of our Shareholders as a whole, will be in a position to exert significant influence over the outcome of Shareholders’ resolutions, irrespective of how other Shareholders vote. For further information about the risks associated with our WVR structure, please refer to the section headed “Risk Factors – Risks Relating to the WVR Structure – Our controlling shareholders may exert substantial influence over us and may not act in the best interests of our independent Shareholders.”

[REDACTED]

EXPECTED TIMETABLE

[REDACTED]

EXPECTED TIMETABLE

[REDACTED]

CONTENTS

IMPORTANT NOTICE TO PROSPECTIVE INVESTORS

This document is issued by our Company solely in connection with the [REDACTED] and the [REDACTED] and does not constitute an [REDACTED] to sell or a solicitation of an [REDACTED] to buy any security other than the [REDACTED] by this document pursuant to the [REDACTED]. This document may not be used for the purpose of making, and does not constitute, an [REDACTED] or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a [REDACTED] of the [REDACTED] in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this document in any jurisdiction other than Hong Kong. The distribution of this document for purposes of a [REDACTED] and the [REDACTED] and sale of the [REDACTED] in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this document and the [REDACTED] to make your investment decision. The [REDACTED] is made solely on the basis of the information contained and the representations made in this document. We have not authorized anyone to provide you with information that is different from what is contained in this document. Any information or representation not contained nor made in this document and the [REDACTED] must not be relied on by you as having been authorized by our Company, the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED], any of the [REDACTED], any of their respective directors, officers, employees, agents or representatives of any of them or any other parties involved in the [REDACTED].

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SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. You should read the entire document before you decide to invest in the [REDACTED].

There are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] are set out in the section headed “Risk Factors.” You should read that section carefully before you decide to invest in the [REDACTED].

OVERVIEW

We are China’s second largest and among the world’s top ten fabless IC design companies in terms of revenue in 2017, according to Frost & Sullivan. We focus on the design of ASIC chips specialized in cryptocurrency mining and AI applications, and we are the fourth largest global fabless ASIC chip design company in terms of revenue in 2017, according to Frost & Sullivan.

According to Frost & Sullivan, we are the largest global ASIC-based cryptocurrency mining hardware company in terms of sales revenue in 2017, accounting for a market share of 74.5%. We offer a variety of mining hardware equipped with proprietary ASIC chips under our Antminer brand. We specialize in the front-end and back-end of cryptocurrency mining ASIC chip design, and cooperate with industry-leading production partners to manufacture our chips and hardware products. With strong commitment in research and development, we have been constantly upgrading our ASIC chips, the core of our mining hardware. Our innovation in ASIC chips to improve both performance and cost-effectiveness has enabled us to deliver high computing power and great power-efficient mining hardware at reasonable prices. Meanwhile, we have focused on developing mining hardware with different algorithms covering major cryptocurrencies, including Bitcoin, Bitcoin Cash, Ether, Litecoin, Dash and Zcash, which makes us one of the few companies offering mining solutions for various cryptocurrencies. As a result, our products are able to maintain a competitive edge in the cryptocurrency mining hardware market.

Riding on our success and expertise in ASIC chip design and powerful research and development capabilities, we have extended our focus to the revolutionary field of AI and achieved promising results. We are among one of the few AI chip companies in the world, mainly including Google and NVIDIA, that are capable of developing chips for cloud training and inference. Our AI chips function as a tensor computing acceleration processor for deep learning, applicable to training and/or inference on artificial neural networks. We have launched our second generation of AI chip BM1682 in the first quarter of 2018, and have been cooperating with industry-leading AI companies to explore business opportunities in the future. In July 2018, the superior performance of our AI chip BM1682 was showcased at Baidu Create 2018, Baidu’s annual AI developer conference, where our chip was demonstrated to be compatible with Baidu’s latest AI inference acceleration engine.

SUMMARY

In addition to our ASIC chip design business and in an effort to supplement our mining hardware sales business, we manage mining farms where we offer our customers custodian services for their mining hardware, and operate mining pools where miners contribute their computing power and split mining rewards. As of June 30, 2018, we had opened 11 mining farms in the PRC, located in Sichuan Province, Xinjiang and Inner Mongolia, with an aggregate capacity to store approximately 200,000 sets of mining hardware. We also primarily operate two mining pools, BTC.com and Antpool, currently the world’s largest and second largest Bitcoin mining pools in terms of computing power. As of August 31, 2018, these two mining pools together contributed to approximately 37.1% of the aggregate hashrate of the Bitcoin network calculated by their aggregate block rewards as a percentage of the total block rewards generated from the Bitcoin network for the preceding 12 months.

We have experienced exponential growth during the Track Record Period. Our revenue increased from US\$137.3 million in 2015 to US\$2,517.7 million in 2017, representing a CAGR of 328.2%, and increased by 936.6% from US\$274.5 million for the six months ended June 30, 2017 to US\$2,845.5 million for the six months ended June 30, 2018. During the same period, our profit for the year increased from US\$48.6 million in 2015 to US\$701.4 million in 2017 with a CAGR of 279.9%, and increased by 794.8% from US\$83.0 million for the six months ended June 30, 2017 to US\$742.7 million for the six months ended June 30, 2018. Our adjusted net profit, which is our profit excluding share-based compensation expenses and fair value changes of convertible redeemable preferred shares, increased from US\$48.6 million in 2015 to US\$113.6 million in 2016 and further to US\$952.6 million in 2017, and our adjusted net profit increased from US\$83.0 million for the first six months of 2017 to US\$952.2 million for the first six months of 2018. Our adjusted EBITDA, which is our profit before taxation excluding fair value changes of convertible redeemable preferred shares, finance cost, share-based compensation expenses, depreciation and amortization increased from US\$57.9 million in 2015 to US\$138.1 million in 2016 and further to US\$1,152.1 million in 2017, and our adjusted EBITDA increased from US\$101.8 million for the first six months of 2017 to US\$1,122.9 million for the first six months of 2018. Please see “Financial Information – Non-IFRS Measures: Adjusted EBITDA and Adjusted Net Profit” for more information. Nevertheless, given the volatile nature of cryptocurrencies and that our business and financial condition correlate with the market price of cryptocurrencies, we may not be able to sustain our high historical growth rates. Please see “Risk Factors – Risks Relating to Our Business and Industry – We may not be able to sustain our historical growth rates, and our historical performance may not be indicative of our future growth or financial results given our limited operating history” and “– Recent Developments.”

OUR STRENGTHS

We believe the following strengths contribute to our success and differentiate us from our competitors:

- Leader in the global ASIC chip industry;
- Pioneer in the thriving blockchain ecosystem;
- Strong contender in AI chip industry;
- Outstanding research and development capabilities;
- Close partnership with leading supply chain partners; and
- Visionary management team believing in blockchain technology and AI.

SUMMARY

OUR STRATEGIES

To further solidify our leadership, we intend to pursue the following strategies:

- Continuing to invest in research and development to strengthen our leading market position in chip design;
- Advancing our presence in the blockchain industry; and
- Continuing to invest in AI and promote the commercial application of our AI technologies and solutions.

OUR BUSINESS MODEL

We engage in the design of ASIC chips for cryptocurrency mining and AI applications, sales of cryptocurrency mining hardware and AI hardware, management of mining farms, operation of mining pools and other cryptocurrency-related business. At the core of our cryptocurrency mining hardware business is the front-end and back-end of ASIC chip design, the major links in the product development chain for cryptocurrency mining hardware. Catering to our customers’ evolving needs, we supplement our core cryptocurrency mining ASIC chip design business with our mining farm business, where we provide mining hardware custodian services to our customers, and our mining pool business, where miners contribute their computing power to platforms to jointly mine cryptocurrencies and share mining rewards. Meanwhile, we have expanded our efforts to the revolutionary field of AI, primarily the design of AI ASIC chips and the development of AI hardware. Set forth below is a revenue breakdown of our respective business segments during the Track Record Period.

	Year ended December 31,						Six months ended June 30,			
	2015		2016		2017		2017		2018	
	(US\$'000)	%	(US\$'000)	%	(US\$'000)	%	(US\$'000)	%	(US\$'000)	%
Revenues										
Mining hardware										
sales	107,878	78.6	214,698	77.3	2,263,237	89.9	220,902	80.5	2,683,853	94.3
Mining pool service	295	0.2	3,644	1.3	32,906	1.3	7,330	2.7	43,217	1.5
Mining farm service	–	–	5,205	1.9	20,592	0.8	4,983	1.8	21,823	0.8
Proprietary mining	27,944	20.3	53,586	19.3	199,330	7.9	40,652	14.8	94,343	3.3
Others	1,226	0.9	479	0.2	1,654	0.1	583	0.2	2,231	0.1
Total	137,343	100	277,612	100	2,517,719	100	274,450	100	2,845,467	100

SUMMARY

OUR CUSTOMERS

Our customers primarily consist of individuals and companies interested in cryptocurrency business as well as those seeking AI solutions. We have a large and diverse customer base. The number of our customers increased from nearly 6,000 in 2015 to over 46,000 in 2017 and further to over 80,000 in the six months ended June 30, 2018. Our diverse customer base is located in various countries, mainly including China, Asia (excluding the PRC), the US, and countries in Europe, and we have seen increasing overseas sales in recent years.

OUR INDUSTRY AND COMPETITION

Global and China IC Industry

IC Industry. In recent years, benefitting from the growth of the global electronic industry, particularly the acceleration of industrial upgrading and the rapid development of emerging high-tech industries such as AI, the market size of the global IC industry in terms of sales revenue increased at a CAGR of 7.9% from US\$251.8 billion in 2013 to US\$341.4 billion in 2017, according to Frost & Sullivan. China’s IC market increased at a much higher pace at a CAGR of 21.1% from US\$36.8 billion in 2013 to US\$79.2 billion in 2017 primarily due to the domestic industrial transformation and upgrade. Driven by the continuously increasing market scale of main products of IC application, including automotive electronics and IoT connection, the global IC industry is expected to further grow at a CAGR of 9.0% to US\$525.3 billion in 2022. The IC market in China is expected to further grow to US\$152.3 billion by 2022, representing a CAGR of 14.0% from US\$79.2 billion in 2017.

Fabless IC Design Industry. The growth in the foundry industry has provided fabless IC design companies with advanced process capacity at reasonable prices. According to Frost & Sullivan, the market size of global fabless IC design industry in terms of revenue increased from US\$62.9 billion in 2013 to US\$77.0 billion in 2017, representing a CAGR of 5.2%. Going forward, driven by the technology development in the IoT and AI, the global fabless IC design industry is expected to flourish and its market size in terms of revenue is expected to increase from US\$77.0 billion in 2017 to US\$121.8 billion in 2022, representing a CAGR of 9.6%.

ASIC Chips. ASIC chips are widely used in private data centers, cloud services, and edge devices around the world. According to Frost & Sullivan, the global market size of ASIC chips in terms of revenue is expected to reach US\$59.7 billion in 2022, representing a CAGR of 18.4% from US\$25.7 billion in 2017.

Blockchain and Cryptocurrency Industries

Blockchain. Blockchain is a voluntary open network that can be used by anyone with devices connected to the Internet. It allows every node to create immutable data, transparent record of transactions and peer-to-peer transactions in an efficient, secure and trust-free manner. Because of such advantages, blockchain can be applied to various industries and activities, such as cryptocurrency, payment, financial services, IoT, cloud computing and cybersecurity, among others.

SUMMARY

Cryptocurrency. By virtue of increasing market acceptance and penetration of cryptocurrencies, the cryptocurrency industry has witnessed a significant growth over the past five years. According to Frost & Sullivan, the market size of global cryptocurrency industry in terms of revenue increased from US\$0.1 billion in 2013 to US\$13.2 billion in 2017, representing a CAGR of 230.8%. The popularity of cryptocurrencies has drawn an ever-increasing number of people to open accounts in exchanges to trade cryptocurrencies despite the fluctuation of the market price of cryptocurrencies. For instance, Coinbase, one of the global leading cryptocurrency exchanges, has experienced a surge in its user number. According to Frost & Sullivan, the total number of Coinbase accounts grew significantly from approximately 0.5 million in 2013 to approximately 13.3 million in 2017, and as of June 30, 2018, Coinbase had managed over 20 million user accounts, reflecting the general acceptance of Bitcoin and other cryptocurrencies such as Bitcoin Cash, Ether and Litecoin.

Cryptocurrency Mining Hardware. For most cryptocurrencies that require a computing mining process to be released or traded, mining hardware are utilized to resolve the computing process. The global cryptocurrency mining hardware industry consists of all the hardware used for mining cryptocurrencies under various kinds of chip architecture and algorithms, mainly dominated by ASIC-based and GPU-based mining hardware with high computing power. According to Frost & Sullivan, the market size of global ASIC-based cryptocurrency mining hardware industry in terms of revenue increased from US\$0.04 billion in 2013 to US\$3.0 billion in 2017, representing a CAGR of 195.3%. In the next five years, the market size of global ASIC-based cryptocurrency mining hardware market in terms of revenue is expected to reach US\$17.1 billion in 2022, representing a CAGR of 41.3%, mainly driven by the growing demand from miners for mining hardware with great power efficiency and high computing power, according to Frost & Sullivan.

The global cryptocurrency mining hardware market is highly competitive and dominated by a limited number of major players. According to Frost & Sullivan, the global top three ASIC-based cryptocurrency mining hardware companies, including us, together accounted for approximately 85.2% of the market share in terms of sales revenue in 2017.

AI Chip Industry

Generally, AI chips can be categorized into two types according to their applications, cloud AI chips and edge AI chips. The advancement of AI technology and cloud computing services have been creating great opportunities in the cloud AI chips market. According to Frost & Sullivan, the global cloud AI chip market in terms of revenue increased from approximately US\$0.2 billion in 2013 to approximately US\$2.1 billion in 2017, representing a CAGR of 80.0%. It is expected that the global cloud AI chip market will further grow rapidly to reach approximately US\$23.5 billion by the end of 2022, representing a CAGR of 62.1% from 2017.

WEIGHTED VOTING RIGHTS STRUCTURE

Our Company has adopted a WVR structure. Under this structure our Company’s share capital comprises Class A Shares and Class B Shares. Each Class A Share entitles the holder to exercise one vote, and each Class B Share entitles the holder to exercise ten votes, respectively, on any resolution tabled at our Company’s general meetings, except for resolutions with respect to a limited number of Reserved Matters, in relation to which each Share is entitled to one vote.

SUMMARY

Immediately upon the completion of [REDACTED], the WVR Beneficiaries will be Mr. Zhan Ketuan and Mr. Wu Jihan.

- Mr. Zhan Ketuan beneficially owns 3,988,768,187 Class B Shares, representing approximately [REDACTED]% of the voting rights in our Company (assuming the [REDACTED] is not exercised) with respect to shareholder resolutions relating to matters other than the Reserved Matters.
- Mr. Wu Jihan beneficially owns 2,243,331,244 Class B Shares, representing approximately [REDACTED]% of the voting rights in our Company (assuming the [REDACTED] is not exercised) with respect to shareholder resolutions relating to matters other than the Reserved Matters.

For further details, please see the section headed “Share Capital – Weighted Voting Rights Structure” in this document.

Our Company is adopting the WVR structure to enable the WVR Beneficiaries to exercise voting control over our Company. This will enable our Group to benefit from the continuing vision and leadership of the WVR Beneficiaries who will control our Group with a view to its long-term prospects and strategy.

Mr. Zhan Ketuan and Mr. Wu Jihan have been the backbone of our Group since our inception. Their clear sense of mission, long-term focus and commitment to the belief that blockchain technology and AI will move the world have been pivotal to our success. Under the leadership of Mr. Zhan Ketuan and Mr. Wu Jihan, we are China’s second largest and among the world’s top ten fabless IC design companies in terms of revenue in 2017, according to Frost & Sullivan.

Mr. Zhan Ketuan, with nearly 15 years of managerial and operational experience in the IC industry, has deep technical expertise and acute insight into the development of ASIC chips. He leads our chip research and development team to achieve each technology breakthrough and drive the evolution of cutting-edge products.

Mr. Wu Jihan is widely recognized as the leader in the global cryptocurrency and blockchain technology community. He is known as the first person to translate Satoshi Nakamoto’s white paper “Bitcoin: A Peer-to-Peer Electronic Cash System” into Chinese in 2011. He was named one of “The Ledger 40 under 40” by Fortune Magazine in 2018 for transforming business at the leading edge of finance and technology. Mr. Wu Jihan has been guiding our strategic development with his deep understanding of the blockchain industry.

Prospective investors are advised to be aware of the potential risks of investing in companies with WVR structure, in particular that interests of the WVR Beneficiaries may not necessarily always be aligned with those of our Shareholders as a whole, and that the WVR Beneficiaries will be in a position to exert significant influence over the affairs of our Company and the outcome of shareholders’ resolutions, irrespective of how other Shareholders vote. Prospective investors should make the decision to invest in our Company only after due and careful consideration. For further information about the risks associated with the WVR structure adopted by our Company, please refer to paragraphs headed “Risk Factors – Risks Relating to the WVR Structure – Our controlling shareholders may exert substantial influence over us and may not act in the best interests of our independent Shareholders.”

SUMMARY

RISK FACTORS

Our business and the [REDACTED] involve certain risks, which are set out in the section headed “Risk Factors.” You should read that section in its entirety carefully before you decide to invest in our Shares. Some of the major risks we face are relating to:

- The fact that development of blockchain technology and cryptocurrency is in its early stage and any adverse development in the cryptocurrency or blockchain market could adversely affect our business and results of operations;
- The fact that a cryptocurrency may not maintain its long-term value and volatility in the market price of cryptocurrencies may adversely affect our business and results of operations;
- The fact that we are subject to regulatory risks with regard to mining, holding, using, or transferring cryptocurrencies;
- Our ability to sustain our historical growth rates;
- Our ability to manage our growth or execute our strategies effectively;
- Our ability to operate our businesses globally;
- The fact that erosion or loss of user confidence in Bitcoin and other cryptocurrencies could adversely impact our business, results of operations and financial condition;
- Our ability to access large quantity of power at reasonable costs;
- Our ability to adapt to new businesses when all the Bitcoins have been mined; and
- Our ability to price our products and services at our desired margins and maintain our pricing ability.

OUR CONTROLLING SHAREHOLDERS

Upon the completion of the [REDACTED], assuming the [REDACTED] is not exercised, Mr. Zhan Ketuan and Mr. Wu Jihan will indirectly hold approximately [REDACTED]% and [REDACTED]% of the voting rights in our Company through Class B Shares beneficially owned by each of them, respectively, capable of being exercised on resolutions in general meetings of our Company (other than with respect to the Reserved Matters). Therefore, Mr. Zhan Ketuan and Mr. Wu Jihan will be controlling shareholders of our Company after [REDACTED].

For further details about our controlling shareholders, please refer to the section headed “Relationship with the Controlling Shareholders.”

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth summary financial data from our consolidated financial information for the Track Record Period, extracted from the Accountants’ Report set out in Appendix I to this document. The summary consolidated financial data set forth below should be read together with, and is qualified in its entirety by reference to, the consolidated financial statements in this document, including the related notes. Our consolidated financial information was prepared in accordance with IFRS.

SUMMARY

Selected Consolidated Statements of Profit or Loss Items

The following table sets forth a summary of our consolidated statements of profit or loss with line items in absolute amounts and as percentages of our revenues for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2015		2016		2017		2017		2018	
	(US\$'000)	%	(US\$'000)	%	(US\$'000)	%	(US\$'000)	%	(US\$'000)	%
Revenue	137,343	100	277,612	100	2,517,719	100	274,450	100	2,845,467	100
Cost of sales	(65,858)	(48.0)	(126,261)	(45.5)	(1,304,969)	(51.8)	(140,757)	(51.3)	(1,815,316)	(63.8)
Gross profit	71,485	52.0	151,351	54.5	1,212,750	48.2	133,693	48.7	1,030,151	36.2
Other income (expense)	1,738	1.3	25,740	9.3	109,519	4.3	(9,125)	(3.3)	302,292	10.6
Selling expenses	(598)	(0.4)	(2,217)	(0.8)	(7,971)	(0.3)	(966)	(0.4)	(12,420)	(0.4)
Administrative and other operating expenses	(7,541)	(5.5)	(14,205)	(5.1)	(58,910)	(2.3)	(11,153)	(4.1)	(43,839)	(1.5)
Research and development expenses	(5,702)	(4.2)	(16,608)	(6.0)	(72,563)	(2.9)	(11,087)	(4.0)	(86,966)	(3.1)
Other net loss	(1,608)	(1.2)	(6,379)	(2.3)	(39,453)	(1.6)	(2,382)	(0.9)	(120,305)	(4.2)
Profit from operations	57,774	42.1	137,682	49.6	1,143,372	45.4	98,980	36.1	1,068,913	37.6
Finance costs	(60)	(0.0)	(31)	(0.0)	(59)	(0.0)	(44)	(0.0)	(82)	(0.0)
Share of profits less losses of associates	78	0.1	99	0.0	4,696	0.2	2,275	0.8	5,363	0.2
Fair value changes of convertible redeemable preferred shares	-	-	-	-	(250,633)	(10.0)	-	-	(166,402)	(5.8)
Profit before taxation	57,792	42.1	137,750	49.6	897,376	35.6	101,211	36.9	907,792	31.9
Income tax	(9,189)	(6.7)	(24,154)	(8.7)	(195,975)	(7.8)	(18,246)	(6.6)	(165,076)	(5.8)
Profit for the year/period	48,603	35.4	113,596	40.9	701,401	27.9	82,965	30.2	742,716	26.1
Attributable to equity shareholders of the Company	44,036	32.1	110,582	39.8	701,401	27.9	82,965	30.2	742,716	26.1
Non-controlling interests	4,567	3.3	3,014	1.1	-	-	-	-	-	-
Profit for the year/period	48,603	35.4	113,596	40.9	701,401	27.9	82,965	30.2	742,716	26.1
Non-IFRS Measures:										
Adjusted EBITDA	57,916	42.2	138,125	49.8	1,152,147	45.8	101,828	37.1	1,122,910	39.5
Adjusted net profit	48,603	35.4	113,596	40.9	952,557	37.8	82,965	30.2	952,183	33.5

Notes:

- (1) We define “adjusted EBITDA” as profit before taxation for the year or period excluding (i) fair value changes of convertible redeemable preferred shares, (ii) finance cost, (iii) share-based compensation expenses, (iv) depreciation and (v) amortization. Adjusted EBITDA is not a measure required by, or presented in accordance with IFRS. The use of adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRS. See “Financial Information – Non-IFRS Measures: Adjusted EBITDA and Adjusted Net Profit” for details.

SUMMARY

- (2) We define “adjusted net profit” as profit for the year or period by adding back (i) fair value changes of convertible redeemable preferred shares, and (ii) share-based compensation expenses. Adjusted net profit is not a measure required by, or presented in accordance with IFRS. The use of adjusted net profit has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRS. See “Financial Information – Non-IFRS Measures: Adjusted EBITDA and Adjusted Net Profit” for details.

We believe that the presentation of non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance. The use of these non-IFRS measures have limitations as an analytical tool, and you should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial conditions as reported under IFRS. In addition, these non-IFRS financial measures may be defined differently from similar terms used by other companies. The following table sets forth the reconciliation of our adjusted net profit for the years ended December 31, 2015, 2016 and 2017 and for the six months ended June 30, 2017 and 2018 to the nearest measures prepared in accordance with IFRS:

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>
Profit for the year/period	48,603	113,596	701,401	82,965	742,716
Add:					
Fair value changes of convertible redeemable preferred shares	–	–	250,633	–	166,402
Share-based compensation expenses	–	–	523	–	43,065
Adjusted net profit	<u>48,603</u>	<u>113,596</u>	<u>952,557</u>	<u>82,965</u>	<u>952,183</u>

For the reconciliation of our adjusted EBITDA for the years ended December 31, 2015, 2016 and 2017 and for the six months ended June 30, 2017 and 2018 to the nearest measures prepared in accordance with IFRS, please see “Financial Information – Non-IFRS Measures: Adjusted EBITDA and Adjusted Net Profit” for details.

SUMMARY

Selected Consolidated Statements of Financial Position Items

The table below sets forth selected information from our consolidated statements of financial position as of the dates indicated, which have been extracted from our historical financial information included in the Accountants’ Report in Appendix I to this document.

	As of December 31,			As of June 30,
	2015	2016	2017	2018
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
Total assets	124,126	225,374	2,903,737	3,164,745
Total liabilities	75,171	93,238	2,055,381	1,547,644
Total equity	48,955	132,136	848,356	1,617,101

Selected Consolidated Cash Flow Statements Items

The following table sets forth our cash flows for the periods indicated:

	Years ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
Net cash used in operating activities	(5,579)	(96,369)	(191,558)	(14,795)	(621,816)
Net cash generated from investing activities	31,908	94,418	483,725	76,456	381,511
Net cash generated from/(used in) financing activities	20,229	(21,092)	22,153	(145)	248,840
Net increase/(decrease) in cash and cash equivalents	46,558	(23,043)	314,320	61,516	8,535
Cash and cash equivalents at the beginning of the year/period	1,275	47,579	24,127	24,127	352,303
Effect of foreign exchange rate changes	(254)	(409)	13,856	560	(17,500)
Cash and cash equivalents at the end of the year/period	47,579	24,127	352,303	86,203	343,338

SUMMARY

NEGATIVE NET OPERATING CASH FLOW

During the Track Record Period, we have accepted payment in the form of cryptocurrencies for sales of our cryptocurrency mining hardware, and we have also received cryptocurrencies from our proprietary mining and operation of mining pools. In accordance with the applicable accounting rules, we make reference to the accounting treatment of intangible assets with respect to our cryptocurrencies, pursuant to which the receipt of cryptocurrencies from our operation cannot be classified as operating cash inflow while the subsequent conversion of cryptocurrencies into standard currencies are classified as investing cash inflow. However, the cryptocurrencies we hold are highly liquid assets that can be sold in open market to satisfy our liquidity needs.

For the years ended December 31, 2015, 2016 and 2017, we recorded net cash used in operating activities of approximately US\$5.6 million, US\$96.4 million and US\$191.6 million, respectively, mainly because a portion of our revenue is recognized from receipt of cryptocurrencies, which amounted to US\$54.3 million, US\$118.3 million and US\$855.3 million, respectively, during the same periods. Taking the receipt of cryptocurrencies recognized as our revenue into consideration, our operating cash flow position in 2015, 2016 and 2017 was net operating cash inflows of US\$48.7 million, US\$21.9 million and US\$663.7 million. For the six months ended June 30, 2018, we recorded net cash used in operating activities of approximately US\$621.8 million despite the profit before tax of US\$907.8 million mainly due to (i) our receipt of cryptocurrencies of US\$749.9 million, (ii) an increase in inventories of US\$1,039.0 million and (iii) a decrease in advances received from our customers of US\$594.0 million. In early 2018, we anticipated strong market growth for cryptocurrency mining hardware in 2018 due to the upward trend of cryptocurrencies price in the fourth quarter of 2017, and we placed a large amount of orders with our production partners in response to the anticipated significant sales growth. However, there had been significant market volatility in the market price of cryptocurrencies in the first half of 2018. As a result of such volatility, the expected economic return from cryptocurrency mining had been adversely affected and the sales of our mining hardware slowed down, which in turn caused an increase in our inventories level and a decrease in advances received from our customers in the first half of 2018. Going forward, we will actively balance our business growth strategy, inventories and cryptocurrencies assets levels to ensure a sustainable business growth and a healthy cash flow position, and we will adjust our procurement and production plan to maintain an appropriate liquidity level.

Taking into account the financial resources available to us, including our cash and cash equivalents on hand, cash generated from operations and our highly liquid cryptocurrencies assets, as well as estimated [REDACTED] from the [REDACTED], our Directors are of the opinion that we have sufficient working capital required for our operations at present and for at least the next 12 months from the date of this document.

CRYPTOCURRENCY ASSETS

Our cryptocurrencies, including, among others, Bitcoin, Bitcoin Cash, Ether, Litecoin and Dash, are generated mainly from (i) sales of mining hardware settled in cryptocurrencies, (ii) proprietary mining, and (iii) our share of mining rewards generated from our mining pools

SUMMARY

operation. During the Track Record Period, a majority of our cryptocurrencies were earned from the sales of mining hardware. The balance of our cryptocurrencies was US\$12.3 million, US\$56.3 million, US\$872.6 million and US\$886.9 million, accounting for 9.9%, 25.0%, 30.1% and 28.0% of our total assets as of December 31, 2015, 2016 and 2017 and June 30, 2018, respectively.

We account for cryptocurrencies at cost, instead of revaluing cryptocurrencies at their fair value on each accounting reference date, to avoid substantial volatility in the value of cryptocurrencies from time to time, which may distort our results of operation and financial condition. Gains or losses arising from the disposal of cryptocurrencies are determined as the difference between the net disposal proceeds and the carrying amount of the cryptocurrencies and are recognized in profit or loss on the date of disposal.

In addition, if circumstances indicate that the carrying amount of cryptocurrencies may not be recoverable, an impairment loss may be recognized in accordance with accounting policy for impairment of cryptocurrencies. These assets are tested for impairment periodically or whenever the events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. In addition, we only recognize impairment from cryptocurrency assets, if any, and do not recognize any increase in value from the appreciation of cryptocurrency assets over the original cost prior to our disposal of cryptocurrencies. For the six months ended June 30, 2018, we recorded an impairment loss of cryptocurrencies amounting to US\$102.7 million as a result of the fluctuations in the market price of cryptocurrencies. We have adopted various cryptocurrency risk management measures to minimize the risks associated with the fluctuation in the market price of cryptocurrencies. Please see “Business – Risk Management and Internal Control – Cryptocurrency Risk Management.” For details regarding the accounting treatment of our cryptocurrencies, please see note 14 of the Accountants’ Report set out in Appendix I to this document.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as of the dates or for the periods indicated:

	As of or for the Year Ended December 31,			As of or for the Six Months Ended June 30,
	2015	2016	2017	2018 ⁽⁸⁾
Gross margin ⁽¹⁾	52.0%	54.5%	48.2%	36.2%
Net margin ⁽²⁾	35.4%	40.9%	27.9%	26.1%
Gearing ratio ⁽³⁾	60.6%	41.4%	70.8%	48.9%
Return on assets ⁽⁴⁾	39.2%	65.0%	44.8%	24.5%
Return on equity ⁽⁵⁾	99.3%	86.0%	82.7%	45.9%
Adjusted return on assets ⁽⁶⁾	39.2%	65.0%	60.9%	31.4%
Adjusted return on equity ⁽⁷⁾	99.3%	86.0%	112.3%	58.9%

SUMMARY

Notes:

- (1) Gross margin equals gross profit divided by revenues for the period and multiplied by 100%.
- (2) Net margin equals net profit divided by revenues for the period and multiplied by 100%.
- (3) Gearing ratio is calculated based on the total liabilities divided by total assets as at the respective period end and multiplied by 100%.
- (4) Return on assets equals net profit for the period divided by the average of the beginning and closing balance of the total assets for the period and multiplied by 100%.
- (5) Return on equity equals net profit for the period divided by shareholders' equity as at the respective period end and multiplied by 100%.
- (6) Adjusted return on assets equals adjusted net profit for the period divided by the average of the beginning and closing balance of the total assets for the period end and multiplied by 100%.
- (7) Adjusted return on equity equals adjusted net profit for the period divided by shareholders' equity as at the respective period end and multiplied by 100%.
- (8) Annualized base.

APPLICATION FOR [REDACTED] ON THE [REDACTED]

We have applied to the Listing Committee for the [REDACTED] of, and permission to deal in, the Class A Shares in issue (including the Class A Shares on conversion of the Preferred Shares), and the Class A Shares to be issued pursuant to (i) the [REDACTED], (ii) any exercise of the [REDACTED] and (iii) any conversion of Class B Shares into Class A Shares on a one to one basis.

Dealings in the Class A Shares on the [REDACTED] are expected to commence on [REDACTED]. No part of our Class A Shares or loan capital is [REDACTED] on or dealt in on any other stock exchange and no such [REDACTED] or permission to [REDACTED] is being or proposed to be sought. All [REDACTED] will be registered on the [REDACTED] of our Company in order to enable them to be traded on the [REDACTED].

FUTURE DIVIDENDS

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will also depend on the availability of dividends received from our subsidiaries. A significant portion of our revenue and profit is generated from our subsidiaries in the PRC. PRC laws require that dividends be paid only out of the profit for the year calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign-invested enterprises to set aside at least 10% of its after-tax profits, if any, to fund its statutory reserves, which are not available for distribution as cash dividends, unless the provisions of laws regarding foreign investment state otherwise.

Dividend distribution to our shareholders is recognized as a liability in the period in which the dividends are approved by our shareholders or Directors, where appropriate. During the Track Record Period, no dividends have been paid or declared by us. Any amount of

SUMMARY

dividends we pay will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board.

[REDACTED]

This document is published in connection with the [REDACTED] as part of the [REDACTED]. The [REDACTED] comprises of:

- (a) the [REDACTED] of initially [REDACTED] (subject to reallocation) in Hong Kong as described in the section headed “Structure of the [REDACTED] – The [REDACTED]”; and
- (b) the [REDACTED] of initially [REDACTED] (subject to reallocation and the [REDACTED]) outside the United States in reliance on Regulation S and in the United States to QIBs in reliance on Rule 144A or other available exemption from the registration requirements of the U.S. Securities Act.

The [REDACTED] will represent approximately [REDACTED]% of the issued share capital of our Company immediately following the completion of the [REDACTED], assuming the [REDACTED] is not exercised and each Preferred Share will automatically be converted into one Class A Share.

RECENT DEVELOPMENTS

In September 2018, we successfully launched our first generation of 7nm ASIC chips, currently the most advanced IC fabrication technology. Compared to our previous ASIC chips, our latest 7nm ASIC chips have significantly improved in computing performance and power efficiency. In addition, we are developing the next generation of 7nm ASIC chips.

Following June 30, 2018, there has been significant volatility of the market price of cryptocurrencies. As a result of such volatility, the expected economic return from cryptocurrency mining has been adversely affected, which in turn may require us to make significant provisions with respect to our inventories and the cryptocurrencies we held and lower the selling prices of our mining hardware, and our profitability, business, results of operations and financial condition may be materially adversely affected. Please also see “Risk Factors – There is no assurance that a cryptocurrency will maintain its long-term value and volatility in the market price of cryptocurrencies may adversely affect our business and results of operations.” Save as disclosed above, our Directors confirm that, up to the date of this document, there has been no other material adverse change in our financial or trading position or prospects since June 30, 2018, which is the end date of the periods reported on in the Accountants’ Report included in Appendix I to this document.

SUMMARY

[REDACTED]

[REDACTED] EXPENSES

Based on the mid-point [REDACTED] of HK\$[REDACTED], the total estimated [REDACTED] related expenses payable by us in relation to the [REDACTED] is approximately US\$[REDACTED] (or approximately US\$[REDACTED] after excluding [REDACTED]). For the six months ended June 30, 2018, we recognized and charged to our consolidated statements of profit or loss approximately US\$[REDACTED] of such expenses. We estimate that [REDACTED] expenses of approximately US\$[REDACTED] will be charged to our consolidated statement of profit or loss for the year ending December 31, 2018. The balance of approximately US\$[REDACTED], which includes [REDACTED], is expected to be capitalized. These [REDACTED] expenses mainly comprise professional fees paid and payable to professional parties, and [REDACTED], for their services rendered in relation to the [REDACTED] and the [REDACTED].

USE OF [REDACTED]

We estimate that we will receive [REDACTED] from the [REDACTED] of approximately HK\$[REDACTED] after deducting the [REDACTED] and other estimated expenses paid and payable by us in relation to the [REDACTED], assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the indicative [REDACTED] of

SUMMARY

HK\$[REDACTED] to HK\$[REDACTED] per Share, and that the [REDACTED] is not exercised. We intend to use the [REDACTED] we will receive from this [REDACTED] for the following purposes:

- approximately [REDACTED] (approximately HK\$[REDACTED]) of the [REDACTED] from the [REDACTED] is expected to be used to enhance our research and development capabilities and expand the production output of ASIC chips for cryptocurrency mining and blockchain applications;
- approximately [REDACTED] (approximately HK\$[REDACTED]) of the [REDACTED] from the [REDACTED] is expected to be used to enhance our research and development capabilities and expand the production output of AI ASIC chips and AI applications;
- approximately [REDACTED] (approximately HK\$[REDACTED]) of the [REDACTED] from the [REDACTED] is expected to be used for the construction and development of our research and development center and the purchase of research and development equipment;
- approximately [REDACTED] (approximately HK\$[REDACTED]) of the [REDACTED] from the [REDACTED] is expected to be used for our global expansion, including but not limited to hiring local teams and investing in localization efforts in overseas markets;
- approximately [REDACTED] (approximately HK\$[REDACTED]) of the [REDACTED] from the [REDACTED] is expected to be used to fund marketing and promotional campaigns through online and offline marketing activities;
- approximately [REDACTED] (approximately HK\$[REDACTED]) of the [REDACTED] from the [REDACTED] is expected to be used to fund potential acquisitions, investment, joint venture and partnership opportunities that we believe are in line with our overall business strategies; and
- approximately [REDACTED] (approximately HK\$[REDACTED]) of the [REDACTED] from the [REDACTED] is expected to be used for working capital and general corporate purposes.

Please see the section headed “Future Plans and Use of [REDACTED]” for details.

DEFINITIONS

In this document, unless the context otherwise requires, the following terms shall have the following meanings.

“affiliate” with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person

[REDACTED]

“Articles” or “Articles of Association” the sixth amended and restated articles of association of our Company adopted on [●] 2018, which will become effective upon the [REDACTED], a summary of which is set out in Appendix III

“associate(s)” has the meaning ascribed thereto under the Listing Rules

“Audit Committee” the audit committee of the Board

“Beijing Bitmain Technologies” Beijing Bitmain Technologies Limited (北京比特大陸科技有限公司), a limited liability company established under the laws of the PRC on October 28, 2013 and our indirect wholly-owned subsidiary

“Bitmain Hong Kong” Bitmain Technologies Limited, a limited liability company incorporated under the laws of Hong Kong on January 10, 2014 and our direct wholly-owned subsidiary

“Bitmain US” Bitmain Inc., a corporation incorporated under the laws of the State of Delaware on January 7, 2015 and our direct wholly-owned subsidiary

“Board” or “Board of Directors” the board of directors of our Company

“Business Day” or “business day” any day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong

“BVI” the British Virgin Islands

DEFINITIONS

“Cayman Companies Law” or “Companies Law” the Companies Law, Cap. 22 (Law 3 of 1961) of the Cayman Islands, as amended or supplemented or otherwise modified from time to time

[REDACTED]

“China” or “PRC” the People’s Republic of China, for the purpose of this document, excluding Hong Kong, Macau Special Administrative Region and Taiwan

“Circular 9” the Notice on Issues concerning Beneficial Owner in Tax Treaties (《關於稅收協定中“受益所有人”有關問題的公告》), issued by SAT on February 3, 2018 and effective from April 1, 2018

“Circular 16” the Notice of the SAFE for Reforming and Regulating the Control over Foreign Exchange Settlement under the Capital Account (《國家外匯管理局關於改革和規範資本專案結匯管理政策的通知》), issued by SAFE on June 9, 2016

“Circular 82” the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as People’s Republic of China Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》), issued by SAT on April 22, 2009 and amended on January 29, 2014

DEFINITIONS

“Class A Shares”	Class A ordinary shares in the share capital of our Company with a par value of US\$0.0000001 each, conferring a holder of Class A Share one vote per share on any resolution tabled at our Company’s general meeting
“Class B Shares”	Class B ordinary shares in the share capital of our Company with a par value of US\$0.0000001 each, conferring weighted voting rights in our Company such that a holder of a Class B Share is entitled to ten votes per share on any resolution tabled at our Company’s general meeting, save for resolutions with respect to any Reserved Matter, in which case the holder shall be entitled to one vote per share
“close associate”	has the meaning ascribed thereto under the Listing Rules
“Co-founders”	Mr. Zhan Ketuan and Mr. Wu Jihan (each a “ Co-founder ”)
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented or otherwise modified from time to time
“Company”, “we”, “our” or “us”	BitMain Technologies Holding Company (比特大陸科技控股公司), an exempted company with limited liability incorporated in the Cayman Islands on November 18, 2013
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“connected transaction”	has the meaning ascribed thereto under the Listing Rules

DEFINITIONS

“controlling shareholder(s)”	has the meaning ascribed thereto in the Listing Rules and, unless the context otherwise requires, shall mean Mr. Zhan Ketuan, Mr. Wu Jihan and the companies through which Mr. Zhan Ketuan and Mr. Wu Jihan have interests in our Company, namely Cosmic Frontier Limited held by Mr. Zhan Ketuan and Victory Courage Limited held by Mr. Wu Jihan, details of which are set out in the section headed “Relationship with the Controlling Shareholders”
“core connected person”	has the meaning ascribed thereto under the Listing Rules
“Corporate Governance Committee”	the corporate governance committee of the Board
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of our Company
“EIT Law”	the People’s Republic of China Enterprise Income Tax Law (《中華人民共和國企業所得稅法》)
“FIEs”	foreign-invested enterprises
“Founding Parties”	our Co-founders, Mr. Zhan Ketuan and Mr. Wu Jihan, and other founding parties including Mr. Zhao Zhaofeng (趙肇豐), Mr. Ge Yueheng (葛越晟), Mr. Hu Yishuo (胡一說) and Mr. Song Wenbao (宋文寶)
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., the industry consultant
“Frost & Sullivan Report”	the independent market research report for global IC industry prepared by Frost & Sullivan and commissioned by us
“Fujian Zhanhua Intelligence Technologies”	Fujian Zhanhua Intelligence Technologies Co., Ltd. (福建湛華智能科技有限公司), a limited liability company established under the laws of the PRC on July 5, 2017 and our indirect wholly-owned subsidiary

[REDACTED]

DEFINITIONS

[REDACTED]

“Group”, “Bitmain”, “we”, “our” or “us” our Company and its subsidiaries

“HK\$” or “Hong Kong dollars” or “HK dollars” Hong Kong dollars, the lawful currency of Hong Kong

[REDACTED]

“Hong Kong” or “HK” the Hong Kong Special Administrative Region of the PRC

[REDACTED]

“Hong Kong Securities and Futures Ordinance” or “SFO” the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

[REDACTED]

DEFINITIONS

[REDACTED]

“IFRS”	International Financial Reporting Standards, amendments and interpretations issued by the International Accounting Standards Board
“independent third party(ies)”	person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, is/are not connected with our Company or its connected persons as defined under the Listing Rules
“Inner Mongolia”	Inner Mongolia Autonomous Region, one of the autonomous regions of the PRC

[REDACTED]

DEFINITIONS

[REDACTED]

“Latest Practicable Date” [September 14], 2018, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained in this document

[REDACTED]

“Listing Rules” the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“M&A Rules” the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者並購境內企業的規定》), jointly issued by MOFCOM, the State Assets Supervision and Administration Commission, SAT, SAIC, CSRC, and SAFE on August 8, 2006 and amended by MOFCOM on June 22, 2009

“Main Board” the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange

DEFINITIONS

“Memorandum” or “Memorandum of Association”	the sixth amended and restated memorandum of association of our Company adopted on [●] 2018, a summary of which is set out in Appendix III
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Wu Jihan”	Mr. Wu Jihan (吳忌寒), our Co-founder, executive Director, Co-Chairman and Co-Chief Executive Officer
“Mr. Zhan Ketuan”	Mr. Zhan Ketuan (詹克團), our Co-founder, executive Director, Co-Chairman and Co-Chief Executive Officer
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Ningxia”	Ningxia Hui Autonomous Region, one of the autonomous regions of the PRC
“Nomination Committee”	the nomination committee of the Board
“OFAC”	the Office of Foreign Assets Control (OFAC) of the US Department of the Treasury

[REDACTED]

DEFINITIONS

[REDACTED]

“PRC Legal Advisor”	Commerce & Finance Law Offices, the legal advisor to our Company as to the laws of the PRC
“[REDACTED] Investment(s)”	the [REDACTED] Investment(s) in our Company undertaken by the [REDACTED] Investors pursuant to the [REDACTED] share subscription agreements, details of which are set out in the section headed “History, Reorganization and Corporate Structure”
“[REDACTED] Investor(s)”	the Series A Preferred Shareholders, Series B Preferred Shareholders and Series B+ Preferred Shareholders
“[REDACTED] Shareholders’ Agreement”	the shareholders’ agreement entered into between our Company and the [REDACTED] Investors on August 20, 2018
“Preferred Shares”	collectively, Series A Preferred Shares, Series B Preferred Shares and Series B+ Preferred Shares

[REDACTED]

DEFINITIONS

[REDACTED]

“QIB”	a qualified institutional buyer within the meaning of Rule 144A
“Regulation S”	Regulation S under the U.S. Securities Act
“Remuneration Committee”	the remuneration committee of the Board
“Reserved Matters”	those matters resolutions with respect to which each Share is entitled to one vote at general meetings of our Company pursuant to the Articles of Association, being: (i) any amendment to the Memorandum or the Articles, including the variation of the rights attached to any class of shares, (ii) the appointment, election or removal of any independent non-executive Director, (iii) the appointment or removal of our Company’s auditors, and (iv) the voluntary liquidation or winding-up of our Company
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAFE Circular 37”	the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), issued by SAFE with effect from July 4, 2014
“SAFE Circular 75”	the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Corporate Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》), promulgated by SAFE was replaced by SAFE Circular 37 on July 4, 2014

DEFINITIONS

“SAIC”	the State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), which has merged into the SAMR
“SAMR”	the State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局)
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SAT Bulletin 45”	the Administrative Measures for Enterprise Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises (Trial) (《境外註冊中資控股居民企業所得稅管理辦法(試行)》), issued by SAT on July 27, 2011
“Series A Preferred Share(s)”	the series A preferred shares with a par value of US\$0.0000001 per share in the authorized share capital of our Company, of which 500,000,000 shares were in issue as of the Latest Practicable Date and held by the Series A Preferred Shareholders, each having the rights and preferences, privileges and restrictions as set forth in the [REDACTED] Shareholders’ Agreement
“Series A Preferred Shareholder(s)”	the holder(s) of the Series A Preferred Shares
“Series B Preferred Share(s)”	the series B preferred shares with a par value of US\$0.0000001 per share in the authorized share capital of our Company, of which 261,956,309 shares were in issue as of the Latest Practicable Date and held by the Series B Preferred Shareholders, each having the rights and preferences, privileges and restrictions as set forth in the [REDACTED] Shareholders’ Agreement
“Series B Preferred Shareholder(s)”	the holder(s) of the Series B Preferred Shares
“Series B+ Preferred Share(s)”	the series B+ preferred shares with a par value of US\$0.0000001 per share in the authorized share capital of our Company, of which 339,102,307 shares were in issue as of the Latest Practicable Date and held by the Series B+ Preferred Shareholders, each having the rights and preferences, privileges and restrictions as set forth in the [REDACTED] Shareholders’ Agreement

DEFINITIONS

“Series B+ Preferred Shareholder(s)”	the holder(s) of the Series B+ Preferred Shares
“SFC”	the Securities and Futures Commission of Hong Kong
“Share(s)”	the Class A Shares and Class B Shares in the share capital of our Company with a nominal value of US\$0.0000001 each
“Share Incentive Scheme”	the share incentive scheme adopted by our Company on September 13, 2018
“Shareholder(s)”	holder(s) of Shares
“Shenzhen Century Cloud Core Technology”	Shenzhen Century Cloud Core Technology Co., Ltd. (深圳市世紀雲芯科技有限公司), a limited liability company established under the laws of the PRC on December 13, 2013 and our indirect wholly-owned subsidiary
“Sole Sponsor”	China International Capital Corporation Hong Kong Securities Limited
	[REDACTED]
“Stock Exchange” or “Hong Kong Stock Exchange”	the Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules
“Tianjin Diwei Digital Visual Technology”	Tianjin Diwei Digital Visual Technology Co., Ltd. (天津迪未數視科技有限公司), a limited liability company established under the law of the PRC on May 23, 2014 and our indirect wholly-owned subsidiary
“Tospring Technology”	Tospring Technology Limited, a limited liability company incorporated under the law of the Republic of Seychelles on September 16, 2015 and our indirect wholly-owned subsidiary
“Track Record Period”	the three financial years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018

DEFINITIONS

“TSMC” Taiwan Semiconductor Manufacturing Company Limited (台灣積體電路製造股份有限公司) and its various subsidiaries and associates, which is one of our suppliers and an independent third party

“U.S.”, “US” or “United States” the United States of America

“U.S. Securities Act” the United States Securities Act of 1933, as amended and supplemented or otherwise modified from time to time, and the rules and regulations promulgated thereunder

[REDACTED]

“US\$”, “USD” or “U.S. dollars” United States dollars, the lawful currency of the United States

“weighted voting right” has the meaning ascribed to it in the Listing Rules

[REDACTED]

“WVR Beneficiary(ies)” has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Mr. Zhan Ketuan and Mr. Wu Jihan, being the holders of the Class B Shares, entitling each to weighted voting rights, details of which are set out in the section headed “Share Capital”

“WVR structure” has the meaning ascribed to it in the Listing Rules

“Xinjiang” Xinjiang Uyghur Autonomous Region, one of the autonomous regions of the PRC

“%” per cent.

Unless otherwise expressly stated or the context otherwise requires, all references to any shareholdings in our Company following the completion of the [REDACTED] assume that the [REDACTED] is not exercised.

DEFINITIONS

Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

The English names of the PRC entities, PRC laws or regulations, and the PRC governmental authorities referred to in this document are translations from their Chinese names and are for identification purposes. If there is any inconsistency, the Chinese names shall prevail.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain technical terms used in this document in connection with our Company and its business. Such terminology and meanings may not correspond to standard industry meanings or usages of those terms.

“AI”	artificial intelligence, simulated intelligence in machines programmed to perform tasks normally requiring human intelligence
“Antminer D3”	mining hardware with 180 BM1760 chips developed by us
“Antminer E3”	mining hardware with 18 BM1790 chips developed by us
“Antminer L3”	mining hardware with 144 BM1485 chips developed by us
“Antminer L3+”	mining hardware with 288 BM1485 chips developed by us
“Antminer S4+”	mining hardware with 204 BM1382 chips developed by us
“Antminer S5”	mining hardware with 60 BM1384 chips developed by us
“Antminer S5+”	mining hardware with 432 BM1384 chips developed by us
“Antminer S7”	mining hardware with 135 BM1385 chips developed by us
“Antminer T9”	mining hardware with 171 BM1387 chips developed by us
“Antminer T9+”	mining hardware with 162 BM1387 chips developed by us
“Antminer S9”	mining hardware with 189 BM1387 chips developed by us
“Antminer S9 Hydro”	mining hardware with 216 BM1387 chips developed by us
“Antminer Z9”	mining hardware with 48 BM1740 chips developed by us

GLOSSARY OF TECHNICAL TERMS

“Antminer Z9 mini”	mining hardware with 12 BM1740 chips developed by our Group
“Antpool”	a cryptocurrency mining pool operated by our Group
“ASIC chips”	application-specific ICs, meaning ICs designed for a specific application
“back-end of ASIC chip design”	back-end application-specific integrated circuit design, including floor plan, place & route and IP merge, backend verification and shuttle test chip (if needed)
“Bitcoin” or “BTC”	the first cryptocurrency created and managed using blockchain technology
“Bitcoin Cash”	a type of cryptocurrency
“blockchain”	a decentralized, peer-to-peer network where transactions are verified by nodes in the network and recorded in the distributed ledger
“BM1382”	a 28nm ASIC chip developed by our Group
“BM1384”	a 28nm ASIC chip developed by our Group
“BM1385”	a 28nm ASIC chip developed by our Group
“BM1387”	a 16nm ASIC chip developed by our Group
“BM1485”	a 28nm ASIC chip developed by our Group
“BM1680”	a 28nm AI ASIC chip developed by our Group
“BM1682”	a 28nm AI ASIC chip developed by our Group
“BM1684”	a 12nm AI ASIC chip developed by our Group
“BM1740”	a 10nm ASIC chip developed by our Group
“BM1760”	a 28nm ASIC chip developed by our Group
“BM1790”	a 28nm ASIC chip developed by our Group
“BTC.com”	a cryptocurrency mining pool operated by our Group

GLOSSARY OF TECHNICAL TERMS

“CAGR”	compound annual growth rate
“cloud computing”	the delivery of computing services over the Internet, including servers, storage, databases, networking, software and analytics
“cloud inference”	the application system of cloud model and logical rules to deduce new information over the Internet
“cloud training”	the application system of cloud model and logical rules to train the AI model through analyzing massive amount of data
“computing power”	the amount of power a device has to conduct computing tasks; it determines how quickly a blockchain processing unit can process a transaction and can be measured in terms of hashrate
“CPU”	computing processing unit
“cryptocurrency”	a digital currency in which encryption techniques are used to regulate the generation of units of currency and verify the transfer of funds
“customer”	a registered user account that has made at least one purchase of product or service with us (each account is treated as a separate customer for the purpose of calculating the number of our customers)
“Dash”	a type of cryptocurrency
“Engineering Change Order”	a documentation that defines a proposed change in design and specification of the product and requests approvals from all the stakeholders involved
“EOS”	a type of cryptocurrency
“ERP System”	enterprise resource planning system
“Ether”	a type of cryptocurrency whose blockchain is generated by the Ethereum platform
“fabless IC(s)”	IC(s) designed and marketed by one company but manufactured by another

GLOSSARY OF TECHNICAL TERMS

“FPGA(s)”	field-programmable gate array(s), the IC(s) designed to be configured by a customer or a designer after manufacturing
“foundry” or “wafer foundry”	in the context of microelectronics industry, a semiconductor fabrication plant where devices such as ICs or semiconductor materials such as wafers are manufactured
“front-end ASIC chip design”	front-end application-specific integrated circuit design, including marketing specifications, project evaluation, algorithm design, logic design and verification
“GFA”	gross floor area
“GH/s”	gigahash per second, a unit to measure hashrate; giga is a prefix for 1,000,000,000
“GPU”	graphics processing unit
“hashrate”	the measuring unit of the processing power of the cryptocurrency network and represents the number of computations that is processed by the network in a given time period
“IC(s)” or “Chip(s)”	integrated circuits
“IoT”	Internet of Things, a computing concept that refers to the connection of devices to the Internet
“Ksol/s”	thousand solutions per second, calculating the number of computations created per second in cryptocurrency mining
“Litecoin”	a type of cryptocurrency
“MH/s”	Megahash per second, a unit to measure hashrate; mega is a prefix for 1,000,000
“miner”	a participant in a cryptocurrency blockchain who provides computing power to receive cryptocurrency as reward

GLOSSARY OF TECHNICAL TERMS

“mining”	the process where network members in a cryptocurrency blockchain provide computing power and receive certain amount of cryptocurrency as reward
“mining difficulty”	the complexity of the task that miners need to solve to create the block and mine certain cryptocurrencies, including Bitcoin and Bitcoin Cash, which is determined by the hashrate of the network
“NLP”	natural language processing, an area of computer science and AI concerned with the interactions between computers and human (natural) languages
“nm”	nanometer, a unit of length in the metric system, equal to 0.000000001 meter
“OSAT Company(ies)”	outsourced semiconductor assembly and test companies, the company that provides third-party IC packaging and testing services
“PCB”	printed circuit board, a base for mounting microelectronic components in electronics
“PH/s”	Petahash per second, a unit to measure hashrate; peta is a prefix for 1,000,000,000,000,000
“photomask”	an opaque plate with holes or transactions that allow light to shine through in a defined patten
“silicon wafer”	a thin and round piece of silicon essential for the formation of ICs
“Sophon”	the brand of our AI products and services
“tape-out” or “tape out”	the final phase of the design process for an IC before the manufacturing phase
“TH/s”	Terahash per second, a unit to measure hashrate; tera is a prefix for 1,000,000,000,000
“W/(GH/s)”	watts per GH/s, calculating how much energy is required for per hashrate

GLOSSARY OF TECHNICAL TERMS

“W/(Ksol/s)”	watts per Ksol/s, calculating how much energy is required for per solution rate
“W/(MH/s)”	watts per MH/s, calculating how much energy is required for per hashrate
“XRP”	a type of cryptocurrency
“Zcash”	a type of cryptocurrency

FORWARD-LOOKING STATEMENTS

Certain statements in this document are forward looking statements that are, by their nature, subject to significant risks and uncertainties. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as “will,” “expect,” “anticipate,” “estimate,” “believe,” “going forward,” “ought to,” “may,” “seek,” “should,” “intend,” “plan,” “projection,” “could,” “vision,” “goals,” “aim,” “aspire,” “objective,” “target,” “schedules” and “outlook”) are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including but not limited to the risk factors detailed in this document), uncertainties and other factors some of which are beyond our Company’s control and which are difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about the businesses that we operate. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- our operations and business prospects;
- our business and operating strategies and our ability to implement such strategies;
- our ability to develop and manage our operations and business;
- competition for, among other things, capital, technology and skilled personnel;
- our ability to control costs;
- our dividend policy;
- changes to regulatory and operating conditions in the industry and geographical markets in which we operate; and
- all other risks and uncertainties described in the section headed “Risk Factors.”

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, we strongly caution investors against placing undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by the Listing Rules, we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. Statements of or references to our intentions or those of any of our Directors are made as of the date of this document. Any such intentions may change in light of future developments.

All forward-looking statements in this document are expressly qualified by reference to this cautionary statement.

RISK FACTORS

You should carefully consider all of the information in this document, including the following risk factors, before making any investment decision in relation to the [REDACTED]. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks. The market price of the [REDACTED] could fall significantly due to any of these risks, and you may lose all or part of your investment.

We believe that there are certain risks involved in our operations, many of which are beyond our control. We have categorized these risks and uncertainties into: (i) risks relating to our business and industry; (ii) risks relating to doing business in China; (iii) risks relating to the WVR structure; and (iv) risks relating to the [REDACTED]. You should consider our business and prospects in light of the challenges we face, including the ones discussed in this section.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

The development of blockchain technology and cryptocurrency is in its early stage and any adverse development in the cryptocurrency or blockchain market could adversely affect our business and results of operations.

Blockchain is a voluntary open network that can be used by anyone with devices connected to the Internet. It allows every node to create immutable data, transparent record of transactions and peer-to-peer transactions in an efficient, secure and trust-free manner. Because of such advantages, blockchain can be applied to various industries and activities, such as cryptocurrency, payment, financial services, IoT, cloud computing and cybersecurity, among others. However, there can be no assurance that such potential will be fully realized, if at all. If blockchain technology cannot gain wide market acceptance in the society, there may not be strong market demand for our ASIC chips designed for blockchain technology, and our prospects, business and results of operations can be materially and adversely affected.

Bitcoin, a mainstream cryptocurrency based upon blockchain technology, was first introduced in 2008 and is generally regarded as the first application of the blockchain technology. The Bitcoin network and its surrounding ecosystem is still in a relatively early development stage. Cryptocurrencies have only recently become selectively accepted as a means of payment for goods and services by many industries, and use of cryptocurrency by consumers to pay in such industries remains limited. In addition, there may be some jurisdictions which restrict the use of Bitcoins and other cryptocurrencies as a medium of exchange and the conversion between cryptocurrencies and standard currencies. There is no assurance that usage of cryptocurrencies will continue to grow. As our business focuses on cryptocurrency mining and relies heavily on the cryptocurrency market, any lack of usage of or fade in the public interest for cryptocurrencies may adversely affect our business, future prospects, results of operations and financial condition.

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There is no assurance that a cryptocurrency will maintain its long-term value and volatility in the market price of cryptocurrencies may adversely affect our business and results of operations.

As a relatively new product and technology, cryptocurrencies have only recently been accepted as a means of payment for goods and services by selected industries, and the use of cryptocurrencies by consumers to make payment remains limited. Additionally, as the value of most cryptocurrencies is not anchored by any reserve currency or precious metal, and is not backed by any government or commercial enterprise, the long-term value of cryptocurrencies is uncertain, which may further increase the volatility in cryptocurrency prices. Banks and other established financial institutions may refuse to process funds for cryptocurrency transactions, process wire transfers to or from cryptocurrency exchanges, or maintain accounts for persons or entities transacting in cryptocurrencies.

Meanwhile, a significant portion of cryptocurrency demand is generated by speculators and investors seeking to profit from the short-or long-term holding of cryptocurrencies. The prices of cryptocurrencies may also be impacted by evolving and uncertain regulatory environment and the development of blockchain technology. As a result of the foregoing, the prices of cryptocurrencies have been quite volatile during its limited history. For example, the Bitcoin price fluctuated at US\$428 as of December 31, 2015, US\$960 as of December 31, 2016, US\$14,166 as of December 31, 2017 and US\$6,381 as of June 30, 2018 according to Blockchain.info.

Our business and financial condition highly correlate with the market price of cryptocurrencies. During the Track Record Period, almost all of our revenue is generated from cryptocurrency-related operations and we hold a significant amount of cryptocurrencies. As of December 31, 2015, 2016, 2017 and June 30, 2018, the cryptocurrencies held by us in aggregate account for approximately 9.9%, 25.0%, 30.1% and 28.0% of our total assets, respectively. We have adopted various measures to minimize the risks associated with the fluctuation in the market price of cryptocurrencies. For example, our finance department monitors the amount and fluctuation of the market price of cryptocurrencies received from the Group’s ordinary operations on a daily basis and makes recommendations to the management team on conversion of cryptocurrencies into standard currencies based on the Group’s operational and working capital needs. In addition, we conduct regular pressure tests of the value of our cryptocurrencies to effectively control the risk of volatility in the market price of the cryptocurrencies. However, there can be no assurance that the risk management measures we have adopted can effectively eliminate or reduce the price risk of cryptocurrencies. For the six months ended June 30, 2018, we recorded an impairment loss of cryptocurrencies amounting to US\$102.7 million as a result of the fluctuations in the market price of cryptocurrencies, see the section headed “Financial Information – Period-to-Period Comparison of Results of Operations – Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017 – Other net loss.” The drastic fluctuations in the market price of cryptocurrencies may have a material adverse impact on our business, financial condition and results of operations.

In addition, if there is a rapid increase in the market price of cryptocurrencies, market demand for our ASIC chips and mining hardware as well as other cryptocurrency mining services also is likely to surge. In the event that our production and service capability cannot

RISK FACTORS

quickly match up, we may lose our customers and market share. In addition, if the demands increase beyond our expectations, we may not be able to maintain an adequate inventory level of our finished goods or produce our products in a timely manner, and may lose sales and market share to our competitors. Furthermore, a rise in cryptocurrency price could result in substantial increases in the supply of mining hardware connected to the cryptocurrency network. The increased computing power would lead to increasing mining difficulty, which would reduce the economic return of mining in turn and depress the mining operation.

On the other hand, if the market price of cryptocurrencies suddenly falls, economic returns for mining activities as well as demand for our mining hardware and cryptocurrency mining services will also drop rapidly. We may be exposed to increased inventory risks due to accumulating excessive inventory of our products or raw materials, parts and components for our products. For example, we recorded a provision of US\$391.3 million for inventory impairment due to the decrease in the market price of cryptocurrencies as of June 30, 2018, respectively. High inventory levels may increase our inventory holding costs, risk of inventory obsolescence, markdown allowances and write-offs.

We are subject to regulatory risks with regard to mining, holding, using, or transferring cryptocurrencies, which could negatively affect our business, results of operations and financial position.

Our business is subject to governmental supervision and regulation by the relevant PRC and overseas governmental authorities. In addition, governmental authorities are likely to continue to issue new laws, rules and regulations governing the cryptocurrency industry we operate in and enhance enforcement of existing laws, rules and regulations. Cryptocurrencies have in the past been, and may in the future, be used by market participants for black market transactions, to conduct fraud, money laundering, terrorism-funding, tax evasion, economic sanction evasion or other illegal activities. Our existing policies and procedures for the detection and prevention of money laundering and terrorism-funding activities through our business activities have only been adopted recently and may not completely eliminate instances where other parties use our products to engage in money laundering or other illegal or improper activities. We cannot assure you that we will successfully detect all money laundering or other illegal or improper activities which may adversely affect our reputation, business, financial condition and results of operations.

There is also no assurance that existing or future regulations on mining, holding, using, or transferring of cryptocurrencies would not result in an adverse effect on our business operations and results of operations. As cryptocurrency mining employs sophisticated and high computing power devices operating in an energy-intensive environment, future developments in the regulation of energy consumption, including possible restrictions on energy usage in the jurisdictions where we sell our products or provide services, may affect our mining hardware sales and mining farm service businesses. For example, it was reported that local governments in a number of PRC provinces were considering adopting new regulations on power pricing, land use, taxation and environmental protection to restrict and control cryptocurrency mining activities. Similarly, certain state governments in the United States where we sell mining hardware, are also considering adopting new regulations to restrict power supply for cryptocurrency mining activities. These regulations could have a negative effect on our business, especially our mining hardware sales and mining farm business, and significantly reduce demand for our products and services.

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Our mining pool business may be affected adversely by laws and regulations on securities and the financial regulatory environment in the jurisdictions we operate. For example, if cryptocurrencies or the mining of cryptocurrencies are regarded or reclassified retroactively as securities by various governmental authorities, our distribution of cryptocurrencies to our mining pool members is likely to be deemed as money transfer and subject to licensing requirements. Any such regulations, if implemented, will cause us to incur additional compliance costs and have a material adverse effect on our business operations.

We may not be able to sustain our historical growth rates, and our historical performance may not be indicative of our future growth or financial results given our limited operating history.

We have achieved rapid growth since our inception. For the years ended December 31, 2015, 2016, and 2017, and six months ended June 30, 2018, our total revenue amounted to US\$137.3 million, US\$277.6 million, US\$2,517.7 million and US\$2,845.5 million, respectively. However, there is no assurance that we will be able to maintain our historical growth rates in future periods. Our growth rates may decline for any number of possible reasons, including decreasing market price of cryptocurrencies, increasing competition, declining growth of the cryptocurrencies industry, unforeseeable technology innovation, emergence of alternative mainstream cryptocurrencies, or changes in government policies, regulations or general economic conditions. If our growth rates decline, investors’ perceptions of our business and business prospects may be adversely affected and the market price of our ordinary shares could decline. In addition, given the volatile nature of cryptocurrencies and that our business and financial condition correlate with the market price of cryptocurrencies, it is difficult to evaluate our business and future prospects based on our limited operating history or historical performance.

If we are unable to manage our growth or execute our strategies effectively, our business and prospects may be materially and adversely affected.

Our business has grown substantially in recent years. Almost all aspects of our business, such as sales of mining hardware, mining farms, mining pools and proprietary mining, have experienced rapid growth in the Track Record Period. We intend to achieve sustainable growth in the future through strengthening our role in the blockchain ecosystem and further delving into the AI industry. We cannot assure you that we can effectively manage our growth, or that our new business initiatives will be successful.

Furthermore, blockchain technology has incubated and may continue to catalyze new business models. These new blockchain applications typically face uncertain regulatory environment due to the evolving regulatory framework of blockchain industry. We have explored new business areas, such as decentralized exchange and other businesses assisting the distribution of cryptocurrencies, which may be subject to potential legal regulations and licensing requirements. While we have been closely monitoring the development of the relevant regulations and have been in communication with regulatory authorities, these new business initiatives may not be viable due to regulatory concerns. We cannot assure you that we can execute our strategies effectively in the complex and evolving regulatory environment. See “– We are subject to regulatory risks with regard to mining, holding, using, or transferring cryptocurrencies, which could negatively affect our business, results of operations and financial position.”

RISK FACTORS

In addition, we also face risks associated with the expansion of our operations overseas. See “– We face risks associated with our global operation. If we are unable to effectively manage these risks, they could impair our ability to expand our business.”

If we are not able to manage our growth or execute our strategies effectively, our expansion may not be successful and our business and prospects may be materially and adversely affected.

We face risks associated with our global operation. If we are unable to effectively manage these risks, they could impair our ability to expand our business.

We operate our business globally, with customers and suppliers located in various countries. We also generate a significant portion of our revenue from overseas sales during the Track Record Period. For the years ended December 31, 2015, 2016, 2017, and the six months ended June 30, 2018, revenues generated from overseas sales accounted for 65.3%, 51.0%, 51.8% and 62.8% of our total revenues for the respective periods. As we continue to grow our business and expand our operations globally, we will continue to sell our products into new jurisdictions in which we have limited or no experience and in which our brands may be less recognized. Our global operation exposes us to a number of risks, including:

- a limited customer base and limited sales and relationships with international customers;
- difficulty in managing multinational operations;
- competitors in overseas markets who have stronger ties with local customers and greater resources;
- fluctuations in currency exchange rates;
- challenges in providing customer services and support in these markets;
- challenges in managing our overseas sales force and implementing sales strategies effectively;
- unexpected transportation delays or interruptions or increases in international transportation costs;
- difficulties in and costs of exporting products overseas while complying with the different commercial, legal and regulatory requirements of the overseas markets in which we offer our products;
- regulations, changes to regulation, regulatory uncertainty in or inconsistent regulations across various jurisdictions that may implicate cryptocurrency mining and other cryptocurrency activities;
- difficulty in ensuring the compliance with the sanctions imposed by OFAC, the European Union or the United Nations Security Council on various foreign states, organizations and individuals;

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- inability to obtain, maintain or enforce intellectual property rights in all the jurisdictions we operate in;
- inability to effectively enforce contractual or legal rights or intellectual property rights in certain jurisdictions under which we operate;
- changes in a specific country or region's political or economic conditions or policies; and
- governmental policies favoring domestic companies in certain foreign markets or trade barriers including export requirements, tariffs, taxes and other restrictions and charges. In particular, there have been concerns over the exit of the United Kingdom from the European Union, the worldwide populism trend that call for protectionism trade policy and potential international trade disputes, all of which could cause turbulence in the international markets. These government policies or trade barriers could increase the prices of our products and make us less competitive in such countries.

If we are unable to effectively manage these risks, our ability to operate and expand our business will be impaired, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Erosion or loss of user confidence in Bitcoin and other cryptocurrencies could adversely impact our business, results of operations and financial condition.

Cryptocurrencies are open source and not related to or backed by any sovereign or business entities and are usually not anchored to or pegged to any standard currency, commodity, or rate. The value of cryptocurrencies is greatly dependent on the users' confidence. Diverging beliefs in the concept of decentralization and negative publicity of cryptocurrencies may erode user confidence in cryptocurrencies and significantly reduce demand for our cryptocurrency mining products and services.

Taking Bitcoin, which is currently the largest and most prevalent cryptocurrency, as an example, if users lose confidence or fewer merchants accept Bitcoins as a payment method, Bitcoin may lose value and Bitcoin mining activities may drop which will result in a decrease in the demand for Bitcoin mining hardware and services.

Further, a majority of mining community member of the Bitcoin network could propose amendments to and alter the protocols that govern the Bitcoin network and the properties of Bitcoins, including the irreversibility of transactions and limitations on the mining of new Bitcoins. To the extent that a significant number of the community members of the Bitcoin network agree to such amendments, the Bitcoin network would be subject to new protocols and software that may render our product designed for the original protocols less desirable. The potential amendments to the protocols of Bitcoin network could erode user confidence in Bitcoin and, as a result, damage the cryptocurrency network and our business, results of operations and financial condition.

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In addition, confidence in the confirmation process and the Bitcoin network could also be challenged by Bitcoin's tendency to centralize. A key reason that Bitcoin and other cryptocurrencies have attracted many new and committed users in a short period of time is its decentralized nature, or the lack of control by a central authority. Individuals, companies or groups that control vast amounts of computing power of Bitcoin can affect the market price of Bitcoin. Moreover, if a malicious actor obtains control of 50% of the aggregate hashrate active on the Bitcoin network, it could prevent new transactions from being confirmed, turn off hashing power as a coercive tactic and possibly reverse transactions that were previously completed, despite the intended decentralized structure. Such concerns or skepticism about the decentralized nature of Bitcoin may cause current participants to lose confidence in the Bitcoin industry. This in turn could adversely affect the market demand for our products and services, our business and results of operations.

We, and our mining customers, rely on a steady and inexpensive power supply for operating mining farms and running mining hardware. Failure to access large quantity of power at reasonable costs could significantly increase our expense related to certain business and adversely affect our business and results of operations.

Cryptocurrency mining consumes a significant amount of energy power to process the computations and cool down the mining hardware. Therefore, a steady and inexpensive power supply is critical to cryptocurrency mining. To lower mining costs, we have set up mining farms in Sichuan Province, Xinjiang and Inner Mongolia of PRC and target to launch new mining farms in the US and Canada where energy is inexpensive and/or the climate is cold. There can be no assurance that our operations will not be affected by power shortages or increase in energy price in the future. In particular, the power supply could be disrupted by natural disasters, such as floods, mudslides and earthquakes, or other similar events beyond our control. Power shortages, power outages or increased power prices could adversely affect our mining farm business and reduce the expected economic returns from our proprietary mining operation significantly. Under such circumstances, our business, results of operations and financial condition could be materially and adversely affected.

The supply of Bitcoins available for mining is limited and we may not be able to quickly adapt to new businesses when all the Bitcoins have been mined.

The total Bitcoin supply is designed to be approximately 21 million, and more than 17 million Bitcoins had already been mined as of June 30, 2018, according to Blockchain.info. The number of blocks that can be solved in a year is designed to be fixed, and the number of Bitcoins awarded for solving a block in the blockchain halves approximately every four years until the estimated complete depletion of Bitcoin available for mining by around 2140. For example, in each of 2013, 2014 and 2015, approximately 25 Bitcoins were awarded for each block mined. Such reward halved in 2016 to 12.5 Bitcoins per block mined, and is expected to halve again in 2020 to 6.25 Bitcoins per block. Accordingly, the amount of Bitcoin that can be mined in 2018 and 2019 would be approximately 657,000 per year. While the remaining Bitcoins are not designed to be entirely depleted in the near future, a decrease in the reward for solving a block or in the transaction fees may result in a decrease in incentives for miners to continue their mining activities and the loss of Bitcoin's dominant position among the cryptocurrencies, thereby reducing the demand for our products. Although we have been

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developing ICs for mining other cryptocurrencies, during the Track Record Period and as of the Latest Practicable Date, a majority of our revenue was generated from the sales of products and services for Bitcoin mining. We may not be able to quickly adapt to new businesses or expand to other cryptocurrencies when all the Bitcoins have been discovered or Bitcoin is replaced by other cryptocurrencies as the mainstream cryptocurrency, which will result in a significant negative impact on our business and results of operations.

We may not be able to price our products and services at our desired margins as a result of any decrease in our pricing ability or changes in market conditions.

We set prices for our products and services taking into consideration of the market price of cryptocurrencies, price of our competitors, the expected economic return of cryptocurrency mining, product and service types and demand for our products and services. Additionally, we have adopted a floating pricing mechanism, consistent with the industry practice. For the years ended December 31, 2015, 2016, 2017, and the six months ended June 30, 2018, our gross profit margin was 52.0%, 54.5%, 48.2% and 36.2%, respectively. We cannot assure you that we will be able to maintain our pricing ability, and our gross profit margin may be driven down by market conditions or other factors. In the event that we face higher pricing pressure due to intensified competition from other manufacturers, or if we otherwise lose pricing ability due to weaker demand for our products, we may need to cut our prices and lower profit margins, which could result in a significant amount of inventory impairment. For example, we recorded a provision of US\$138.6 million and US\$391.3 million for inventory impairment as of December 31, 2017 and June 30, 2018, respectively. Moreover, we may not be able to accurately estimate our costs or pass on all or parts of any increase in our costs of production to our customers, in particular the costs of raw materials, components and parts. As a result, our results of operations could be materially and adversely affected.

We rely on services provided by a single third-party foundry, and any failure to obtain sufficient foundry capacity from this foundry or shift to another foundry may adversely affect our business operations.

As a fabless IC design company, we do not own any IC fabrication facilities. TSMC has been our only third-party foundry partner. For the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, the value of the ICs we purchased from TSMC accounted for 44.8%, 58.5%, 58.6% and 59.2%, respectively, of our total procurement for the respective periods. It is important for us to have a stable relationship with TSMC and future foundry service providers to ensure adequate product supply to meet customer demand.

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We cannot guarantee that TSMC will be able to meet our manufacturing requirements. The ability of TSMC to provide foundry services to us is limited by its technology migration, available capacity and existing obligations. If TSMC fails to succeed in its technology migration, it will not be able to deliver to us qualified ICs, which will significantly affect our technological advancement and shipment of products. This could in turn result in sales loss and have a material adverse effect on our relationships with our customers and on our business and financial condition. In addition, we are not given a guaranteed level of production capacity by TSMC. We do not have long-term contracts with them, and we source our supplies on a purchase order basis and prepay the purchase amount. As a result, we depend on TSMC to allocate a portion of its manufacturing capacity sufficient to meet our needs to us, to produce products of acceptable quality and at acceptable final test yields and to deliver those products to us on a timely basis at acceptable prices. If TSMC raises its product prices or is unable to provide us with required capacity for any reason, such as shortages, or delays in the shipment of semiconductor equipment or raw materials required to manufacture our ICs, or if our business relationships with TSMC deteriorate, we may not be able to obtain the required capacity and would have to seek alternative foundries, which may not be immediately available on commercially reasonable terms, or at all. It is also possible that other customers of TSMC that are larger and/or better financed than we are, or those with long-term contracts with TSMC, may receive preferential treatment in terms of capacity allocation or pricing. In addition, if we do not accurately forecast our capacity needs or plan orders in advance, TSMC may not have the available capacity to meet our immediate needs or we may be required to pay more to fulfill those needs, either of which could materially and adversely affect our business, operating results or financial condition.

Moreover, if TSMC suffers any damage to its facilities, loses benefits under material agreements, experiences power outages, lacks sufficient capacity to manufacture our products, encounters financial difficulties, is unable to secure necessary raw materials from its suppliers at reasonable terms, or suffers any other disruption or reduction in efficiency, we may encounter supply delays or disruptions.

In particular, the production of our ASIC chips requires advanced IC fabrication technologies, and foundries other than TSMC might not have sufficient production capacity for such technologies, if at all, to meet our requirement. This may expose us to risks associated with engaging new foundries. For example, using foundries with which we have not established relationships could potentially expose us to unfavorable pricing, unsatisfactory quality, or insufficient capacity allocation.

Other risks associated with our dependence on a single third-party foundry include limited control over delivery schedules and quality assurance, lack of capacity in periods of excess demand, unauthorized use of our intellectual properties and limited ability to manage inventory and parts. In particular, although we have entered into a confidentiality agreement with our third-party foundry for the protection of our intellectual properties, the foundry may fail to protect our intellectual properties with the same degree of care as we use to protect our intellectual properties. See “– If we fail to adequately protect our IP rights, our ability to compete effectively or to defend ourselves from litigation could be impaired, which could reduce our total revenue and increase our costs.” If we fail to properly manage any of these risks, our business and results of operations may be materially and adversely affected.

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Our prepayments to certain suppliers may subject us to counterparty risks associated with such suppliers and negatively affect our liquidity.

We are required to prepay some of our suppliers before the service is provided to secure the supplier’s production capacity. As of December 31, 2015, 2016, 2017 and June 30, 2018, the balance of prepayments we made to our suppliers amounted to US\$8.5 million, US\$42.6 million, US\$922.5 million and US\$280.7 million, respectively. The amount of our prepayments can significantly increase as we continue to pursue technological advancement. We are subject to counterparty risk exposure to our suppliers. Any failure by our suppliers to perform their contract obligation on a timely manner and/or with our requested quality may result in us not being able to fulfil customers’ orders accordingly. In such event, we may not be able to regain the prepayment in a timely manner or in full, even though our suppliers are obligated to return such prepayments under specified circumstances as previously agreed upon. Furthermore, if the cash outflows for the prepayments significantly exceed the cash inflows during any period, our future liquidity position will be adversely affected.

We rely on a limited number of third parties for IC packaging and testing services.

Fabrication of IC chips requires specialized services to process silicon wafers into IC chips by packaging them and to test their proper functioning. We rely on a limited number of production partners for such packaging and testing services. We also maintain collaborative relationships with leading OSAT companies, including the ASE Group and Jiangsu Changjiang Electronics Technology Co., Ltd (“JCET”) (SHSE Stock Code: 600584), for packaging and testing services. Reliance on a limited number of specialized production partners exposes us to a number of risks, including difficulties in finding alternate suppliers, capacity shortages or delays, lack of control or oversight in timing, quality or costs, and misuse of our intellectual property. If any such problems arise with our OSAT partners, we may experience delays in our production and delivery timetable, inadequate quality control of our products or excessive costs and expenses. Our financial condition, results of operation, reputation and business may be adversely affected as a result.

The quality of our products and services relies on third party suppliers and service providers we engage. Any failure by them to provide satisfactory services or maintain their service levels, could materially and adversely affect our business, reputation, financial condition and results of operations.

We rely on third-party suppliers and service providers to provide quality products and services to customers, and our brand and reputation may be harmed by actions taken by them that are outside of our control. Despite the measures we have taken to ensure the quality of products and services provided by third-party suppliers and service providers, to the extent they are unable to maintain their production facilities’ efficiency, supply sufficient raw materials in a timely manner, or provide satisfactory services to our customers, which may be due to events that are beyond our or their control, such as manufacturing defects, we may suffer reputational damage, and our business, financial condition and results of operations may be materially and adversely affected while we have not experienced such incidents that had a material adverse impact on our business during the Track Record Period, but as such incidents are beyond our control, we cannot assure you that they will not occur in the future regardless

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of the measures we have taken, and will take, to maintain the quality products and services provided by third-party suppliers and service providers. If we are unable to effectively address these risks, our brand image, reputation and financial performance may be materially and adversely affected.

Cryptocurrency assets and transactions may be subject to further taxation in the future.

In recent years, the rise of cryptocurrency prices and transaction volume has attracted the attention of tax authorities. As the laws governing cryptocurrencies are still evolving, the tax treatment of cryptocurrencies in various jurisdictions are subject to change. While some countries intend to or have imposed taxation on cryptocurrency assets and transactions, other tax authorities are silent. As there is considerable uncertainty over the taxation of cryptocurrencies, we cannot guarantee that the cryptocurrency assets and transactions denominated in cryptocurrencies will not be subject to further taxation in the future, including but not limited to additional taxes and increased tax rate. These events could reduce the economic return of cryptocurrency and increase the holding costs of cryptocurrency assets, which could materially and adversely affect our business, results of operations and financial condition.

We are subject to tax risks related to our multinational operations.

We are subject to taxes in the PRC and various overseas jurisdictions where we operate. Tax laws and practice applicable in the various jurisdictions we operate in are complex and sophisticated, and we face risks of tax incompliance caused by misunderstanding of regional tax policies or different tax administration enforcement. Due to economic and political conditions, tax rates in various jurisdictions may be subject to significant changes. Our effective tax rates could be affected by changes in the mix of earnings in countries with different statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws or their interpretation.

We are also subject to the examination of tax returns and other tax matters by domestic and international tax authorities and governmental bodies. There can be no assurance as to the outcome of these examinations. If our effective tax rates were to increase or if the ultimate determination of our taxes owed is for an amount in excess of amounts previously accrued, our financial condition, operating results and cash flows could be adversely affected.

Cryptocurrencies face significant scaling obstacles that can lead to high fees or slowed transaction settlement times, and attempts to increase the transaction processing capacity may not be effective.

Many cryptocurrency networks face significant scaling challenges. For example, as of September 2018, Bitcoin network could handle, on average, five to seven transactions per second, and Ethereum could handle approximately seven to 15 transactions per second. A number of solutions have been promoted recently to resolve this problem, including segregated witness, Lightning Network and the introduction of Bitcoin Cash. However, there is no assurance that the cryptocurrencies community will accept these solutions or these solutions will effectively resolve these problems.

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As the use of cryptocurrency networks increases without a corresponding increase in throughput of the networks, average fees and settlement times can increase significantly. Bitcoin's network, for example, has been, at times, at capacity, which has led to very high transaction fees. According to Blockchain.info, in 2017, Bitcoin transaction fees have increased from US\$0.36 per Bitcoin transaction, to a high of US\$26.6 per transaction on December 31, 2017 on average. As of August 31, 2018, Bitcoin transaction fees stood at US\$0.74 per Bitcoin transaction, on average.

Increased fees and decreased settlement speeds could preclude certain use cases for cryptocurrencies (e.g., micropayments), and can reduce demand for and the market price of cryptocurrencies, which could adversely affect the market demand for our products and services. There is no guarantee that any of the mechanisms in place or being explored for increasing the scale of settlement of cryptocurrency transactions will be effective, or how long they will take to become effective, which could adversely affect the market demand for our products and services.

Along with the development of cryptocurrencies, large established technology companies with international operations may enter the market and compete with us.

Currently, a limited number of emerging companies hold a significant market share of the cryptocurrency industry. As the potentials of cryptocurrencies begin to emerge and become more promising, large technology companies with existing international operations may expand to this industry and compete with us. Many of the business segments in which we currently operate or plan to operate may require large cash spending to fund research and development, and these potential competitors have greater financial, technical or marketing resources, longer operating histories, greater brand recognition and larger consumer base than we do. They also may enter into business combinations or alliances that strengthen their competitive positions or seek hostile acquisitions of our Shares. In addition, new products launched or will be launched by our competitor's may have lower manufacturing costs, higher computing power or better power efficiency than our products by adopting more optimal algorithm or smaller process technologies, which could erode our existing leadership in the market. Increased competition will push us to make larger investment to maintain our current leadership, which will negatively impact our profitability and reduce our market share. Although we have a track record of successfully competing against our competitors, there is no assurance that we will be able to continue to compete effectively in the future against international technology giants. Such competition may have a material adverse effect on our business, financial condition and results of operations.

Shortages in, or rises in the prices of, the components of our products may adversely affect our business.

Given the long production period to manufacture, assemble, and deliver certain components and products, problems could arise in planning production and managing inventory levels that could seriously interrupt our operations, including the possibility of defective parts, an increase in component costs, delays in delivery schedules, and shortages of

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components. In addition to ASIC chips, the components we use for our products include the PCB, other electronic components, fans, and aluminum casings. The production of our mining hardware also requires certain ancillary equipment and components such as controllers, power adaptors, and connectors. The production of our current products depends on obtaining adequate supplies of these components on a timely basis and at competitive prices. We do not typically maintain large inventories of the components, and rather purchase them on an “as-needed” basis from various third-party component manufacturers that satisfy our quality standards and meet our production requirements. We may have to turn to less reputable suppliers if we cannot source adequate components from our regular suppliers. Under such circumstances, the quality of the components may suffer and could cause performance issues in our products.

Shortages of components could result in reduced production or delays in production, as well as an increase in production costs, which may negatively affect our abilities to fulfill orders or make timely shipments to customers, as well as our customer relationships and profitability. Component shortages may also increase our costs of goods sold because we may be required to pay higher prices for components in short supply, or redesign or reconfigure products to accommodate for the substitute components, without being able to pass such cost to customers. As a result, our business, results of operations and reputation could be materially and adversely affected by any product defects.

Failure at tape-out or failure to achieve the expected final test yields for our ASIC chips could negatively impact our operating results.

The tape-out process is a critical milestone in our business. A successful tape-out means all the stages in the design and verification process of our ASIC chips have been completed, and the chip design is ready to be sent for manufacturing. If tape-out fails, we may need to further modify our designs. The tape-out process is very costly, and repeated failure can significantly increase our costs, lengthen our product development period and delay our product launch. While we believe that we have maintained high tape-out success rates in the past, we cannot assure you that we will be able to continue to have a high tape-out success rate in the future.

Once tape-out is successful, the ASIC design is sent for manufacturing, and the final test yield is a measurement of the production success rate. The final test yield is a function of both product design, which is developed by us, and process technology, which typically belongs to a third-party foundry, such as TSMC in our case. While we believe that we have historically achieved high final test yields, we cannot assure you that we will be able to maintain such high yields in the future. Low final test yields can result from a product design deficiency or a process technology failure or a combination of both. As such, we may not be able to identify problems causing low final test yields until our product designs go to the manufacturing stage, which may substantially increase our per unit costs and delay the launch of new products.

For example, if TSMC experiences manufacturing inefficiencies or encounters disruptions, errors or difficulties during production, we may fail to achieve acceptable final test yields or experience product delivery delays. We cannot guarantee that TSMC will be able to

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develop, obtain or successfully implement process technologies needed to manufacture future generations of our products on a timely basis. Moreover, during the periods in which foundries are implementing new process technologies, their manufacturing facilities may not be fully productive. A substantial delay in the technology transitions to smaller geometry process technologies could have a material and adverse effect on us, particularly if our competitors transition to such technologies before us.

In addition, resolution of yield problems requires cooperation among us, TSMC, and packaging and testing partners. We cannot assure you that the cooperation will be successful and that any yield problem can be fixed.

Cryptocurrency exchanges and wallets, and to a lesser extent, a cryptocurrency blockchain itself, may suffer from hacking and fraud risks, which may adversely erode user confidence in cryptocurrencies and reduce demand for our products and services.

Cryptocurrency transactions are entirely digital and, as with any virtual system, face risk from hackers, malware and operational glitches. For example, hackers can target cryptocurrency exchanges, wallets, and custodians to gain unauthorized access to the private keys associated with the wallet addresses where cryptocurrencies are stored. Cryptocurrency transactions and accounts are not insured by any type of government program and cryptocurrency transactions generally are permanent by design of the networks. Certain features of cryptocurrency networks, such as decentralization, the open source protocols, and the reliance on peer-to-peer connectivity, may increase the risk of fraud or cyber-attack by potentially reducing the likelihood of a coordinated response. Cryptocurrencies have suffered from hacking risks and several cryptocurrency exchanges and miners have reported cryptocurrency losses, which highlight concerns over the security of cryptocurrencies and in turn affect the demand and the market price of cryptocurrencies. In addition, while cryptocurrencies use private key encryption to verify owners and register transactions, fraudsters and scammers may attempt to sell false cryptocurrencies. These risks may adversely affect the operation of the cryptocurrency network which would erode user confidence in cryptocurrencies, which would negatively affect demand for our products.

The functionality of most cryptocurrency networks relies on the Internet. A significant disruption of Internet connectivity could adversely affect our business, results of operations and financial condition.

We may be subject to information technology system failures or network disruptions caused by natural disasters, accidents, power disruptions, telecommunications failures, acts of terrorism or war, computer viruses, physical or electronic break-ins, or other events or disruptions. System redundancy and other continuity measures may be ineffective or inadequate, and our business continuity and disaster recovery planning may not be sufficient for all eventualities. Such a significant disruption of Internet connectivity affecting large numbers of users or geographic areas could impede the functionality of a cryptocurrency network by, among other things, preventing access to the cryptocurrency networks, interfering with transactions on our cryptocurrency exchange or impeding the confirmation process of cryptocurrency mining. In particular, some variants of cryptocurrencies have been subjected to a number of attacks. Moreover, it is possible that as cryptocurrencies increase in value, they may become more attractive targets for hackers and subject to more frequent hacking and attacks.

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Certain banks may not provide banking services, or may cut off banking services, to businesses that provide cryptocurrency-related services or that accept cryptocurrencies as payment, which could damage the public perception of cryptocurrencies and the utility of cryptocurrencies as a payment system and could decrease demand for our products.

Certain companies that provide cryptocurrency-related services have been unable to find banks that are willing to provide them with bank accounts and banking services. Banks may refuse to provide bank accounts and other banking services to cryptocurrency-related companies or companies that accept cryptocurrencies for a number of reasons, such as regulatory requirements and perceived compliance risks or costs. The difficulty that many businesses that provide cryptocurrency-related services have and may continue to have in finding banks willing to provide them with bank accounts and other banking services may be currently decreasing the usefulness of cryptocurrencies as a payment system and harming public perception of cryptocurrencies or could decrease its usefulness and harm its public perception in the future. Similarly, the usefulness of cryptocurrencies as a payment system and the public perception of cryptocurrencies could be damaged if banks were to close the accounts of many or of a few key businesses providing cryptocurrency-related services. These events could materially and adversely affect our business, results of operations and financial condition.

We may fail to anticipate or adapt to technology innovations in a timely manner, or at all.

The cryptocurrency market is undergoing rapid technological changes. Failure to anticipate technology innovations or adapt to such innovations in a timely manner, or at all, may result in our products becoming obsolete at sudden and unpredictable intervals. For example, the developments in computing technology, such as quantum computing, may fundamentally change the demand for existing mining technology and hardware, which could negatively impact our business if we fail to respond to the technology development effectively. To maintain the relevancy and competitiveness of our products, we have actively invested in product planning and research and development. The process of developing and marketing new products is inherently complex and involves significant uncertainties. There are a number of risks involved in the process, including the following:

- Our product planning efforts may fail to result in the development or commercialization of new technologies or ideas;
- Our research and development efforts may fail to translate new product plans into commercially feasible products;
- Our new technologies or new products may not be well received by consumers;
- We may not have adequate funding and resources necessary for continuous investments in product planning and research and development;
- Our products may become obsolete due to rapid advancements in technology, especially new product launches, and changes in consumer preferences; and

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- Our newly developed technologies may not be protected as proprietary intellectual property rights.

If we fail to introduce new products that meet our customers’ evolving needs, we may be unable to compete effectively in the market and our business and results of operations could be materially and adversely affected.

If we are not able to maintain or enhance our brand recognition, our business, financial condition and results of operations may be materially and adversely affected.

Maintaining and enhancing the recognition, image and acceptance of our brand are important to our ability to differentiate our products from and to compete effectively with our peers. As we rely heavily on word-of-mouth branding, our brand image could be jeopardized if we fail to maintain high product and service quality, pioneer and keep pace with evolving technology trends, or timely fulfil the orders for our products and services. If we fail to promote our brand or to maintain or enhance the brand recognition and awareness among our customers, or if we are subject to events or negative allegations affecting our brand image or publicly perceived position of our brand, our business, operating results and financial condition could be adversely affected.

We may increasingly become a target for public scrutiny, including complaints to regulatory agencies, negative media coverage, and malicious allegations, all of which could severely damage our reputation and materially and adversely affect our business and prospects.

Certain features of cryptocurrency networks, such as decentralization, independence from sovereignty and anonymity of transactions, create the possibility of heightened attention from the public, regulators and the media. Heightened regulatory and public concerns over cryptocurrency-related issues may subject us to additional legal and social responsibilities and increased scrutiny and negative publicity over these issues, due to our leading position in the industry. From time to time, these allegations, regardless of their veracity, may result in consumer dissatisfaction, public protests or negative publicity, which could result in government inquiry or substantial harm to our brand, reputation and operations. Moreover, as our business expands and grows, both organically and through acquisitions of and investments in other businesses, domestically and internationally, we may be exposed to heightened public scrutiny in jurisdictions where we already operate as well as in new jurisdictions where we may operate. There is no assurance that we would not become a target for regulatory or public scrutiny in the future or that scrutiny and public exposure would not severely damage our reputation as well as our business and prospects.

If we fail to adequately protect our IP rights, our ability to compete effectively or to defend ourselves from litigation could be impaired, which could reduce our total revenue and increase our costs.

Our trademarks, copyrights, patents, domain names, knowledge, proprietary technologies and similar intellectual properties are critical to our success, and we rely on intellectual

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property laws and contractual arrangements, including confidentiality clauses, invention assignment and non-compete agreements with our employees and others, to protect our proprietary rights. Despite these measures, any of our intellectual property rights could be challenged, invalidated, circumvented or misappropriated, or such intellectual property may not be sufficient to provide us with protection. In addition, there can be no assurance that (i) our application for the registration of trademarks, patents and other intellectual property rights will be approved, (ii) any intellectual property rights will be adequately protected, or (iii) such intellectual property rights will not be challenged by third parties or found by a judicial authority to be invalid or unenforceable, or (iv) we could successfully defend ourselves against trademark, copyright and patent trolls. For example, we have a litigation with one of our competitors regarding our registered patent in relation to mining hardware production. The Patent Reexamination Board of the State Intellectual Property Office (“SIPO”) declared this patent invalid in April 2018, and we have filed an administrative litigation against the Patent Reexamination Board of SIPO to defend our patent right. The outcome of this legal proceeding is still uncertain. Even if we fail to defend the patent, we do not expect such failure to have a material adverse effect on us. Further, because of the rapid pace of technological change in our industry, parts of our business rely on technologies developed or licensed by third parties, and we may not be able to obtain or continue to obtain licenses or technologies from these third parties on reasonable terms or at all.

It is often difficult to register, maintain and enforce intellectual property rights in China. Statutory laws and regulations are subject to judicial interpretation and enforcement and may not be applied consistently due to the lack of clear guidance on statutory interpretation. Confidentiality, invention assignment, and non-compete agreements may be breached by counterparties, and there may not be adequate remedies available to us for any such breach. Accordingly, we may not be able to effectively protect our intellectual property rights or to enforce our contractual rights in China. Policing any unauthorized use of our intellectual property is difficult and costly and the steps we take may be inadequate to prevent the infringement or misappropriation of our intellectual property. In the event that we resort to litigation to enforce our intellectual property rights, such litigation could result in substantial costs and a diversion of our management and financial resources, and could put our intellectual property at the risk of being invalidated or narrowed in scope. We can provide no assurance that we will prevail in such litigation, and even if we do prevail, we may not obtain a meaningful recovery. In addition, our trade secrets may be leaked or otherwise become available to, or be independently discovered by, our competitors. Any failure in maintaining, protecting or enforcing our intellectual property rights could have an adverse effect on our business, financial condition and results of operations.

We may face IP infringement claims and our research and development works could be hindered by patent barriers, which could be time-consuming, costly to defend or settle, and result in the loss of significant rights and lower sales.

The semiconductor industry is characterized by international technology giants holding large numbers of patents and other IP rights and have been vigorously pursuing, protecting and enforcing these rights. IP litigation has increased in recent years owing to increased assertions made by IP licensing entities and increasing competition and overlap of product functionality in our markets. As our operations continue to grow in size and scale, we may be subject to

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infringement claims from time to time or otherwise become aware of potentially relevant patents or other IP rights held by other parties that may affect our technology, products and services.

We cannot guarantee that our operations or any aspects of our business do not or will not infringe upon or otherwise violate patents, trademarks, copyrights or other intellectual property rights held by third parties. We have been, and from time to time in the future may be, subject to legal proceedings and claims relating to the intellectual property rights. We cannot assure you that holders of patents purportedly relating to some aspects of our technology infrastructure or business, if any, would not seek to enforce such patents against us in China, the United States or any other jurisdictions. Further, the application and interpretation of China’s patent laws and the procedures and standards for granting patents in China are still evolving and are uncertain, and we cannot assure you that PRC courts or regulatory authorities would agree with our analysis. If we are found to have violated the intellectual property rights of others, we may be subject to liability for our infringement activities or may be prohibited from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives of our own. Such infringement or licensing allegations and claims may be brought by our suppliers. Defending against these claims and proceedings is costly and time consuming and may divert the management’s time and other resources from our business and operations, and the outcome of many of these claims and proceedings is uncertain. If a judgment, a fine, or a settlement involving a payment of a material sum of money were to occur, or an injunctive relief were issued against us, they may result significant monetary liabilities and may materially disrupt our business and operations by restricting or prohibiting our use of the intellectual property in question, and our business, financial position and results of operations could be materially and adversely affected.

The loss of any member of our senior management team, or our failure to attract, train and retain qualified personnel, especially our design and technical personnel, could impair our ability to grow our business and effectively execute our business strategy.

Since our inception, the growth and expansion of our business operations have depended on the business strategies and foresight of our senior management. Our future success depends, in large part, on the continued contribution of our senior management team. We cannot assure you that we will be able to retain key existing employees. The loss of any of our Co-founders, senior management or research and development team members could harm our ability to implement our business strategies and to respond to the rapidly changing market conditions in which we operate, or could result in other operating risks. The loss of one or more of our key employees, especially our key design and technical personnel, or our inability to retain, attract and motivate qualified design and technical personnel, could have a material adverse effect on our business, financial condition and results of operations.

Our future success also depends on our ability to retain, attract and incentivize qualified personnel, including our management, sales, marketing, finance and especially research and development personnel. As the driver of our technological and product innovations, our research and development personnel represent a very significant asset to us. As the technology in the semiconductor industry is advancing quickly, there is an increasing need for skilled engineers. Many companies across the world are struggling to find suitable candidates for their

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research and development positions. The process of hiring employees with the combination of skills and characteristics required to implement our strategy can be extremely competitive and time-consuming. We cannot assure you that we will be able to attract adequate personnel as we continue to pursue our business strategies.

The proper functioning of our technology infrastructure is essential to our business, and any failure to maintain the satisfactory performance, security and integrity of our technology infrastructure would materially and adversely impair our ability to provide services and affect our business, reputation, financial condition and results of operations.

The proper functioning of our technology infrastructure is essential to the conduct of our business. Specifically, the satisfactory performance, reliability and availability of our platform, our transaction-processing systems and our network infrastructure are critical to our success and our ability to attract and retain customers and provide adequate services. The risks we face in this area include:

- our systems are potentially vulnerable to damage or interruption as a result of earthquakes, floods, fires, extreme temperatures, power loss, telecommunications failures, technical error, computer viruses, hacking and similar events;
- we may encounter problems when upgrading our systems or services and undetected programming errors could adversely affect the performance of the software we use to provide our services. The development and implementation of software upgrades and other improvements to our internet services is a complex process, and issues not identified during pre-launch testing of new services may only become evident when such services are made available to our entire user base; and
- we rely on servers, data centers and other network facilities provided by third parties, and the limited availability of third-party providers with sufficient capacity to house additional network facilities and broadband capacity may lead to higher costs or limit our ability to offer certain services or expand our business.

These and other events may lead to interruptions, decreases in connection speed, degradation of our services or the permanent loss of user data. Any system interruptions caused by telecommunications failures, computer viruses, or hacking or other attempts to harm our systems that result in the unavailability of our platform or reduced performance would affect the attractiveness of the services offered by us. If we experience frequent or persistent service disruptions, whether caused by failures of our own systems or those of third-party service providers, our reputation or relationships with our users may be damaged and our users may switch to our competitors, which may have a material adverse effect on our business, financial condition and results of operations.

If we fail to maintain an effective quality control system, our business could be materially and adversely affected.

We place great emphasis on product quality and adhere to stringent quality control measures and have obtained quality control certifications for our products. To meet our

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customers’ requirements and expectations for the quality and safety of our products, we have adopted a stringent quality control system in compliance with internationally recognized standards to ensure that every step of the production process is strictly monitored and managed. Failure to maintain an effective quality control system or to obtain or renew our quality standards certifications may result in a decrease in demand for our products or cancellation or loss of purchase orders from our customers. Moreover, our reputation could be impaired. As a result, our business and results of operations could be materially and adversely affected.

We have granted and may continue to grant awards under our Share Incentive Scheme, which may result in increased share-based compensation expenses.

We adopted our Share Incentive Scheme for the purpose of granting share-based incentive awards to, among others, employees to incentivize their performance and align their interests with ours. We recognize share-based compensation expenses in our consolidated financial statements in accordance with IFRS. As of the Latest Practicable Date, the maximum aggregate number of Class A Shares underlying all awards which may be granted under our Share Incentive Scheme was 2,046,404,000, subject to adjustment and amendment. We believe our Share Incentive Scheme is important to attract and retain key personnel and employees, and we will continue to incentivize our employees under our Share Incentive Scheme in the future. As a result, our expenses associated with share-based compensation may increase, which may have an adverse effect on our results of operations.

Product defects resulting in a large-scale product recall or product liability claims against us could materially and adversely affect our business, results of operations and reputation.

Despite our stringent quality control measures in accordance with internationally accepted quality standards and specifications provided by our customers, we cannot assure you that all products produced by us are free of defects. Consequently, any product defects identified by our customers or end users might erode our reputation and negatively affect our customer relationships and future business. Product defects may also result in product returns and large-scale product recalls or product liability claims against us for substantial damages. Such claims, even if unsuccessful, would likely be time-consuming and costly to defend and could divert significant resources and management attention. As a result, our business, results of operations and reputation could be materially and adversely affected by any product defects.

We may engage in acquisitions or strategic alliances that could disrupt our business, result in increased expenses, reduce our financial resources and cause dilution to our Shareholders. We cannot assure you that such acquisition or strategic alliances may be successfully implemented.

We have engaged in and we may continue to actively seek acquisitions or strategic alliances to expand our business. However, we may not be able to find suitable acquisition candidates, complete acquisitions on favorable terms, if at all, or integrate any acquired business, products or technologies into our operations. If we do complete acquisitions, they

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may be viewed negatively by customers or investors and they may not enable us to strengthen our competitive position or achieve our goals. In addition, any acquisitions that we make could lead to difficulties in integrating personnel, technologies and operations from the acquired businesses and in retaining and motivating key personnel from these businesses. Moreover, acquisitions may disrupt our ongoing operations, divert the management from day-to-day responsibilities, and increase our expenses. Future acquisitions may reduce our cash available for operations and other uses, and could result in increases in amortization expenses related to identifiable intangible assets acquired, potentially dilutive issuances of equity securities or the incurrence of debt. We cannot predict the number, timing or size of future acquisitions, or the effect that any such acquisitions might have on our operating results.

We require various approvals, licenses, permits and certifications to operate our business, and any failure to obtain or renew any of these approvals, licenses, permits or certifications could materially and adversely affect our business and results of operations.

In accordance with the laws and regulations in the jurisdictions in which we operate, we are required to maintain various approvals, licenses, permits and certifications in order to operate our business. Complying with such laws and regulations may require substantial expense, and any non-compliance may expose us to liability. In the event of non-compliance, we may have to incur significant expenses and divert substantial management time to rectify the incidents. In the future, if we fail to obtain all the necessary approvals, licenses, permits and certifications, we may be subject to fines or the suspension of operations of the production facilities and research and development facilities that do not have all the requisite approvals, licenses, permits and certifications, which could materially and adversely affect our business and results of operations. Please see the section headed “Regulatory Overview” in this document for further details on the requisite approvals, licenses, permits and certifications for business operations. We may also experience adverse publicity arising from non-compliance with government regulations, which would negatively impact our reputation.

We cannot assure you that we will be able to fulfill all the conditions necessary to obtain the required government approvals, or that relevant government officials will always, if ever, exercise their discretion in our favor, or that we will be able to adapt to any new laws, regulations and policies. There may also be delays on the part of government authorities in reviewing our applications and granting approvals, whether due to the lack of human resources or the imposition of new rules, regulations, government policies or their implementation, interpretation and enforcement. If we are unable to obtain, or experience material delays in obtaining, necessary government approvals, our operations may be substantially disrupted, which could materially and adversely affect our business, financial condition and results of operations.

We may be involved in legal and other disputes from time to time arising out of our operations, including any dispute with our raw material or component suppliers, production partners, other third-party service providers, customers or employees.

We may from time to time be involved in disputes with various parties arising out of our operations, including raw material or electronic components suppliers, production partners,

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customers or employees. These disputes may lead to protests or legal or other proceedings and may result in damage to our reputation, substantial costs and diversion of resources and management’s attention from our core business activities. In addition, we may encounter compliance issues with regulatory bodies in the course of our operations, in respect of which we may face administrative proceedings or unfavorable decisions that may result in liabilities and cause delays to our production and delivery. We may be involved in other proceedings or disputes in the future that may have a material adverse effect on our business, financial condition, results of operations or cash flows.

Cyber-security incidents, including data security breaches or computer viruses, could harm our business by disrupting our delivery of services, damaging our reputation, incurring asset losses to us or exposing us to liability.

Unauthorized access to our computer systems or stored data could result in the theft of cryptocurrencies, improper disclosure of confidential information, or the deletion or modification of records, which could cause interruptions in our operations. For example, in 2017 we suffered a loss of cryptocurrencies worth approximately US\$27 million, which we suspect was caused by a hacker attack. Despite the security measures we have implemented to identify and prevent hacking and fraud risks, our system and accounts may be vulnerable to security breaches, software viruses, hacker attacks and fraud conduct. These cyber-security risks increase when we transmit information from one location to another, including over the Internet or other electronic networks. Despite the security measures we have implemented, our facilities, systems and procedures, and those of our third-party service providers, may be vulnerable to security breaches, acts of vandalism, software viruses, misplaced or lost data, programming or human errors or other similar events which may disrupt our delivery of services or expose the confidential information of our customers and others. Any security breach involving the misappropriation, loss or other unauthorized disclosure or use of confidential information of our customers or others, whether by us or a third party, could (i) subject us to civil and criminal liabilities, (ii) have a negative impact on our reputation, or (iii) expose us to liability to our customers, third parties or government authorities. Any of these developments could have a material adverse effect on our business, financial condition and results of operations.

Our insurance coverage is limited and may not be adequate to cover potential losses and liabilities. A significant uninsured loss or a loss in excess of our insurance coverage could have a material adverse effect on our results of operations and financial condition.

Risks associated with our business and operations include, but are not limited to, business interruption due to power shortages or network failure, product liability claims and losses of key personnel, any of which may result in significant costs or business disruption. The insurance industry in the PRC is still at an early stage of development, and insurance companies in the PRC currently offer limited business-related insurance products. In line with general market practice, we do not have any business liability or disruption insurance to cover our operations. In addition, the property, transit and director and officer insurance policies we have obtained may not cover all risks associated with our business. The occurrence of certain

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incidents including severe weather, earthquake, fire, war, power outages, flooding and the consequences resulting from them may not be covered by our insurance policies adequately, or at all. If we were subject to substantial liabilities that were not covered by our insurance, we could incur costs and losses that could materially and adversely affect our results of operations and financial condition.

We require a significant amount of capital to fund our operations. We recorded negative cash flows from operating activities during the Track Record Period. If we cannot obtain sufficient capital on acceptable terms to fund our operations, our business, financial condition and prospects may be materially and adversely affected.

The industries in which we operate are capital intensive as significant and continuous investments are required for research and development as well as the design and production of our products. For example, the tape-out of ASIC chips, a crucial step in the chips’ design and production, is a costly process, and repeated failures will significantly increase our expense, lengthen our product development period and delay product launch. See “– Failure at tape-out or failure to achieve the expected final test yields for our ASIC chips could negatively impact our operating results.” Furthermore, our future capital requirements may be substantial as we seek to expand our operations, diversify our product offerings, and pursue acquisitions and equity investments.

During the Track Record Period, we have accepted payment in the form of cryptocurrencies for sales of our cryptocurrency mining hardware, and we also have received cryptocurrencies from our proprietary mining and operation of mining pools. In accordance with the applicable accounting rules, we make reference to the accounting treatment of intangible assets with respect to our cryptocurrencies, pursuant to which the receipt of cryptocurrencies from our operation cannot be classified as operating cash inflow while the subsequent conversion of cryptocurrencies into standard currencies are classified as investing cash inflow. As a result, for the years ended December 31, 2015, 2016 and 2017 and six months ended June 30, 2018, we recorded net cash used in operating activities of approximately US\$5.6 million, US\$96.4 million, US\$191.6 million and US\$621.8 million, respectively. Although we believe the cryptocurrencies we hold are highly liquid assets that can be sold in open market to satisfy our liquidity needs, there is no assurance that we would be able to dispose of our cryptocurrencies in open market at the price or in the amount we desire.

Any indebtedness that we may incur in the future may contain operating and financing covenants that could restrict our business operations, ability to incur additional indebtedness or to distribute dividends. There can be no assurance that financing will be available in a timely manner or in amounts or on terms acceptable to us, or at all. A large amount of bank borrowings and other debt may result in a significant increase in interest expenses while at the same time exposing us to increased interest rate risks. Equity financings could result in dilution to our Shareholders, and the securities issued in future financings may have rights, preferences and privileges that are senior to those of our Shares. Any failure to raise funds on terms favorable to us, or at all, could severely restrict our liquidity and have a material adverse effect on our business, financial condition and results of operations.

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Our ability to obtain additional capital in the future, however, is subject to a number of uncertainties, including those relating to our business development, financial condition and results of operations, general market conditions for financing activities in our industry, and macro-economic and other conditions in China and globally. If we cannot obtain sufficient capital to meet our capital needs, our business, financial condition and prospects may be materially and adversely affected.

We rely on third-party logistics service providers to deliver our products. Disruption in logistics may prevent us from meeting customer demand and our business, financial condition and results of operations may suffer as a result.

We engage independent third party logistics service providers to deliver the ICs from our suppliers to our assembly plant and our products from our warehouses to our customers. Disputes with or a termination in our contractual relationships with one or more of our logistics service providers could result in delayed delivery of products or increased costs. There can be no assurance that we can continue or extend relationships with our current logistics service providers on terms acceptable to us, or that we will be able to establish relationships with new logistics service providers to ensure accurate, timely and cost-efficient delivery services. If we are unable to maintain or develop good relationships with our preferred logistics service providers, it may inhibit our ability to offer products in sufficient quantities, on a timely basis, or at prices acceptable to our consumers. If there is any breakdown in our relationships with our preferred logistics service providers, we cannot assure you that no interruptions would occur or that they would not materially and adversely affect our business, prospects and results of operations.

As we do not have any direct control over these logistics service providers, we cannot guarantee the quality of their services. In addition, services provided by these logistics service providers could be interrupted by unforeseen events beyond our control, such as poor handling provided by these logistics service providers, natural disasters, pandemics, adverse weather conditions, riots and labor strikes. If there is any delay in delivery, damage to products or any other issue, we may lose customers and sales and our brand image may be tarnished.

We have not obtained certain certificates with respect to some of our properties.

As of the Latest Practicable Date, we had not obtained the construction-related approvals and permits and building ownership certificates for certain self-owned properties with an aggregate GFA of approximately 7,100 square meters, representing approximately 4.52% of the aggregate GFA of the buildings occupied by us. These buildings are occupied by us for offices and business operations. See “Business – Properties.” As advised by our PRC Legal Advisor, pursuant to the applicable PRC laws and regulations, we may be ordered to demolish such properties or pay fines imposed by the relevant governmental authorities. We are in the process of obtaining the construction-related approvals and permits and building ownership certificates. There is no assurance that we will be able to obtain the construction-related approvals and permits or building ownership certificates without incurring additional costs or at all. Any of these may have an adverse effect on our business, financial condition, results of operations and prospects.

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We may face penalties for the non-registration of our lease agreements in the PRC.

As of the Latest Practicable Date, 48 lease agreements had not been registered with relevant authorities in the PRC. While the non-registration of the lease agreements will not affect their validity, the relevant local housing administrative authorities may require us to complete registrations within a specified timeframe and we may be subject to a fine between RMB1,000 and RMB10,000 per lease for any delay in making the registration. Therefore, we have the rights to use such properties in accordance with the leasing agreements, but we cannot assure you that we would not be subject to any fines and/or requests for undertaking the registration procedures in the future, any of which could increase our costs.

Any global systemic economic and financial crisis could negatively affect our business, results of operations, and financial condition.

Any prolonged slowdown in the Chinese or global economy may have a negative impact on our business, results of operations and financial condition. The global financial markets have experienced significant disruptions since 2008 and the United States, Europe and other economies have experienced periods of recession. The recovery from the lows of 2008 and 2009 has been uneven and there are new challenges, including the escalation of the European sovereign debt crisis from 2011 and the slowdown of the PRC's economic growth since 2012, which may continue. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and the PRC. There have also been concerns over unrest in Ukraine, the Middle East and Africa, which have resulted in volatility in financial and other markets, and concerns over the aftermath of the United Kingdom leaving the European Union as well as the significant potential changes to United States trade policies, treaties and tariffs, including trade policies and tariffs regarding the PRC. Furthermore, there have been concerns about the economic effect of the tensions in the relationship between the PRC and surrounding Asian countries. There were and could be in the future a number of domino effects from such turmoil on our business, including significant decreases in orders from our customers, insolvency of key suppliers resulting in product delays, inability of customers to obtain credit to finance purchases of our products and/or customer insolvencies, and counterparty failures negatively impacting our operations. Any systemic economic or financial crisis could cause revenues for the semiconductor industry as a whole to decline dramatically and could materially and adversely affect our results of operations.

We may be subject to liability in connection with industrial accidents and labor disputes.

Due to the nature of our operations, we are subject to the risks of potential liability associated with industrial accidents and labor disputes. We cannot assure you that industrial accidents, whether due to malfunction of equipment, shortage of power or other reasons, will not occur in the future at our production facilities. Under such circumstances, we may be subject to employee claims for compensation or penalties imposed by relevant government authorities and may suffer damage to our reputation. We may also experience interruptions in

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our operations or may be required to change the manner in which we operate, as a result of governmental investigations or the implementation of safety measures due to accidents. Any of the foregoing events could result in material production disruption, delay in delivery schedule or higher production costs of our products, which would materially and adversely affect our business, financial condition and results of operations.

In addition, we have been subject to labor disputes initiated by our employees and personnel from time to time, although none of them, individually or in the aggregate, have had a material adverse impact on us. We may continue to be subject to various legal or administrative proceedings related to labor disputes in the ordinary course of business, which may have a material effect on us. Any labor unrest directed against us could directly or indirectly prevent or hinder our normal operating activities, and, if not resolved in a timely manner, lead to decreases in our revenue. We are not able to predict or control any labor unrest, which could adversely affect our business, financial condition and results of operations.

Any failure to comply with labor, work safety or environmental regulations would expose us to penalties, fines, suspensions or action in other forms.

Our operations are subject to the labor, work safety and environmental protection laws and regulations promulgated by the PRC government. These laws and regulations require us to pay social insurance, maintain safe working conditions and adopt effective measures to control and properly dispose of solid waste and other environmental pollutants. We could be exposed to penalties, fines, suspensions or actions in other forms if we fail to comply with these laws and regulations. The laws and regulations in the PRC may be amended from time to time and changes in those laws and regulations may cause us to incur additional costs in order to comply with the more stringent rules. In the event that changes to existing laws and regulations require us to incur additional compliance costs or require costly changes to our production process, our costs could increase and we may suffer a decline in sales for certain products, as a result of which our business, financial condition and results of operations could be adversely affected.

We face risks related to natural disasters, health epidemics and other outbreaks, which could significantly disrupt our business, financial condition and results of operations.

Our business could be adversely affected by natural disasters or outbreaks of epidemics. We have not adopted any written contingency plans to combat any future natural disasters, such as flood and mudslides, or outbreaks of avian flu, H1N1 flu, SARS or any other epidemic. These natural disasters, outbreaks of contagious diseases, and other adverse public health developments in the PRC or any other countries or regions in which we conduct business could severely disrupt our business operations by damaging our network infrastructure or information technology system or impacting the productivity of our workforce, which may adversely affect our financial condition and results of operations.

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Our business and profitability may be adversely affected by rising labor costs and failure to comply with relevant PRC labor laws and regulations.

In recent years, labor costs in the PRC have continued to increase, driven by increased inflation, as well as enactment of new labor laws and their respective amendments. As a result, we expect our labor costs, including wages and employee benefits, to continue to increase in the foreseeable future. Unless we are able to pass on these increased labor costs to our users by increasing the prices of our products and services, our financial condition and results of operations may be adversely affected.

In addition, we are required by PRC laws and regulations to pay various statutory employee benefits, including pensions, housing fund, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated government agencies for the benefit of our employees. The relevant government agencies may examine whether an employer has made adequate payments of the requisite statutory employee benefits, and those employers who fail to make adequate payments may be subject to late payment fees, fines and/or other penalties. During the Track Record Period, some of our subsidiaries engaged third-party human resources agencies to pay social insurance premium and housing provident funds for some of their employees. As of the Latest Practicable Date, none of these subsidiaries had received any administrative penalty for its agency arrangement with third-party human resources agencies. Under the agreements entered into between the third-party human resources agencies and our relevant subsidiaries, the third-party human resources agencies have the obligations to pay social insurance premium and housing provident funds for our relevant employees. However, if the human resources agencies fail to pay the social insurance premium or housing fund contributions for and on behalf of our employees as required under applicable PRC laws and regulations, we may be subject to penalties imposed by the local social insurance authorities and the local housing provident fund management centers for failure to discharge our obligations in relation to payment of social insurance and housing provident funds as an employer. We cannot assure you that the relevant PRC authorities will not impose new requirements on us depending on the changes to the applicable laws and regulations, such as ordering us to make supplemental social insurance and housing fund contributions or take other measures, and we may be subject to fines and legal sanctions, our business, financial condition and results of operations may be adversely affected.

RISKS RELATING TO DOING BUSINESS IN THE PRC

Adverse changes in economic and political policies of the PRC government could have a material adverse effect on overall economic growth in China, which could materially and adversely affect our business, prospects, financial condition and financial results.

A significant portion of our operations are conducted in the PRC and a significant portion of our revenue is sourced from the PRC. Accordingly, our financial condition, results of operations and prospects are influenced by economic, political and legal developments in China. Economic reforms have resulted in significant economic growth in China in the past few decades. However, any economic reform policies or measures in China may from time to time

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be modified or revised. China’s economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While China’s economy has experienced significant growth in the past few decades, the rate of growth has slowed down since 2012, and growth has been uneven across different regions and among various economic sectors.

The PRC government exercises significant control over China’s economic growth through strategically allocating resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Although China’s economy has grown significantly in the past decade, that growth may not continue and any slowdown may have a negative effect on our business. Any adverse changes in economic conditions in China, in the policies of the PRC government or in the laws and regulations in China, could have a material adverse effect on the overall economic growth of China. Such developments could adversely affect our businesses, lead to reduction in demand for our services and adversely affect our competitive position.

Changes to and uncertainties in the legal system of the PRC may have a material adverse impact on our business, financial condition and results of operations. Legal protections available to you under the legal system of the PRC may be limited.

The PRC is still in the process of developing a comprehensive statutory framework. Since 1979, the PRC government has established a commercial law system, and significant progress has been made in promulgating laws and regulations relating to economic affairs and matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, many of these laws and regulations are relatively new, and the implementation and interpretation of these laws and regulations remain uncertain in many areas. Considerable uncertainties exist regarding the interpretation and implementation of existing and future laws and regulations governing our business activities. We cannot assure you that we will not be found in violation of any of the laws and regulations currently in effect or any future laws and regulations due to changes in the relevant authorities’ interpretation of these laws and regulations. If we fail to comply with the laws, regulations or any other regulatory requirements, or if we are required to take compliance actions that are time-consuming or costly, we may be subject to various penalties, such as confiscation of the revenue that were generated through operating activities, the imposition of fines and the discontinuation or restriction of our operations. Any such penalties may disrupt our business operations and materially and adversely affect our business, financial condition and results of operations.

A severe or prolonged downturn in China’s economy could materially and adversely affect our business, financial condition and results of operations.

The global macroeconomic environment is facing challenges, including the end of quantitative easing by the U.S. Federal Reserve, the economic slowdown in the Eurozone since 2014 and the uncertain impact of “Brexit.” The growth of China’s economy has slowed down since 2012 and such slowdown may continue. There is considerable uncertainty over the

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long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world’s leading economies, including the United States and China. There have been concerns over unrest and terrorist threats in the Middle East, Europe and Africa, which have resulted in volatility in oil and other markets. There have also been concerns on the relationship between China and other countries, including the surrounding Asian countries, which may potentially result in foreign investors exiting the China market and other economic effects. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. The United States and China have recently been involved in controversy over trade barriers in China that have threatened a trade war between the countries, and have implemented or proposed to implement tariffs on certain imported products. Sustained tension between the United States and China over trade policies could significantly undermine the stability of the global and China’s economy. Any severe or prolonged slowdown or instability in the global or China’s economy may materially and adversely affect our business, financial condition and results of operations.

If we fail to obtain and maintain the requisite licenses and approvals required under the complex regulatory environment applicable to our businesses in the PRC, or if we are required to take compliance actions that are time-consuming or costly, our business, financial condition and results of operations may be materially and adversely affected.

In accordance with the laws and regulations in the PRC in which we operate, we are required to maintain various approvals, licenses, permits and certifications in order to operate our business. Complying with such laws and regulations may require substantial expenses, any non-compliance may expose us to liability. In the event that government authorities consider us to be in non-compliance, we may have to incur significant expenses and divert substantial management time to rectify the incidents. If we fail to obtain all the necessary approvals, licenses, permits and certifications, we may be subject to fines or the suspension of operations of the facilities that do not have the requisite approvals, licenses, permits or certifications, which would adversely affect our reputation, business and results of operations. Please see the section headed “Regulatory Overview” in this document for further details on the requisite approvals license permits and certifications.

We may be required to obtain prior approval from CSRC for the [REDACTED] of our Shares on the [REDACTED].

On August 8, 2006, six regulatory authorities in China, including MOFCOM, the State Assets Supervision and Administration Commission of the PRC, SAT, SAIC, CSRC, and SAFE, jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (the “M&A Rules”), which became effective on September 8, 2006, and amended on June 22, 2009. The M&A Rules include, among other things, provisions that purport to require that an offshore special purpose vehicle formed for the purpose of an overseas listing of securities in a PRC company obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange. On September 21, 2006, the CSRC published on its official website procedures regarding its approval of overseas listings by special purpose vehicles. However, substantial uncertainty remains regarding the scope and applicability of the M&A Rules to offshore special purpose vehicles.

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Our PRC Legal Advisor has advised us that, based on its understanding of the current PRC laws and regulations, we will not be required to submit an application to the CSRC for the approval of the [REDACTED] of our Shares on the [REDACTED] because our wholly foreign-owned PRC subsidiary was a sino-foreign enterprise at the time of acquisition of its entire equity interest by us on November 28, 2016, not established through a merger or acquisition of equity interest or assets of a PRC domestic company as defined under the M&A Rules. However, we cannot assure you that the relevant PRC government authorities, including the CSRC, will reach the same conclusion as our PRC Legal Advisor. If the CSRC or other relevant PRC government authorities subsequently determine that prior CSRC approval is required, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory authorities.

Laws and regulations in the PRC establish more complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in the PRC.

A number of PRC laws and regulations, including the M&A Rules, the Anti-monopoly Law promulgated by the Standing Committee of the National People’s Congress in August 2007, and the Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated by MOFCOM in August 2011, have established procedures and requirements that are expected to make merger and acquisition activities in China by foreign investors more time-consuming and complex. These include requirements in some instances that the approval from MOFCOM be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies. PRC laws and regulations also require certain merger and acquisition transactions to be subject to merger control review or security review.

We have grown and may continue to grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from MOFCOM or its local counterparts, may delay or inhibit our ability to complete such transactions. It is unclear whether our business would be deemed to be in an industry that raises “national defense and security” or “national security” concerns. However, MOFCOM or other government agencies may publish explanations in the future determining that our business is in an industry subject to the security review, in which case our future acquisitions in China, including those by way of entering into contractual control arrangements with target entities, may be closely scrutinized or prohibited. Our ability to expand our business or maintain or expand our market share through future acquisitions would as such be materially and adversely affected.

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The heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on our business operations, our acquisition or restructuring strategy or the value of your investment in us.

The SAT has promulgated several rules and notices to tighten the scrutiny over acquisition transactions in recent years, including the Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises, or Public Notice 7 and the Announcement on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises, or SAT Circular 37.

On October 17, 2017, the SAT issued the SAT Circular 37, which came into force and amended some provisions in Public Notice 7 on December 1, 2017. SAT Circular 37, among other things, simplifies procedures of withholding and payment of income tax levied on non-resident enterprises.

Pursuant to these rules and notices, where a non-resident enterprise investor transfers equity interests or other taxable assets in a PRC resident enterprise indirectly by way of disposing of equity interests in an overseas holding company, the non-resident enterprise investor, being the transferor, may be subject to PRC enterprise income tax if the indirect transfer is considered to be an abusive use of company structure without reasonable commercial purposes. As a result, gains derived from such indirect transfer may be subject to PRC withholding tax at the rate of up to 10%.

In addition, Public Notice 7 provides clear criteria on how to assess reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. Public Notice 7 also brings challenges to both the foreign transferor and transferee (or other person who is obligated to pay for the transfer) of the taxable assets. Where a non-resident enterprise conducts an “indirect transfer” by transferring the taxable assets indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise being the transferor, or the transferee, or the PRC entity which directly owned the taxable assets may report to the relevant tax authority such indirect transfer. Using a “substance over form” principle, the PRC tax authority may re-characterize such indirect transfer as a direct transfer of the equity interests in the PRC tax resident enterprise and other properties in China. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of up to 10% for the transfer of equity interests in a PRC resident enterprise. Both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes.

We face uncertainties with respect to the reporting and consequences of private equity financing transactions, share exchange or other transactions involving the transfer of shares in our company by investors that are non-PRC resident enterprises, or sale or purchase of shares in other non-PRC resident companies or other taxable assets by us. Our company and other non-resident enterprises of ours may be subject to filing or tax obligations if our company and

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other non-resident enterprises of ours are transferors in such transactions, and may be subject to withholding obligations if our company and other non-resident enterprises of ours are transferees in such transactions, under Public Notice 7 and SAT Circular 37. For the transfer of shares in our Company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under Public Notice 7 and SAT Circular 37. As a result, we may be required to expend valuable resources to comply with Public Notice 7 and SAT Circular 37 or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our Company and other non-resident enterprises of ours should not be taxed under these circulars. The PRC tax authorities have the discretion under Public Notice 7 and SAT Circular 37 to make adjustments to the taxable capital gains based on the difference between the fair value of the taxable assets transferred and the cost of investment. If the PRC tax authorities make adjustments to the taxable income of the transactions under Public Notice 7 and SAT Circular 37, our income tax costs associated with such transactions will be increased, which may have an adverse effect on our financial condition and results of operations. We have made acquisitions in the past and may conduct additional acquisitions in the future. We cannot assure you that the PRC tax authorities will not, in their discretion, adjust any capital gains and impose tax return filing obligations on us or require us to provide assistance to them for the investigation of any transactions we were involved in. Heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.

We may be classified as a “resident enterprise” for PRC enterprise income tax purposes, which could result in unfavorable tax consequences to us and our non-PRC shareholders.

Under the People’s Republic of China Enterprise Income Tax Law (the “EIT Law”), which became effective on January 1, 2008 and was amended on February 24, 2017, an enterprise established outside China whose “de facto management body” is located in China is considered a “PRC resident enterprise” and will generally be subject to the uniform 25% enterprise income tax rate on its global income. Under the implementation rules of the EIT Law, “de facto management body” is defined as the organization body that effectively exercises management and control over such aspects as the business operations, personnel, accounting and properties of the enterprise.

On April 22, 2009, SAT released the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as People’s Republic of China Tax Resident Enterprises on the Basis of De Facto Management Bodies, which was last amended on December 29, 2017 (“Circular 82”), that sets out the standards and procedures for determining whether the “de facto management body” of an enterprise registered outside of China and controlled by PRC enterprises or PRC enterprise groups is located within China. Further to SAT Circular 82, on July 27, 2011, SAT issued the Administrative Measures for Enterprise Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises (Trial) (“SAT Bulletin 45”), to provide more guidance on the implementation of SAT Circular 82, which the bulletin became effective on September 1, 2011 and revised on April 17, 2015, June 28, 2016 and June 15, 2018. SAT Bulletin 45 clarified certain issues in the areas of resident status determination, post-determination administration and competent tax authorities’ procedures.

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Under Circular 82, a foreign enterprise controlled by a PRC enterprise or PRC enterprise group is considered a PRC resident enterprise if all of the following apply: (i) the senior management and core management departments in charge of daily operations are located mainly within China; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in China; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders’ meetings are located or kept within China; and (iv) at least half of the enterprise’s directors with voting rights or senior management normally reside within China. SAT Bulletin 45 specifies that when provided with a copy of Chinese tax resident determination certificate from a resident Chinese controlled offshore incorporated enterprise, the payer should not withhold 10% income tax when paying the Chinese-sourced dividends, interest, royalties, etc., to the PRC-controlled offshore incorporated enterprise.

Although Circular 82 and SAT Bulletin 45 explicitly provide that the above standards only apply to enterprises which are registered outside of China and controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreign individuals, Circular 82 and SAT Bulletin 45 may reflect SAT’s criteria for how the “de facto management body” test should be applied in determining the tax residence of foreign enterprises in general, regardless of whether they are controlled by PRC enterprises or PRC enterprise groups or by the PRC or foreign individuals. If the PRC tax authorities determine that we are to be treated as a PRC resident enterprise for PRC enterprise income tax purposes, the 25% PRC enterprise income tax on our global taxable income could materially and adversely affect our ability to satisfy any cash requirements we may have. In addition, certain adverse tax consequences may apply to our shareholders as described below.

Dividends paid by us to our foreign investors may be subject to withholding taxes and gains on the sale of our Shares may be subject to PRC tax under the PRC tax laws if we are classified as a PRC “resident enterprise”.

Under the EIT Law and its implementation rules, PRC withholding tax at the rate of 10% is normally applicable to dividends from PRC sources payable to investors that are resident enterprises outside of China, which do not have an establishment or place of business in China, or which have such establishment or place of business if the relevant income is not effectively connected with the establishment or place of business. Any gain realized on the transfer of shares by such investors is subject to 10% PRC income tax if such gain is regarded as income derived from sources within China. Under the PRC Individual Income Tax Law and its implementation rules, dividends from sources within China paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20% and gains from PRC sources realized by such investors on the transfer of shares are generally subject to 20% PRC income tax. Any PRC tax liability of a non-PRC resident may be reduced under applicable tax treaties.

Although a significant portion of our business operations are in China, it is unclear whether dividends we pay with respect to our Shares, or the gain realized from the transfer of our Shares, would be treated as income derived from sources within China and as a result be subject to PRC income tax if we are considered a PRC resident enterprise. If PRC income tax

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is imposed on gains realized through the transfer of our Shares or on dividends paid to our non-resident investors, the value of your investment in our Shares may be materially and adversely affected. Furthermore, our Shareholders whose jurisdictions of residence have tax treaties or arrangements with China may not be able to obtain the benefits under such tax treaties or arrangements.

Government control of foreign currency conversion may affect the value of your investment.

The PRC government imposes controls on the convertibility of RMB into foreign currencies and the remittance of currency out of China. We receive a significant portion of our revenue in RMB. We may convert a portion of our revenue into other currencies to meet our foreign currency obligations, such as payments of dividends declared in respect of our Shares, if any. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations.

Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior SAFE approval by complying with certain procedural requirements. However, approval from or registration or filings with competent government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. Pursuant to Circular 19, a foreign-invested enterprise may convert up to 100% of the foreign currency in its capital account into RMB on a discretionary basis according to the actual needs. Notice of the SAFE for Reforming and Regulating the Control Over Foreign Exchange Settlement under the Capital Account (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》(匯發[2016]16號)), issued by SAFE on June 9, 2016, provides for an integrated standard for conversion of foreign exchange under capital account items on a discretionary basis, which applies to all enterprises registered in China. In addition, Circular 16 has narrowed the scope of purposes for which an enterprise must not use the RMB funds so converted, which include, among others, (i) payment for expenditure beyond its business scope or otherwise as prohibited by the applicable laws and regulations, (ii) investment in securities or other financial products other than banks’ principal-secured products, (iii) provision of loans to non-affiliated enterprises, except where it is expressly permitted in the business scope of the enterprise, and (iv) construction or purchase of non-self-used real properties, except for real estate developers. The PRC government may at its discretion further restrict access to foreign currencies for current account transactions or capital account transactions in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency needs, we may not be able to pay dividends in foreign currencies to our shareholders. Further, there is no assurance that new regulations will not be promulgated in the future that would have the effect of further restricting the remittance of RMB into or out of China.

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PRC regulations of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the [REDACTED] of the [REDACTED] to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

We may transfer funds to our PRC subsidiaries or finance our PRC subsidiaries by means of Shareholders’ loans or capital contributions after completion of the [REDACTED]. Any loans to our PRC subsidiaries, which are foreign-invested enterprises (“FIEs”), cannot exceed statutory limits based on the difference between the registered capital and the investment amount of such subsidiaries, and shall be registered with the SAFE or its local counterparts.

Furthermore, any capital contributions we make to our PRC subsidiaries shall be approved by the MOFCOM or its local counterparts. We may not be able to obtain these government registrations or approvals on a timely basis, if at all. If we fail to receive such registrations or approvals, our ability to provide loans or capital contributions to our PRC subsidiaries in a timely manner may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

On March 30, 2015, the SAFE promulgated the Circular on Reforming the Administration Measures on Conversion of Foreign Exchange Registered Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (“Circular 19”), which will replace Circular 142 from June 1, 2015. Circular 19, however, allows foreign invested enterprises in the PRC to use their registered capital settled in RMB converted from foreign currencies to make equity investments, but the registered capital of a foreign invested company settled in RMB converted from foreign currencies remains not allowed to be used for investment in the security markets, offering entrustment loans or purchases of any investment properties, unless otherwise regulated by other laws and regulations. Circular 19 may limit our ability to transfer the [REDACTED] from the [REDACTED] to our PRC subsidiaries and convert the [REDACTED] into RMB.

We may be subject to penalties, including restriction on our ability to inject capital into our PRC subsidiaries and our PRC subsidiaries’ ability to distribute profits to us, if our resident shareholders or beneficial owners in the PRC fail to comply with relevant PRC foreign exchange regulations.

The SAFE issued the Notice on Relevant Issues Relating to Domestic Residents’ Investment and Financing and Round-Trip Investment through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (“Circular 37”), effective on July 4, 2014, which replaced the previous Notice on Relevant Issues Concerning Foreign Exchange Administration for the People’s Republic of China Residents Engaging in Financing and Roundtrip Investments via Overseas Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司境外融資及返程投資外匯管理有關問題的通知》) (“Circular 75”). Circular 37 requires PRC residents, including PRC individuals and institutions, to register with the SAFE or its local branches in connection with their direct establishment or indirect control of an offshore special purpose vehicle, for the purpose of

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overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests. In addition, such residents in the PRC must update their foreign exchange registrations with the SAFE or its local branches when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC individual shareholder, name and operation term), increases or decreases in investment amount, share transfers or exchanges, or mergers or divisions.

If any shareholder holding interest in an offshore special purpose vehicle, who is a PRC resident as determined by Circular 37, fails to fulfill the required foreign exchange registration with the local SAFE branches, the PRC subsidiaries of that offshore special purpose vehicle may be prohibited from distributing their profits and dividends to their offshore parent company or from carrying out other subsequent cross-border foreign exchange activities, and the offshore special purpose vehicle may be restricted in its ability to contribute additional capital to its PRC subsidiaries. Moreover, failure to comply with the SAFE registration described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

We may not be fully informed of the identities of all our shareholders or beneficial owners who are PRC residents, and therefore, we may not be able to identify all our shareholders or beneficial owners who are PRC residents to ensure their compliance with Circular 37 or other related rules. In addition, we cannot provide any assurance that all of our shareholders and beneficial owners who are residents in the PRC will comply with our request to make, obtain or update any applicable registrations or comply with other requirements required by the Circular 37 or other related rules in a timely manner. Even if our shareholders and beneficial owners who are residents in the PRC comply with such request, we cannot provide any assurance that they will successfully obtain or update any registration required by the Circular 37 or other related rules in a timely manner due to many factors, including those beyond our and their control. If any of our shareholders who is a resident in the PRC as determined by Circular 37 fails to fulfill the required foreign exchange registration with the local SAFE branches, our PRC subsidiaries may be prohibited from distributing their profits and dividends to us or from carrying out other subsequent cross-border foreign exchange activities, and we may be restricted in our ability to contribute additional capital to our subsidiaries in the PRC, which may adversely affect our business.

We rely on dividends and other distributions on equity paid by our subsidiaries in the PRC to fund any cash and financing requirements we may have. Any limitation on the ability of our PRC subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business or financial condition.

We are a holding company, and a significant portion of our operations are conducted in the PRC and a significant portion of our revenue is sourced from the PRC. As a result, we rely on dividends and other distributions on equity that may be paid by our subsidiaries in the PRC, for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to the holders of our ordinary shares and service any debt we may

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incur. If our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us. Under PRC laws and regulations, wholly foreign-owned enterprises in the PRC may pay dividends only out of their retained earnings as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its after-tax profits each year, after making up previous years’ accumulated losses, if any, to fund certain statutory reserve funds, until the aggregate amount of such a fund reaches 50% of its registered capital. At the discretion of the board of director of the wholly foreign-owned enterprise, it may allocate a portion of its after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends. Any limitation on the ability of our wholly-owned subsidiaries in the PRC to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

In addition, pursuant to the Double Tax Avoidance Arrangement between Hong Kong and China and the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties issued on February 20, 2009 by SAT, if a Hong Kong resident enterprise owns more than 25% of the equity interest in a PRC company at all times during the twelve-month period immediately prior to obtaining a dividend from such company, the 10% withholding tax on dividends is reduced to 5% provided certain other conditions and requirements under the Double Tax Avoidance Arrangement between Hong Kong and China and other applicable PRC laws are satisfied at the discretion of the relevant PRC tax authority. However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties, if the relevant PRC tax authorities determine, in their discretion, that a company shall not benefit from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, the PRC tax authorities may adjust the preferential tax treatment. Based on the Notice on Issues concerning Beneficial Owner in Tax Treaties (“**Circular 9**”) issued on February 3, 2018 by SAT and effective from April 1, 2018, when determining the applicant’s status of the “beneficial owner” regarding tax treatments in connection with dividends, interests or royalties in the tax treaties, several factors, including without limitation, whether the applicant is obligated to pay more than 50% of his or her income in twelve months to residents in a third country or region, whether the business operated by the applicant constitutes the actual business activities, and whether the counterparty country or region to the tax treaties does not levy any tax or grant tax exemption on relevant incomes or levies tax at an extremely low rate, will be taken into account, and it will be analyzed according to the actual circumstances of the specific cases. If our Hong Kong subsidiaries are determined by PRC government authorities as receiving benefits from reduced income tax rates due to a structure or arrangement that is primarily tax-driven, it would materially and adversely affect the net amount of dividends they receive.

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Fluctuations in exchange rates could result in foreign currency exchange losses.

The value of RMB against the Hong Kong dollar, the U.S. dollar and other currencies fluctuates, is subject to changes resulting from the PRC government’s policies and depends to a large extent on domestic and international economic and political developments as well as supply and demand in the local market. In July 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar, and the RMB appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, the exchange rate between the RMB and the U.S. dollar had been stable and traded within a narrow band. In June 2010, the People’s Bank of China increased the flexibility of the exchange rate and between June 30, 2010 and December 31, 2013, the value of the RMB appreciated approximately 12.0% against the U.S. dollar, although the value of the RMB depreciated approximately 2.5% against the U.S. dollar in 2014. In August 2015, the People’s Bank of China changed the way it calculates the mid-point price of RMB against the U.S. dollar, requiring the market-makers who submit for reference rates to consider the previous day’s closing spot rate, foreign-exchange demand and supply as well as changes in major currency rates. As a result, in 2015, the value of the RMB depreciated approximately 5.8% against the U.S. dollar. On November 30, 2015, the Executive Board of the International Monetary Fund (“IMF”) completed the regular five-year review of the basket of currencies that make up the Special Drawing Right (“SDR”) and decided that with effect from October 1, 2016, RMB is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the U.S. dollar, the Euro, the Japanese yen, and the British pound. We recorded net foreign exchange losses in the amount of US\$0.50 million, US\$3.40 million, US\$8.38 million, US\$1.30 million and US\$9.09 million for the years ended December 31, 2015, 2016 and 2017 and for the six months ended June 30, 2017 and 2018, respectively. We are exposed to foreign currency exchange risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Chinese Yuan, Euros, Hong Kong dollars and Japanese Yen. With the development of the foreign exchange market and progress toward interest rate liberalization and USD internationalization, the PRC government may in the future announce further changes to the exchange rate system, and we cannot assure you that the RMB will not appreciate or depreciate significantly in value against the Hong Kong dollar or the U.S. dollar in the future.

The [REDACTED] from the [REDACTED] will be received in Hong Kong dollars. As a result, any appreciation of the RMB against the U.S. dollar, the Hong Kong dollar or any other foreign currencies may result in the decrease in the value of our [REDACTED] from the [REDACTED]. Conversely, any depreciation of the RMB may adversely affect the value of, and any dividends payable on, our Shares in foreign currency. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. Furthermore, we are also currently required to obtain the SAFE’s approval before converting significant sums of foreign currencies into RMB. All of these factors could materially and adversely affect our business, financial condition, results of operations and prospects, and could reduce the value of, and dividends payable on, our Shares in foreign currency terms.

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It may be difficult to effect service of process upon us or our Directors or officers named in this document who reside in the PRC or to enforce non-PRC court judgments against them in the PRC.

A significant portion of our assets are situated in the PRC and most of our Directors and officers named in this document reside in the PRC. As a result, it may be difficult to effect service of process outside PRC upon most of our Directors and officers, including with respect to matters arising under applicable securities laws. PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom and many other countries. Consequently, it may be difficult for you to enforce against us or our Directors or officers in the PRC any judgments obtained from courts outside of PRC.

On July 14, 2006, Hong Kong and mainland China entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (the “**Arrangement**”) and revised on July 3, 2008, pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in dispute have not agreed to enter into a choice of court agreement in writing. Although the revised Arrangement became effective on August 1, 2008, the outcome and effectiveness of any action brought under the Arrangement may still be uncertain.

Discontinuation of preferential tax treatments we currently enjoy or other unfavorable changes in tax law could result in additional compliance obligations and costs.

Operating in the high-technology industry, a number of our PRC operating entities enjoy various types of preferential tax treatment according to the prevailing PRC tax laws. Our PRC subsidiaries may, if they meet the relevant requirements, qualify for certain preferential tax treatment.

For a qualified high and new technology enterprise, the applicable enterprise income tax rate is 15%. The high and new technology enterprise qualification is re-assessed by the relevant authorities every three years. See the section headed “Financial Information – Description of Major Components of Our Results of Operations – Taxation – China.” If such PRC subsidiaries fail to maintain their respective qualification under the relevant PRC laws and regulations, their applicable enterprise income tax rates may increase to up to 25%, which could have a material adverse effect on our results of operations.

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RISKS RELATING TO THE WVR STRUCTURE

Our controlling shareholders may exert substantial influence over us and may not act in the best interests of our independent Shareholders.

Our Company is controlled through WVR structure. Each Class A Share has one vote per share and each Class B Share has 10 votes per share except with respect to voting on resolutions with respect to a very limited number of Reserved Matters, in relation to which, each share is entitled to one vote. The WVR Beneficiaries are Mr. Zhan Ketuan and Mr. Wu Jihan. Mr. Zhan Ketuan will beneficially own 3,988,768,187 Class B Shares, representing approximately [REDACTED]% of the voting rights in our Company (assuming the [REDACTED] is not exercised) with respect to shareholder resolutions relating to matters other than the Reserved Matters. Mr. Wu Jihan will beneficially own 2,243,331,244 Class B Shares, representing approximately [REDACTED]% of the voting rights in our Company (assuming the [REDACTED] is not exercised) with respect to shareholder resolutions relating to matters other than the Reserved Matters. Mr. Zhan Ketuan and Mr. Wu Jihan therefore have significant influence over management and affairs of our Company, and over all matters requiring shareholder approval, including the election of directors (excluding the appointment, election or removal of any independent non-executive Director) and significant corporate transactions, such as a merger or other sale of our Company or our assets, for the foreseeable future. In addition, because each Class A Share carries only one tenth of the voting rights of each Class B Share (except as required by applicable law and in relation to the Reserved Matters), the issuance of the Class A Shares, including future equity-based acquisition transactions and employee equity incentive programs, could prolong the duration of the WVR Beneficiary’s ownership of our voting power immediately after the completion of the [REDACTED] and their ability to determine the outcome of most matters submitted to a vote of our Shareholders. For further details about our shareholding structure, see the section headed “Share Capital – Weighted Voting Rights Structure.”

This concentrated control limits or severely restricts our Shareholders’ ability to influence corporate matters and may also have the effect of delaying, deferring or preventing a change in control of our Company. As the interests of the holders of our Class B Shares may not necessarily be aligned with the interests of our Shareholders as a whole, we may take actions that our Shareholders do not view as beneficial. As a result, the market price of our [REDACTED] could be adversely affected.

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RISKS RELATING TO THE [REDACTED]

There has been no prior public market for our Shares and the liquidity and market price of our Shares may be volatile.

Prior to the completion of the [REDACTED], there has been no public market for our Shares. There can be no guarantee that an active trading market for our Shares will develop or be sustained after completion of the [REDACTED]. The [REDACTED] is the result of negotiations between our Company and the Joint [REDACTED] (for themselves and on behalf of the [REDACTED]), which may not be indicative of the price at which our Shares will be traded following completion of the [REDACTED]. The market price of our Shares may drop below the [REDACTED] at any time after completion of the [REDACTED].

We will incur increased costs as a result of operating as a publicly traded company, and our management will be required to devote substantial time to new compliance initiatives.

As a publicly traded company, we will incur additional legal, accounting and other expenses that we did not previously incur. Although we are currently unable to estimate these costs with any degree of certainty, they may be material in amount. Our management and other personnel will need to devote a substantial amount of time to compliance initiatives as well as investor relations. Moreover, applicable rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly.

The trading price of our Shares may be volatile, which could result in substantial losses to you.

The trading price of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, China, the United States and elsewhere in the world. In particular, the performance and fluctuation of the market prices of other companies with a significant portion of business operations in China that have listed their securities in Hong Kong may affect the volatility in the price of and trading volumes for our Shares. A number of companies with a significant portion of operations in China have listed their securities, and some are in the process of preparing for listing their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their initial public offerings. The trading performances of the securities of these companies at the time of or after their offerings may affect the overall investor sentiment towards China-based companies listed in Hong Kong and consequently may impact the trading performance of our Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

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You will incur immediate and substantial dilution and may experience further dilution in the future.

As the [REDACTED] of our Shares is higher than the net tangible book value per Share of our Shares immediately prior to the [REDACTED], purchasers of our Shares in the [REDACTED] will experience an immediate dilution. If we issue additional Shares in the future, purchasers of our Shares in the [REDACTED] may experience further dilution in their shareholding percentage.

The actual or perceived sale or availability for sale of substantial amounts of our Shares, especially by our Directors, executive officers and substantial shareholders, could adversely affect the market price of our Shares.

Future sales of a substantial number of our Shares, especially by our Directors, executive officers and substantial shareholders, or the perception or anticipation of such sales, could negatively impact the market price of our Shares in Hong Kong and our ability to raise equity capital in the future at a time and price that we deem appropriate.

The Shares held by our substantial shareholders are subject to certain [REDACTED] periods beginning on the date on which trading in our Shares commences on the Stock Exchange. While we currently are not aware of any intention of such persons to dispose of significant amounts of their Shares after the expiry of the [REDACTED] periods, we cannot assure you that they will not dispose of any Shares they may own now or in the future.

Absent any dividend paid on our Shares, your ability to achieve a return on your investment will depend on appreciation in the price of our Shares.

We did not pay cash dividends to our Shareholders during the Track Record Period and up to the Latest Practicable Date. We currently do not have a fixed dividend payout ratio. Any future determination to declare and pay any dividends will be at the discretion of our Board and will depend on, among other things, our earnings, financial condition, capital requirements, level of indebtedness, statutory and contractual restrictions applying to the payment of dividends and other considerations that our Board deem relevant. In addition, any final dividends for a financial year will be subject to the Shareholders' approval. There is no guarantee that our Shares will appreciate in value or even maintain the price at which our Shareholders have purchased their Shares. Absent any dividend paid on our Shares, your ability to achieve a return on your investment will depend on appreciation in the price of our Shares.

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Certain statistics contained in this document are derived from a third party report and publicly available official sources. There can be no assurance of the accuracy or completeness of such facts, forecasts and statistics. Investors should not place undue reliance on industry and market information and statistics derived from official government publications, market data providers and other independent third-party sources contained in this document.

This document, particularly the section headed “Industry Overview,” contains information and statistics relating to the IC, blockchain and cryptocurrency and AI chip industries. Such information and statistics have been derived from third-party reports, either commissioned by us or publicly accessible, and other publicly available sources. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. However, we cannot guarantee the quality or reliability of such source materials. The information has not been independently verified by us, the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED] or any other party involved in the [REDACTED], and no representation is given as to its accuracy. Collection methods of such information may be flawed or ineffective, or there may be discrepancies between published information and market practice, which may result in the statistics being inaccurate or not comparable to statistics produced for other economies. You should therefore not place undue reliance on such information. In addition, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In any event, you should consider carefully the importance placed on such information or statistics.

Forward-looking statements contained in this document are subject to risks and uncertainties.

This document contains certain statements that are “forward-looking” and indicated by the use of forward-looking terms such as “aim,” “anticipate,” “believe,” “could,” “estimate,” “expect,” “going forward,” “intend,” “ought to,” “may,” “plan,” “potential,” “seek,” “should,” “will” or “would” or similar expressions. You are cautioned that any forward-looking statement involves risks and uncertainties and any or all of the assumptions relating to the forward-looking statements could prove to be inaccurate. As a result, the forward-looking statements could be incorrect. The inclusion of forward-looking statements in this document should not be regarded as a representation by us that the plans and objectives will be achieved, and you should not place undue reliance on such statements.

You should read the entire document carefully and should not rely on any information contained in press articles or other media regarding us and the [REDACTED].

We strongly caution you not to rely on any information contained in press articles or other media regarding us and the [REDACTED]. Prior to the publication of this document, there has been press and media coverage regarding us and the [REDACTED]. Such press and media coverage may include references to certain information that does not appear in this document,

RISK FACTORS

including certain operating and financial information and projections, valuations and other information. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information or publication. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this document, we disclaim responsibility for it and you should not rely on such information.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

In preparation for the [REDACTED], we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong.

We do not have sufficient management presence in Hong Kong for the purposes of satisfying the requirements under Rule 8.12 of the Listing Rules. Our Group’s management, business operations and assets are primarily based outside Hong Kong. The principal management headquarter and senior management of the Group are primarily based outside of Hong Kong. The Directors consider that the appointment of executive directors who will be ordinarily resident in Hong Kong would not be beneficial to, or appropriate for, our Company and therefore would not be in the best interests of our Company and the Shareholders as a whole. Accordingly, we have applied to the Stock Exchange for[, and the Stock Exchange has granted], a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. We will ensure that there is an effective channel of communication between us and the Stock Exchange by way of the following arrangements:

- (a) pursuant to Rule 3.05 of the Listing Rules, we have appointed and will continue to maintain two authorized representatives, namely Mr. Liu Luyao, our executive Director and one of our joint company secretaries, and Mr. Sit Man Pan, one of our joint company secretaries, to be the principal communication channel at all times between the Stock Exchange and our Company. Each of our authorized representatives will be readily contactable by the Stock Exchange by telephone and/or e-mail to deal promptly with enquiries from the Stock Exchange. Both of our authorized representatives are authorized to communicate on our behalf with the Stock Exchange;
- (b) we will implement a policy to provide the contact details of each Director (such as mobile phone numbers, office phone numbers, residential phone numbers and email addresses) to each of the authorized representatives, our company secretaries and to the Stock Exchange. This will ensure that each of the authorized representatives, our company secretaries and the Stock Exchange will have the means to contact all the Directors (including the independent non-executive Directors) promptly as and when required, including means to communicate with the Directors when they are travelling;

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

- (c) we will ensure that all Directors who are not ordinarily resident in Hong Kong have valid travel documents to visit Hong Kong and will be able to come to Hong Kong to meet with the Stock Exchange within a reasonable period of time when required;
- (d) we have retained the services of a compliance advisor, being Anglo Chinese Corporate Finance, Limited (the “**Compliance Advisor**”), in accordance with Rules 3A.19 and 8A.33 and of the Listing Rules. The Compliance Advisor will serve as an additional channel of communication with the Stock Exchange in addition to the authorized representatives of our Company. The Compliance Advisor will provide our Company with professional advice on ongoing compliance with the Listing Rules. We will ensure that the Compliance Advisor has prompt access to our Company’s authorized representatives and Directors who will provide to the Compliance Advisor such information and assistance as the Compliance Advisor may need or may reasonably request in connection with the performance of the Compliance Advisor’s duties. The Compliance Advisor will also provide advice in compliance with Rules 3A.23 and 8A.34 of the Listing Rules; and
- (e) meetings between the Stock Exchange and the Directors could be arranged through the authorized representatives or the Compliance Advisor, or directly with the Directors within a reasonable time frame. Our Company will inform the Stock Exchange as soon as practicable in respect of any change in the authorized representatives and/or the Compliance Advisor in accordance with the Listing Rules.

WAIVER IN RESPECT OF JOINT COMPANY SECRETARIES

Pursuant to Rules 8.17 and 3.28 of the Listing Rules, the company secretary must be an individual who, by virtue of his or her academic or professional qualifications or relevant experiences, is, in the opinion of the Stock Exchange, capable of discharging the functions of the company secretary. Pursuant to Note 1 to Rules 3.28 of the Listing Rules, the Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) a Member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); or
- (c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

Pursuant to Note (2) to Rule 3.28 of the Listing Rules, in assessing “relevant experience,” the Stock Exchange will consider the individual’s:

- (a) length of employment with the issuer and other issuers and roles he or she played;
- (b) familiarity with the Listing Rules and other relevant law and regulations including the SFO, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

Our Company appointed Mr. Liu Luyao (“**Mr. Liu**”) and Mr. Sit Man Pan (“**Mr. Sit**”) as joint company secretaries of our Company. Mr. Sit is a Chartered Secretary and an associate member of both of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Hence, he meets the qualification requirements under Note 1 to Rule 3.28 of the Listing Rules and is in compliance with Rule 8.17 of the Listing Rules. Mr. Liu is our executive Director and Chief Financial Officer. Mr. Liu joined our Group in July 2018 and is responsible for our financing activities and investor relations. Prior to joining our Group, Mr. Liu served at China International Capital Corporation Limited (中國國際金融股份有限公司) from July 2012 to June 2018, with his last position being vice president in the investment banking department. Our Company believes that it would be in the best interest of our Company and the corporate governance of our Company to appoint Mr. Liu as our joint company secretary who possesses the relevant experience of our Company’s investor relations and financing affairs.

Accordingly, while Mr. Liu does not possess the formal qualifications required of a company secretary under Rule 3.28 of the Listing Rules, we have applied to the Stock Exchange for, and the Stock Exchange has [granted], a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules such that Mr. Liu may be appointed as a joint company secretary of our Company.

Mr. Sit will work closely with Mr. Liu to jointly discharge the duties and responsibilities as company secretaries and assist Mr. Liu in acquiring the relevant experience as required under Rule 3.28 and 8.17 of the Listing Rules. Mr. Liu will also be assisted by (a) the Compliance Advisor, particularly in relation to Hong Kong corporate governance practices and compliance issues; and (b) the Hong Kong legal advisor of our Company, on matters concerning our Company’s ongoing compliance with the Listing Rules and the applicable laws and regulations. In addition, Mr. Liu will endeavor to attend relevant trainings and familiarize himself with the Listing Rules and duties required for a company secretary of an issue listed on the Stock Exchange.

The waiver [was granted] for a three-year period on the condition that Mr. Sit, as one of the joint company secretaries of our Company, will work closely with, and provide assistance to, Mr. Liu in the discharge of his duties as one of the joint company secretaries and in gaining the relevant experience under Rule 3.28 of the Listing Rules. At the end of the three-year period, the qualifications and experience of Mr. Liu and the need for on-going assistance of Mr. Sit will be further evaluated by our Company. We will liaise with the Stock Exchange to enable it to assess whether Mr. Liu, having benefited from the assistance of Mr. Sit for the preceding three years, will have acquired the skills necessary to carry out the duties of company secretary and the relevant experience within the meaning of Rule 3.28 Note 2 of the Listing Rules so that a further waiver will not be necessary.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

WAIVER IN RESPECT OF COMPANIES ACQUIRED/TO BE ACQUIRED AFTER THE TRACK RECORD PERIOD

Pursuant to Rules 4.04(2) and 4.04(4)(a) of the Listing Rules, the accountants’ report to be included in a listing document must include the income statements and balance sheets of any subsidiary or business acquired, agreed to be acquired or proposed to be acquired since the date to which its latest audited accounts have been made up in respect of each of the three financial years immediately preceding the issue of the listing document (the “**Target Historical Financial Information**”).

Pursuant to guidance letter HKEX-GL32-12 issued by the Stock Exchange (“**GL32-12**”), acquisitions of business include acquisitions of associates and any equity interest in another company. Pursuant to GL32-12, the Stock Exchange may consider granting a waiver of the requirements under Rules 4.04(2) and 4.04(4) of the Listing Rules on a case-by-case basis, and having regard to all relevant facts and circumstances. The Stock Exchange will ordinarily grant a waiver in relation to acquisitions of equity securities in the ordinary and usual course of business subject to the following conditions: (i) the percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) of each acquisition are all less than 5% by reference to the most recent financial year of the applicant’s trading record period, (ii) the applicant is neither able to exercise any control, nor has any significant influence, over the underlying company or business; and (iii) the listing document should include the reasons for the acquisitions and a confirmation that the counterparties and the ultimate beneficial owners of the counterparties are independent third parties of the applicant and its connected persons. In addition, the Stock Exchange will ordinarily grant a waiver in relation to acquisitions of a business or subsidiary subject to the following conditions: (i) the percentage ratio (as defined under Rule 14.04(9) of the Listing Rules) of the acquired or to be acquired business or subsidiary are all less than 5% by reference to the most recent financial year of the applicant’s trading record period; (ii) the historical financial information of the acquired or to be acquired business or subsidiary is not available or would be unduly burdensome to obtain or prepare; and (iii) the listing document should include at least the information that would be required for a disclosable transaction under Chapter 14 of the Listing Rules on each acquisition.

Background to the acquisitions

During the Track Record Period, our Group had made acquisitions of minority interests in a large number of companies both in the PRC and overseas (the “**Acquisitions**”). The target companies of the Acquisitions are generally members of the broader “ecosystem” related to our Group’s core business, and provide products, services and/or resources that we believe can help to expand product and service offerings to our Group’s users, or have the ability to help our Group enter a new market. We plan to continue to invest in businesses that are part of our Group’s ecosystem and complementary to our business and growth strategies.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

All of the Acquisitions made by our Group have been acquisitions of minority interests as passive investor (usually no more than 30% equity interest in the target companies), such that the target companies of the Acquisitions have not been consolidated into our Group, and our Group has no control over the respective boards of directors of these target companies. During the three years ended December 31, 2017 and the six months ended June 30, 2018, our Group made over 30 Acquisitions that we believe offer significant opportunities to deliver value to our users and growth for our Group.

Since June 30, 2018 (being the date to which our latest audited accounts have been made up) and up to the Latest Practicable Date, our Group had made or proposed to make a number of acquisitions, details of which are set out below:

No.	Name of the target company	Consideration	Percentage of shareholding/ equity interest acquired	Principal business	Basis for determining the consideration
1	Global Digital Mercantile Ltd.	US\$1,000,000	5.00%	Crypto finance	By arm’s length negotiation based on the target company’s business development and prospect
2	Opera Limited	US\$50,000,000	3.00%	Provision of web browser for mobile phones and PCs, including the Opera browser	By arm’s length negotiation based on the target company’s P/E ratio
3	Gyrfalcon Technology Inc.	US\$1,000,000	0.25%	Development of AI accelerators	By arm’s length negotiation based on the target company’s business development and prospect
4	Channel Factory, LLC	US\$1,000,000	0.77%	Operation of advertising platform providing social video media and marketing services	By arm’s length negotiation based on the target company’s business development and prospect
5	Company A	US\$8,000,000	8.00%	Services of information and quotation software of blockchain	By arm’s length negotiation based on the target company’s business development and prospect

Each of the above acquisitions have been/will be settled in cash. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, all of the target companies set out above and their ultimate beneficial owners are third parties independent from our Company and its connected persons. In its ordinary course of business, our Company expects to continue to enter into further acquisitions subsequent to the Latest

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

Practicable Date and prior to the issue of this document (together with the acquisitions listed above, the “**2018 Acquisitions**”). The final terms of the 2018 Acquisitions that are yet to be completed may be subject to change.

The reasons for the 2018 Acquisitions are to further expand the broader “ecosystem” related to our core business so that our Group could create strategic synergy and provide products, services and/or resources that we believe can help to efficiently expand product and service offerings to our Group’s users, or have the ability to help our Group enter into a new market.

Conditions to the waiver [granted] by the Stock Exchange

We have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver from strict compliance with Rule 4.04(2) and 4.04(4) of the Listing Rules in respect of the 2018 Acquisitions on the following grounds:

1. Ordinary and usual course of business

Making equity investments of this nature is part of the ordinary course of business of our Company. Our Company started making acquisitions in 2015, and conducted over 30 acquisitions up to the Latest Practicable Date. As of the Latest Practicable Date, our Company had an investment team comprising of over 20 members responsible for conducting the acquisitions on a full-time basis.

The 2018 Acquisitions are classified as acquisitions of financial assets carried at fair value through profit or loss and are not consolidated into our Group’s financial statements. Changes in the fair value are included in profit or loss in the period in which they arise. Upon disposal, the difference between the net sale proceeds and the carrying amount is also included in the income statement as “Other income/(expense)”.

2. The percentage ratios of each acquisition are all less than 5% by reference to the most recent financial year of our Company’s Track Record Period

The percentage ratios for each of the 2018 Acquisitions are all less than 5% by reference to the most recent financial year of our Company’s Track Record Period, and any subsequent acquisitions are also expected to be so. To the best knowledge of our Company, the 2018 Acquisitions are not subject to aggregation under Rule 14.22 of the Listing Rules.

Accordingly, our Company considers that the 2018 Acquisitions are immaterial and does not expect them to have any material effect on the business, financial condition or operations of our Group.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

3. Our Company is not able to exercise any control over the underlying company or business

Our Company only holds a minority equity interest in each of the target companies of the 2018 Acquisitions and does not control their respective boards of directors and this is expected to remain the case for any subsequent acquisitions. Given that our Group is not able to exercise any control over each of the target companies of the 2018 Acquisitions, our Company would not be able to compel or request the target companies of the 2018 Acquisitions to cooperate with the audit work in order for our Company to comply with the relevant requirements under Rules 4.04(2) and 4.04(4)(a) of the Listing Rules.

4. Alternative disclosure in the document

We have provided in this section alternative information in connection with the 2018 Acquisitions. Such information includes, where applicable, those which would be required for a disclosable transaction under Chapter 14 of the Listing Rules including, for example, reasons for the acquisitions and a confirmation that the counterparties and the ultimate beneficial owners of the counterparties are independent third parties of our Company and its connected persons. For the avoidance of doubt, the name of certain company that is the subject of the 2018 Acquisitions is not disclosed in this document because (i) we do not have consent from it for such disclosure and (ii) given the competitive nature of the industry in which we operate, it is commercially sensitive to disclose the identity of certain company we acquire an interest in to avoid our competitors to anticipate our plans of business growth.

Our Company does not expect to use any [REDACTED] from the [REDACTED] to fund such acquisitions.

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
-------------	----------------	--------------------

Executive Directors

Mr. Zhan Ketuan (詹克團)	No. 601, Door 4, Building 7 Luo Zhuang Dong Li Haidian District Beijing China	Chinese
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Mr. Wu Jihan (吳忌寒)	No. 86 Jellicoe Road Singapore	Chinese
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Mr. Ge Yuesheng (葛越晟)	No. 5, Lane 8, Huimin Road Yuelong Street Ninghai County Zhejiang Province China	Chinese
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Mr. Liu Luyao (劉路遙)	No. 2601, Building 10 No. 1 Courtyard, Shou Pa Kou Nan Jie Xicheng District Beijing China	Chinese
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Independent Non-Executive Directors

Mr. Wang Xiaochuan (王小川)	No. 14, South Main Street Chaoyang District Beijing China	Chinese
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Mr. Sun Hanhui (孫含暉)	No. 64, Dong Gong Street Dongcheng District Beijing China	Chinese
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Mr. Deng Feng (鄧鋒)	Room 3203, China Central Place 2 No. 79, Jian Guo Men Avenue Chaoyang District Beijing China	United States of America
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Further information about our Directors is disclosed in the section headed “Directors and Senior Management” in this document.

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

PARTIES INVOLVED IN THE [REDACTED]

Sole Sponsor

**China International Capital Corporation
Hong Kong Securities Limited**
29/F One International Finance Centre
1 Harbour View Street
Central
Hong Kong

[REDACTED]

Legal Advisors to our Company

As to Hong Kong and U.S. laws

Davis Polk & Wardwell
18th Floor, The Hong Kong Club Building
3A Chater Road
Hong Kong

As to PRC law

Commerce & Finance Law Offices
6th Floor, NCI Tower A
12 Jianguomenwai Avenue
Beijing
PRC

As to Cayman Islands law

Maples and Calder (Hong Kong) LLP
53rd Floor, The Center
99 Queen's Road
Central
Hong Kong

**Legal Advisors to the Sole Sponsor
and the [REDACTED]**

As to Hong Kong and U.S. laws

Clifford Chance
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DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

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Reporting Accountant

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Hong Kong

Industry Consultant

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Branch Co.**
Room 1018, Tower B
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Shanghai
PRC

[REDACTED]

CORPORATE INFORMATION

Headquarters	Building 25 North Olympic Science & Technology Park Baosheng South Road Haidian District Beijing China
Principal Place of Business in Hong Kong	15/F, Unit 1502-1503 Cheung Kei Center 18 Hung Luen Road Hunghom Kowloon Hong Kong
Registered Office in the Cayman Islands	Maples Corporate Services Limited PO Box 309 Ugland House Grand Cayman, KY1-1104 Cayman Islands
Company’s Website	<u>www.bitmain.com</u> <i>(information contained on this website does not form part of this [REDACTED])</i>
Joint Company Secretaries	Mr. Liu Luyao (劉路遙) Mr. Sit Man Pan (薛文彬) (HKICS, ICSA)
Authorized Representatives	Mr. Liu Luyao (劉路遙) Mr. Sit Man Pan (薛文彬)
Audit Committee	Mr. Sun Hanhui (孫含暉) (Chairman) Mr. Wang Xiaochuan (王小川) Mr. Deng Feng (鄧鋒)
Remuneration Committee	Mr. Deng Feng (鄧鋒) (Chairman) Mr. Wu Jihan (吳忌寒) Mr. Wang Xiaochuan (王小川)
Nomination Committee	Mr. Deng Feng (鄧鋒) (Chairman) Mr. Zhan Ketuan (詹克團) Mr. Sun Hanhui (孫含暉)

CORPORATE INFORMATION

Corporate Governance Committee

Mr. Wang Xiaochuan (王小川) (*Chairman*)
Mr. Sun Hanhui (孫含暉)
Mr. Deng Feng (鄧鋒)

Compliance Advisor

Anglo Chinese Corporate Finance, Limited
40th Floor
Two Exchange Square
8 Connaught Place
Central
Hong Kong

[REDACTED]

Principal Bankers

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Dongcheng District
Beijing
China

Standard Chartered Bank (China) Limited
Shenzhen Branch
11/F, Tower A, Kingkey 100 Building
No. 5016 Shennan East Road
Luohu District
Shenzhen
China

INDUSTRY OVERVIEW

This section contains certain information, statistics and data which are derived from a commissioned report from Frost & Sullivan, an independent third party. The information from official government publications, industry sources and the Frost & Sullivan Report may not be consistent with information available from other sources within or outside the PRC and Hong Kong. We believe that the sources of the information in this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading in any material respect. However, neither we nor any other party involved in the [REDACTED] have independently verified such information, and neither we nor any other party involved in the [REDACTED] are giving any representation as to the accuracy or completeness of such information. As such, investors are cautioned not to place any undue reliance on the information, including statistics and estimates, set forth in this section or similar information included elsewhere in this document. For a discussion of risks relating to our industries, see the section headed “Risk Factors – Risks Relating to Our Business and Industry” in this document.

SOURCE OF INFORMATION

We commissioned Frost & Sullivan to conduct market research concerning the IC, blockchain and artificial intelligence industries in China and globally. We believe that Frost & Sullivan has specialized research capabilities and experience in these fields both in China and globally. Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Frost & Sullivan Report. We have also referred to certain information in the “Summary,” “Risk Factors,” “Business” and “Financial Information” sections to provide a more comprehensive presentation of the industry in which we operate.

The Frost & Sullivan Report

Frost & Sullivan is a global consulting company that provides market research, information and advice to companies in various industries, including the IC, blockchain and artificial intelligence industries. Frost & Sullivan has direct access to the most knowledgeable experts and market participants in the IC, blockchain and artificial intelligence industries and its industry consultants, on average, have more than five years of relevant experience. We have agreed to pay Frost & Sullivan a commission of RMB780,000 for the preparation of the Frost & Sullivan Report.

The methodology used by Frost & Sullivan in gathering the relevant market data in compiling the Frost & Sullivan Report included secondary research and primary interviews. Secondary research involves information integration of data and publication from publicly available resources, including official data and announcements from government agencies, and market research on industry and enterprise player information issued by our chief competitors. Primary interviews were conducted with relevant institutions to obtain objective and factual

INDUSTRY OVERVIEW

data and prospective predictions. Frost & Sullivan considered the source of information as reliable because (i) it is general market practice to adopt official data and announcements from various government agencies; and (ii) the information obtained from interviews is for reference only and the findings in this report are not directly based on the results of these interviews. Frost & Sullivan has proven track records in providing market research studies to government and private clients in the regions where the Frost & Sullivan Report covers. In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan has adopted the following assumptions: (i) the global economy is likely to maintain a steady growth in the next decade; (ii) the global social, economic and political environment is likely to remain stable in the forecast period, which ensures the stable and healthy development of the IC, blockchain and artificial intelligence markets; and (iii) there is no war or large scale disaster during the forecast period.

Directors’ Confirmation

After making reasonable enquiries and exercising reasonable care, our Directors have confirmed that there has been no adverse change in the market information presented in the Frost & Sullivan Report since the date of publication of the report, which may qualify, contradict or impact the information in this Industry Overview section.

GLOBAL AND CHINA IC MARKET

IC Industry

An integrated circuit (IC), or a chip, is a small piece of semiconducting material, usually silicon, that contains a set of electronic circuits where thousands of transistors, resistors and capacitors are fabricated. ICs have a wide variety of applications and are commonly used for microprocessors, memory and amplifiers.

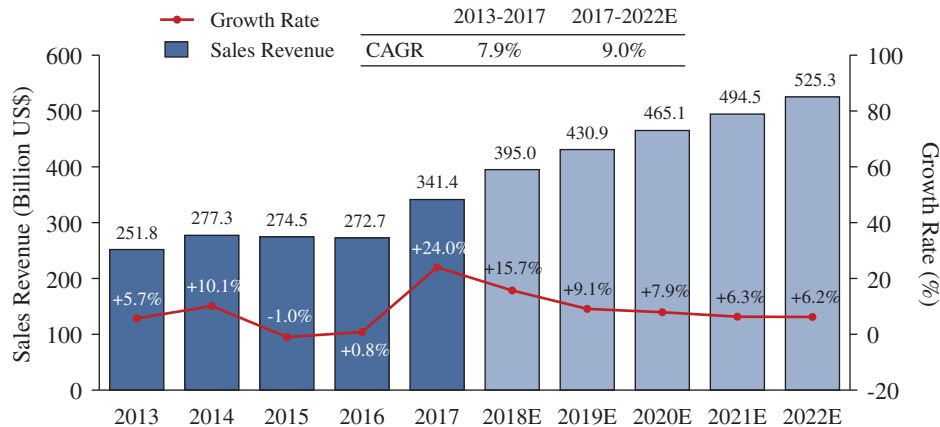
The IC industry as a whole consists of a wide range of sub-segments from IC design, manufacturing, testing and assembly to distribution services and finally the end users. Fabless IC design companies and foundries work closely with each other and play an important role in the supply chain of the IC industry. There are two business models in the IC industry, namely the IDM (Integrated Device Manufacturers) model and the fabless-foundry model. The IC industry was previously dominated by the IDM model where companies who owned the manufacturing assets designed and manufactured IC products themselves. The fabless-foundry model came later into the market as a result of social division between IC design companies and foundries. IC foundries can either be integrated device manufacturers who design and manufacture ICs in-house, or pure-play foundries who only manufacture designs from IC design companies without designing their own ICs. See “– Fabless IC Design Industry” for more details.

In recent years, despite the fluctuation in the growth of global IC market sales, the total size of the global IC market has increased, benefitting from the growth of the global electronic industry and particularly the acceleration of industrial upgrading and the rapid development of

INDUSTRY OVERVIEW

emerging high-tech industries such as artificial intelligence (AI). According to Frost & Sullivan, the market size of the global IC industry in terms of sales revenue increased at a CAGR of 7.9% from US\$251.8 billion in 2013 to US\$341.4 billion in 2017. Driven by the continuously increasing market scale of main products of IC terminal application, including smart phone, automotive electronics and IoT, among others, the global IC industry is expected to further grow at a CAGR of 9.0% to reach US\$525.3 billion in 2022.

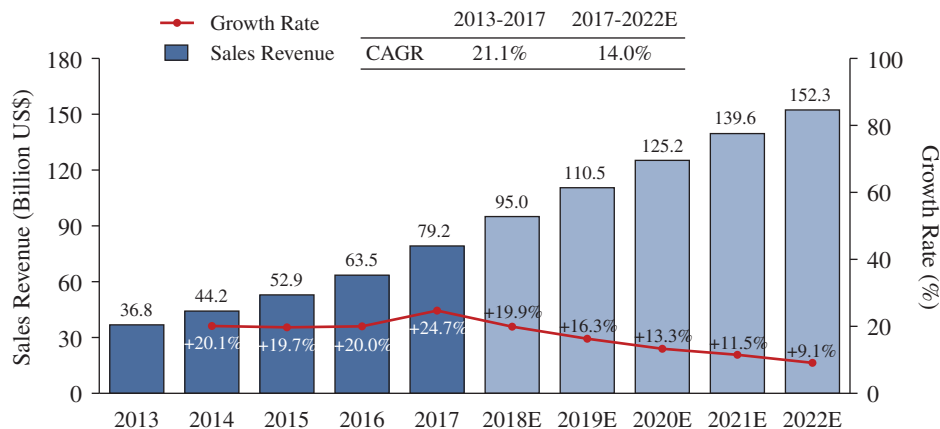
Market Size of IC Industry by Sales Revenue (Global), 2013-2022E



Source: Global Semiconductor Trade Statistics Organization; Frost & Sullivan

The IC market in China has also witnessed rapid growth at a CAGR of 21.1% from US\$36.8 billion in 2013 to US\$79.2 billion in 2017, benefitting from the accelerating domestic industrial transformation and upgrade driven by the implementation of national policies of “Made in China 2025” and other favorable development strategies adopted by the PRC government. According to Frost & Sullivan, the IC market in China is expected to further grow to reach US\$152.3 billion by 2022, representing a CAGR of 14.0% from US\$79.2 billion in 2017.

Market Size of IC Industry by Sales Revenue (China), 2013-2022E



Source: China Semiconductor Industry Association; Frost & Sullivan

INDUSTRY OVERVIEW

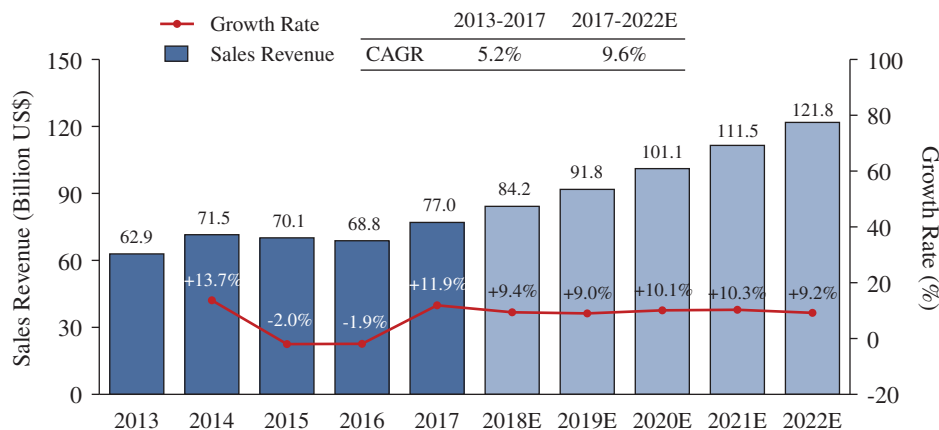
Fabless IC Design Industry

The “fabless” business model is one that is widely adopted among IC design companies. Fabless IC design companies provide product specifications, algorithm design, logic design, front-end and back-end verification, assembly as well as chip testing, if necessary, without the fabrication of ICs. These companies outsource the fabrication and packaging and testing of chips to reliable third-party companies such as TSMC, GLOBALFOUNDRIES Inc. (“**Global Foundries**”) and Advanced Semiconductor Engineering, Inc. (“**ASE Group**”).

The growth in the foundry industry has provided fabless IC design companies with advanced process capacity at reasonable prices. According to Frost & Sullivan, the market size of global fabless IC design industry in terms of revenue increased from US\$62.9 billion in 2013 to US\$77.0 billion in 2017, representing a CAGR of 5.2%. In 2015 and 2016, due to the decrease in the shipment of smart phone and thus the decrease in demand for ICs, the market size of fabless IC design industry decreased by 2.0% and 1.9%, respectively, according to Frost & Sullivan.

Looking forward, driven by developments in IoT and AI technologies, the global fabless IC design industry is expected to flourish over the period from 2017 to 2022. According to Frost & Sullivan, the market size of global fabless IC design industry in terms of revenue is likely to increase from US\$77.0 billion in 2017 to US\$121.8 billion in 2022, representing a CAGR of 9.6%.

Market Size of Fabless IC Design Industry by Sales Revenue (Global), 2013-2022E



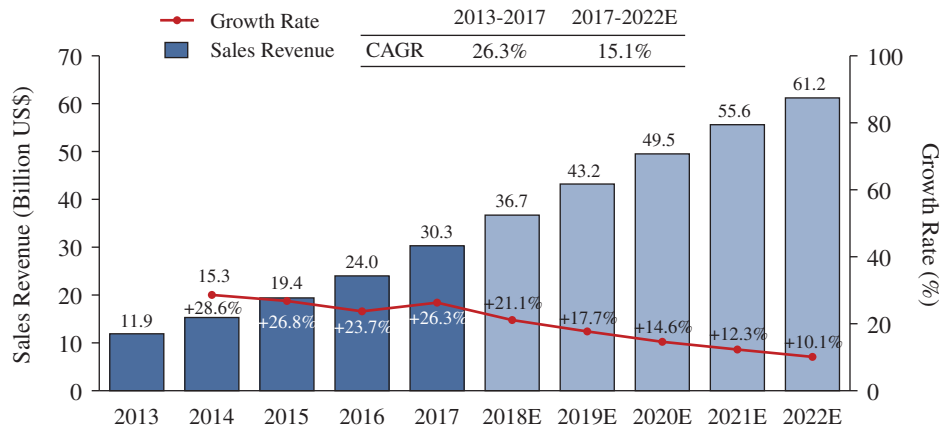
Source: Frost & Sullivan

In recent years, Chinese fabless IC design companies have paid increasing attention to independent research and development and design, and the IC design industry in China has grown rapidly. The favorable policy and investment environment has also been attracting lots of overseas companies to set up branches in China. According to Frost & Sullivan, the CAGR of IC design industry in terms of sales revenue from 2013 to 2017 was 26.3%, compared to 21.1% which was the CAGR of the overall IC industry for the same period. The sales revenue of the IC design industry is expected to reach US\$61.2 billion in 2022, with a projected CAGR of 15.1% from 2017 to 2022, 1.1% higher than that of the overall IC industry for the same period.

INDUSTRY OVERVIEW

The sales revenue generated from Chinese local fabless IC design companies was approximately US\$15.2 billion in 2017, accounting approximately half of the total IC design industry in China.

Market Size of IC Design Industry by Sales Revenue (China), 2013-2022E



Source: China Semiconductor Industry Association; Frost & Sullivan

Note: the market size includes revenue of companies engaging in IC design business located in China, including their branches of foreign companies.

While the global fabless IC design market is relatively concentrated as leading players account for a majority share of the total market, the market has witnessed intensifying competition due to the development of design and manufacturing technology, government supports and rapid growth of other market players. Although US-based companies still maintain the largest shares in the global fabless IC design market, companies from other countries such as China have been gaining market share.

INDUSTRY OVERVIEW

IC Classification

According to different chip architectures, the IC market can be divided into segments including processing ICs such as CPU, GPU, FPGA, ASIC, and other ICs such as memory. Different types of ICs have different functions and are used in different applications. The table below sets forth the basic functions for each type of ICs.

Types of IC		Basic Functions
Processing IC	CPUs	<ul style="list-style-type: none"> • General purpose processor
		<ul style="list-style-type: none"> • Designed to process and perform a number of operations but the performance may not be the best for particular task, e.g. video processing and text searching
	GPUs	<ul style="list-style-type: none"> • Designed to accelerate image processing for computer display
		<ul style="list-style-type: none"> • Generally consist more calculation cores than CPUs and designed for handling large amount of similar type of data (usually image or numeric) and repeated calculation
	FPGAs	<ul style="list-style-type: none"> • Designed to perform functions such as texture mapping, image rotation, translation, shading, etc.
ASIC chips	<ul style="list-style-type: none"> • Designed to be conjured by customers or designers after manufacturing, hence “field-programmable” 	
	<ul style="list-style-type: none"> • Specifically designed for a particular purpose and created to perform a designated function with maximum efficiency 	
Others	Memory and others	<ul style="list-style-type: none"> • Compared with general purpose processors such as CPUs, GPUs, and FPGAs which can perform multiple functions, an ASIC is customized for a particular use and can offer enhanced speed and efficiency due to its specificity
		<ul style="list-style-type: none"> • Memory is composed of dense arrays of parallel circuits that use their voltage states to store information, it stores the temporary sequence of instructions, or program, for the microprocessor

Source: Frost & Sullivan

INDUSTRY OVERVIEW

ASIC Chips

An ASIC is a chip specifically designed for a particular purpose and created to perform a designated function with maximum efficiency. Compared with general purpose processors such as CPUs, GPUs, and FPGAs which can perform multiple functions, an ASIC is customized for a particular use and can offer enhanced speed and efficiency due to its specificity. In addition, since an ASIC chip contains only the circuits needed for a specific application, it can be designed in smaller size, with lower power consumption, higher operating efficiency, and easier deployment in small and mobile connected devices.

ASIC chips are widely used in private data centers, cloud services, and edge devices around the world. The demand for ASIC chips is expected to significantly increase in cutting-edge technologies such as machine learning due to ASIC chips’ high performance and power efficiency. According to Frost & Sullivan, the global market size of ASIC chips in terms of revenue is expected to reach US\$59.7 billion in 2022, representing a CAGR of 18.4% from US\$25.7 billion in 2017.

Market Size of ASIC Industry by Sales Revenue (Global), 2013-2022E



Source: Frost & Sullivan

In pursuit of suitable ICs with better performance and higher efficiency that better integrate with other components, electronic device providers have started to design in-house customized ICs, some of which are categorized as ASIC chips. The table below sets forth the top five players in terms of revenue in the global fabless ASIC design industry as of December 31, 2017.

Ranking	Company Name	Product Application	Estimated Total Revenue in 2017 <i>(US\$ Billion)</i>	Estimated Market Share in ASIC Design Industry <i>(%)</i>
1	Company A	Smartphone, tablets, wearables	6.4	24.9%
2	Company B	Smartphone	4.7	18.3%
3	Company C	Broadband internet access, enterprise networking	2.1	8.2%

INDUSTRY OVERVIEW

Ranking	Company Name	Product Application	Estimated	Estimated
			Total Revenue	Market Share
			in 2017	in ASIC
			(US\$ Billion)	Design
				Industry
				(%)
4	Bitmain	Cryptocurrency mining, AI	1.8	7.0%
5	Company D	wireless communication, consumer electronics	0.6	2.3%
Top five total			15.6	60.7%
Total			25.7	100%

Source: Frost & Sullivan

Note: as an industry practice, revenue of ASIC chips is calculated by total mining hardware revenue multiplied by percentage of revenue margin (80%), which is in line with the cost structure of mining hardware.

BLOCKCHAIN AND CRYPTOCURRENCY INDUSTRIES

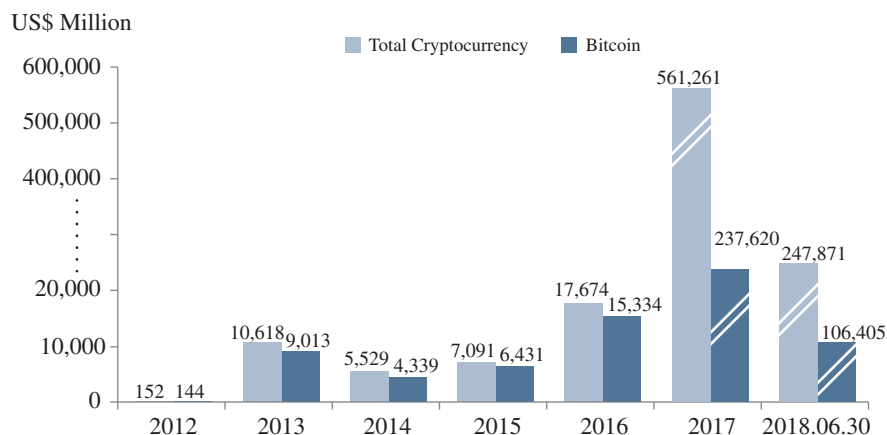
Blockchain

Blockchain is a voluntary open network that can be used by anyone with devices connected to the Internet. It allows every node to create immutable data, transparent record of transactions and peer-to-peer transactions in an efficient, secure and trust-free manner. Because of such advantages, blockchain can be applied to various industries and activities, such as cryptocurrency, payment, financial services, IoT, cloud computing and cybersecurity, among others.

Cryptocurrency

Cryptocurrencies are the first and currently the most widely developed example of the application of blockchain technology. A cryptocurrency is a digital currency in which encryption techniques are used to regulate the generation of units of currency and verify the transfer of funds, without involving a centralized system. Bitcoin is the first cryptocurrency, and was introduced in 2008 through Satoshi Nakamoto’s Bitcoin white paper, generally refers to a peer-to-peer computer network that allows participants to reach agreement over shared data without relying on a trusted third party or intermediary (e.g., to record ownership or to effectuate settlement and clearing). Currently, Bitcoin is primarily used as a payment method, investment instrument as well as exchange for other cryptocurrencies. The chart below sets forth the total capitalization of total cryptocurrency and Bitcoin from 2012 to the first half of 2018, respectively.

Total Market Capitalization of Total Cryptocurrency and Bitcoin, 2012-2018.06.30



* The tilted double bars indicate the distortion of the scale of the bar chart

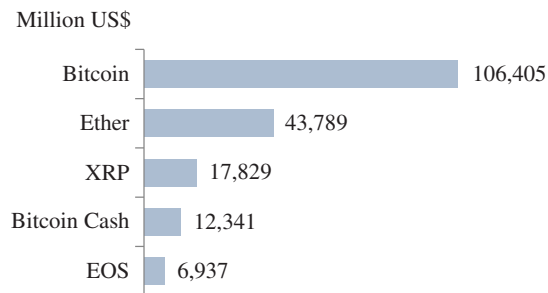
INDUSTRY OVERVIEW

Source: Frost & Sullivan

Note: The figures represent the market capitalization by December 31st of each year and June 30th of 2018.

The chart below sets forth the top five cryptocurrencies by market capitalization as of June 30, 2018.

Top Cryptocurrencies by Market Capitalization, 2018.06.30



Source: Frost & Sullivan

Economics of Cryptocurrency Mining

Taking Bitcoin mining as an example, revenue from Bitcoin mining is comprised of block reward (Bitcoins awarded for solving blocks) and transaction fees paid in the form of Bitcoins for recording transactions on the blocks, and the costs of Bitcoin mining primarily consist of initial purchase cost of mining hardware and electricity costs determined by the mining hardware’s energy consumption rate, operating time and applicable electricity prices.

A miner’s theoretical block reward complies with the law of large numbers and is proportional to its computing power owned as a percentage of the total computing power of the entire Bitcoin network. At the moment, the block reward is 12.5 Bitcoins for each block solved which translates to approximately 1,800 Bitcoins rewarded per day by the Bitcoin network. The block reward is designed to halve approximately every four years and the next halving is expected to take place in 2020.

Transaction fees are paid in the form of Bitcoins for recording transactions on the blocks. Higher transaction fees will incentivize transactions to be recorded with higher priority on the blocks. Going forward, it is expected that transaction fees will possibly increase over time and become an increasingly large portion of miners’ revenue if Bitcoins gain wider applications in the real economy, and stimulate higher transaction volume.

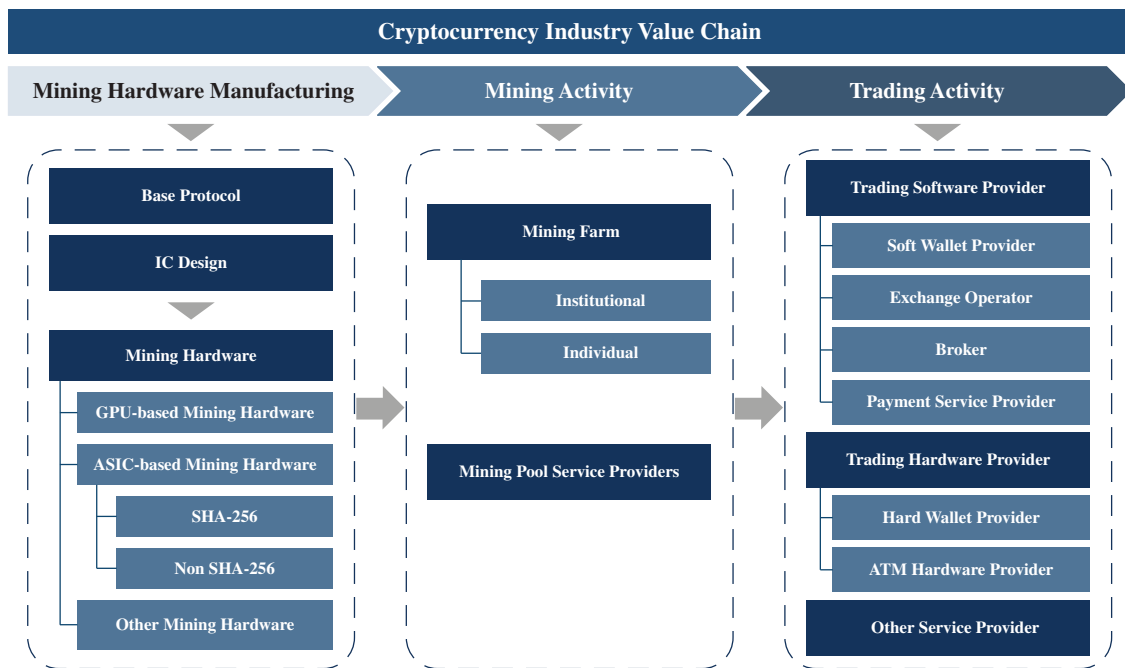
The economic return of Bitcoin mining is primarily affected by the following factors: (i) Bitcoin price; (ii) transaction fees which are positively correlated to the activity level of Bitcoin transactions; (iii) mining difficulty which is positively correlated with the total computing power of the entire Bitcoin network; (iv) purchase price of mining hardware; (v) energy/computing power efficiency of the mining hardware; and (vi) electricity prices.

INDUSTRY OVERVIEW

Typically, increases in Bitcoin price, transaction fees and energy/computing power efficiency, as well as decreases in mining difficulty, price of mining hardware and electricity will lead to higher economic return of Bitcoin mining.

Cryptocurrency Industry Value Chain

For most cryptocurrencies that require a mining process to be released or traded, the industry value chain can be divided into three segments, i.e. mining hardware manufacturing, mining activities and trading activities, as illustrated in the chart below.

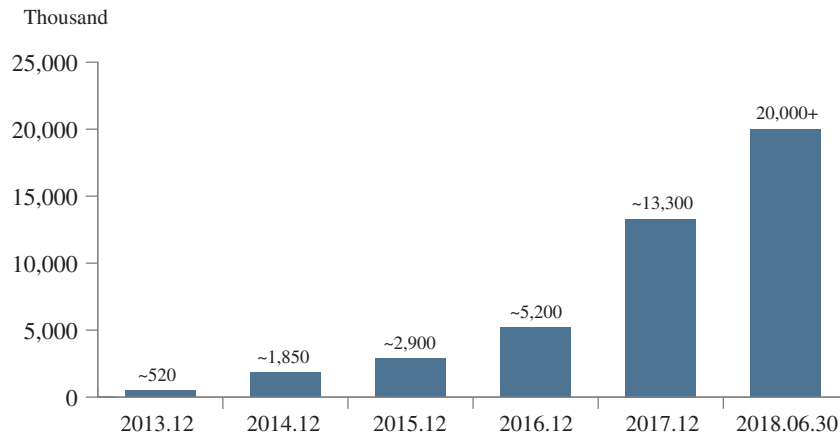


Source: Frost & Sullivan

By virtue of increasing market acceptance and penetration of cryptocurrencies, the cryptocurrency industry has witnessed a significant growth over the past five years. According to Frost & Sullivan, the market size of global cryptocurrency industry in terms of revenue increased from US\$0.1 billion in 2013 to US\$13.2 billion in 2017, representing a CAGR of 230.8%. The popularity of cryptocurrencies has drawn an ever-increasing number of people to open accounts in various exchanges to trade cryptocurrencies. For instance, Coinbase, one of the global leading cryptocurrency exchanges, has experienced a surge in its user number. The total number of Coinbase accounts grew significantly from approximately 0.5 million in 2013 to approximately 13.3 million in 2017, representing a remarkable CAGR of approximately 124.9%, and as of June 30, 2018, Coinbase had managed over 20 million user accounts.

INDUSTRY OVERVIEW

Number of Coinbase Account, 2013-2018.06.30



Source: Frost & Sullivan

Note: the figures represent the number of accounts by December 31st of each year and June 30th of 2018.

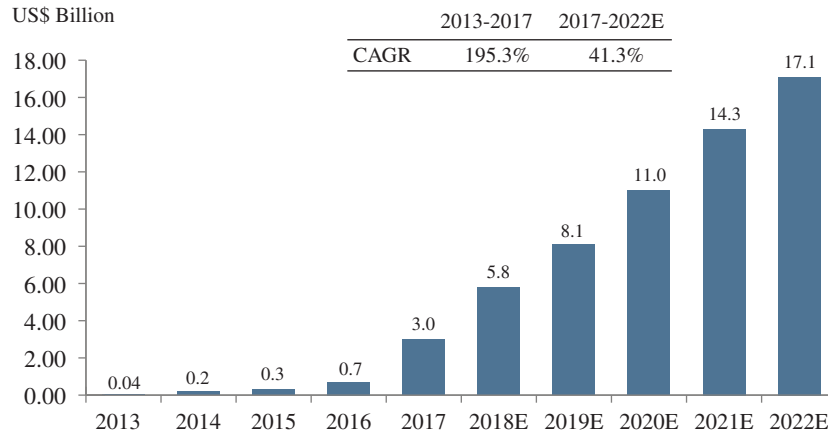
The market price of Bitcoin and the number of daily active Bitcoin addresses reflect increasing industry interest towards Bitcoin. Along with the rising price, the number of daily active Bitcoin addresses grew drastically in late 2017 and early 2018.

Cryptocurrency Mining Hardware

For most cryptocurrencies that require a mining process to be released or traded, the computing services mainly revolve around the mining hardware. The global cryptocurrency mining hardware industry consists of all the hardware used for mining cryptocurrencies under various kinds of chip architecture and algorithms, mainly dominated by ASIC-based and GPU-based mining hardware with high computing power. According to Frost & Sullivan, the market size of global ASIC-based cryptocurrency mining hardware industry in terms of revenue increased from US\$0.04 billion in 2013 to US\$3.0 billion in 2017, representing a CAGR of 195.3%. In the next five years, the market size of global ASIC-based cryptocurrency mining hardware market in terms of revenue is expected to increase to reach US\$17.1 billion in 2022, representing a CAGR of 41.3%, mainly driven by the growing demand from miners for mining hardware with lower power consumption and higher operating efficiency in light of the increasing mining difficulties, according to Frost & Sullivan.

INDUSTRY OVERVIEW

Market Size of ASIC-based Cryptocurrency Mining Hardware Industry, by Revenue (2013-2022E)



Source: Frost & Sullivan

Note: the market size refers to the sales revenue of ASIC-based cryptocurrency mining hardware made by professional manufacturers; exchange rate is calculated as the midpoint of the Renminbi exchange rate published by the People’s Bank of China on August 8, 2018 (1 US\$ = 6.8313 RMB)

The global market of cryptocurrency mining hardware is highly competitive and concentrated with limited number of players. Most of the leading players are Chinese companies. The table below sets forth the top three players in terms of revenue in the global ASIC-based cryptocurrency mining hardware market for the year ended December 31, 2017:

<u>Ranking</u>	<u>Company</u>	ASIC-based Cryptocurrency Mining Hardware Estimated Sales Revenue <i>(US\$ Million)</i>	ASIC-based Cryptocurrency Mining Hardware Market Share (Revenue) <i>(%)</i>
1	Bitmain	2,263.2	74.5%
2	Company E	189.8	6.2%
3	Company F	135.5	4.5%

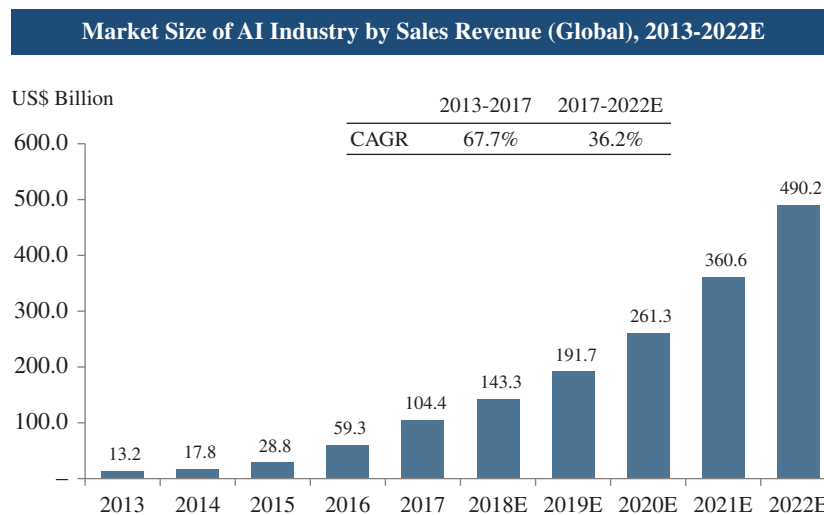
Source: Frost & Sullivan

Note: the ranking only considers the participants producing final products; exchange rate is calculated as the midpoint of the Renminbi exchange rate published by the People’s Bank of China on August 8, 2018 (1 US\$ = 6.8313 RMB)

INDUSTRY OVERVIEW

AI CHIP INDUSTRY

The development of AI applications highly relies on the effectiveness and efficiency of algorithms, particularly deep learning algorithms. The algorithms trained to return quick and accurate response by processing an enormous amount of data require large computing powers. According to Frost & Sullivan, driven by the growing big data industry, the penetration of AI-related applications and services, and the increasing demand for intelligent virtual assistants, the global AI industry witnessed a strong growth from approximately US\$13.2 billion in 2013 to US\$104.4 billion in 2017, representing a CAGR of approximately 67.7%. It is expected that the global AI industry will continue to grow to reach US\$490.2 billion in 2022, representing a CAGR of approximately 36.2% from 2017, according to Frost & Sullivan.



Source: Frost & Sullivan

Note: the market size of AI industry includes fundamental technology (sensor, AI chips, algorithm) and basic applications (computer vision, NLP, speech recognition and machine learning, etc.)

An AI chip is a microprocessor that is designed to accelerate machine learning algorithms for data-intensive tasks. In addition to producing AI chips, some chip producers also develop and provide users with solution services in specific applications such as image recognition and self-driving. Tied in with those solution services, AI chips are more easily adopted by users in specific fields and utilization of their computing power could be maximized.

INDUSTRY OVERVIEW

The major types of chips used for AI application include CPU, GPU, FPGA and ASIC. Set forth below is a comparison among the different types of AI chips.

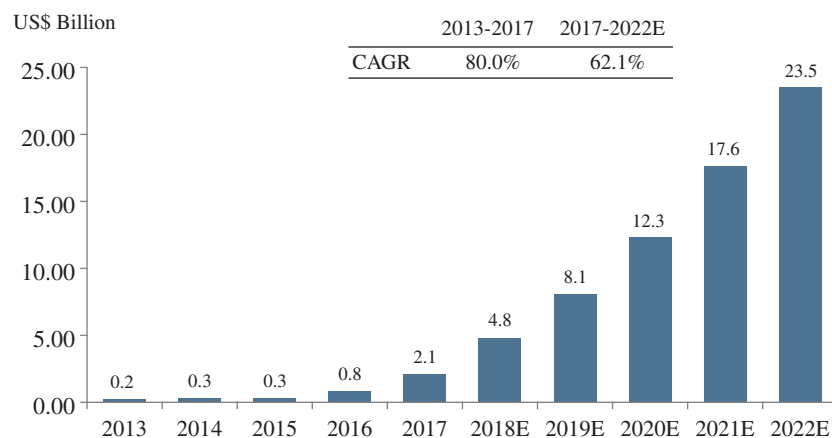
CPU	GPU	FPGA	ASIC
<input type="checkbox"/> Highest versatility	<input type="checkbox"/> Good for training in deep learning	<input type="checkbox"/> Good for inference in deep learning	<input type="checkbox"/> Fully customizable
<input type="checkbox"/> General-purpose	<input type="checkbox"/> Applicable to cloud computing	<input type="checkbox"/> Semi-customized	<input type="checkbox"/> Most energy efficient
<input type="checkbox"/> Widely adopted in datacenter for cloud computing	<input type="checkbox"/> High capability in large scale parallel computing	<input type="checkbox"/> Good for constantly evolving workload	<input type="checkbox"/> High performance
<input type="checkbox"/> Lowest power efficiency	<input type="checkbox"/> High power consumption	<input type="checkbox"/> High power consumption	<input type="checkbox"/> Long R&D Period
<input type="checkbox"/> Unsuitable for large scale parallel computing	<input type="checkbox"/> High unit cost	<input type="checkbox"/> Difficult to program	<input type="checkbox"/> Lowest versatility
Intel, AMD	NVIDIA, AMD	Xilinx, Lattice, DeePhi Tech	Google, Hisilicon, Bitmain

Source: Frost & Sullivan

Generally, AI chips can be categorized into two types according to their applications. On the one hand, there are edge AI chips for use on specific devices such as smart phones and tablets, which are not necessarily connected to the Internet and can execute certain AI functions, such as voice recognition, with limited data processing capacity. On the other hand, cloud AI chips target cloud training and inference. These AI chips are typically used for processing big data on a cloud server where an AI model is set to be trained for data analysis and building up intelligence to perform analysis and conduct inference, such as image recognition.

The advancement of AI technology and cloud computing is creating great opportunities in the cloud AI chips market. According to Frost & Sullivan, the global cloud AI chip market in terms of revenue increased from approximately US\$0.2 billion in 2013 to approximately US\$2.1 billion in 2017, representing an impressive CAGR of 80.0%. It is expected that the global cloud AI chip market will further grow rapidly to reach approximately US\$23.5 billion by the end of 2022, representing a CAGR of 62.1% from 2017.

Market Size of Cloud AI Chips Industry by Sales Revenue (Global), 2013-2022E



Source: Frost & Sullivan

INDUSTRY OVERVIEW

AI Chip Industry Competition Landscape

The AI chip industry is still in the early stage with limited commercial applications. Thanks to technological advancements in the fields of AI and ICs, the global AI chip market has started to flourish over the past few years, and many companies, from leading IC designers to startups, have flocked into the market. In addition to major IC designers, leading high-tech companies have also laid out plans for introducing customized AI chips. Having brought vast resources and significant investment into the market, new players are exploring various AI chip applications, such as facial and voice recognition, automotive, IoT and smart home, among others.

Compared with edge AI chips, cloud AI chips generally process data on a larger scale with more sophisticated structures, and thus require greater computing power. Due to the high entry barriers, there are currently a limited number of cloud AI chip suppliers in the global market mainly dominated by a few players such as Nvidia Corporation (“NVIDIA”) and Google LLC (“Google”). As a first-mover in China, our Company released our pilot cloud AI chip BM1680 in the second quarter of 2017, and has launched the second generation of cloud AI chip BM1682 since the first quarter of 2018. A number of PRC companies have also entered the competition by launching their first generation of cloud AI chip products recently.

AI Chip Market Drivers

Key drivers for the growth of AI chip market include the following:

Rapid growth of data volume. With the surging popularity of the Internet and mobile Internet, the volume of data has been exploding in the past decades. A huge amount of computing power is required to process such large amounts of data effectively. However, microprocessors under conventional architecture, such as CPUs, which are designed for general purpose use, are hardly capable of providing computing power for data-intensive tasks in an efficient manner. As a result, other chips, such as GPU and ASIC, capable of providing efficient parallel computations to meet the demands of data-intensive workloads, have developed.

Evolution of algorithms. Compared to other classic machine learning algorithms, deep learning algorithms have better performance in outcome accuracy. To achieve such better performance, deep learning algorithms are built on large-scale samples and complicated neural networks, which require strong support of computing power to complete computation tasks.

Expanding applications of AI algorithms. The popularity of AI applications significantly promotes the demand for computing resources to support those applications. Due to the diverse demands of various AI applications, more chips with different features have been developed to meet those demands.

KEY SUCCESS FACTORS AND ENTRY BARRIERS

Acquisition of talent. The development of blockchain technology and AI technology requires personnel with specific industry knowledge ranging from software programming to circuit design, as well as expertise in the blockchain and AI end-usage industry. An extensive management team with in-depth market knowledge is crucial to the smooth operation of the business. It is therefore expected that new entrants will find it difficult to recruit such human resources within a short period of time.

INDUSTRY OVERVIEW

Professional network within the industry. The existing companies in the IC design business have cultivated long-term relationships with other participants in the industry, including raw material suppliers, designers, foundries and etc. These participants may choose not to extend businesses with new entrants for the sake of maintaining their partnerships with existing firms and their reputations. New entrants are therefore expected to face difficulties in establishing a tight professional network to develop their business.

Extensive research and development resources required. Comprehensive and dedicated research and development efforts are a must for us to keep up with the ever-changing cryptocurrency mining and AI industry. The long and costly research and development process may potentially withhold new entrants for years from commercializing their products and generating profits.

REGULATORY OVERVIEW

OVERVIEW

We are a fabless IC design company with operations both in China and overseas. This section sets forth a summary of the applicable laws, rules, regulations, government and industry policies and requirements in the PRC, the United States, Canada and Hong Kong. This summary does not purport to be a complete description of all the laws and regulations, which are applicable to our business and operations. Investors should note that the following summary is based on relevant laws and regulations in force as of the date of this document, which may be subject to change.

PRC POLICIES AND REGULATIONS RELATING TO THE IC INDUSTRIES

On June 28, 2017, Guidance Catalog of Industries for Foreign Investment (2017 Version)(《外商投資產業指導目錄》(2017修訂)), or the Foreign Investment Catalog, was released by the Ministry of Commerce of the PRC (“MOFCOM”) and the National Development and Reform Commission of the PRC (“NDRC”), and on July 28, 2017, it came into force. Foreign investors and foreign-owned enterprises which conduct investments in the PRC shall comply with the Foreign Investment Catalog. According to the catalogs 245, 246, 247, 248, 251 and 252 of encouraged foreign invested industries, our business belongs to the category of encouraged foreign-invested industries.

According to the Circular of the State Council on Printing and Distributing Policies for Encouraging the Development of the Software Industry and the Integrated Circuit Industry (《國務院關於印發鼓勵軟件產業和集成電路產業發展若干政策的通知》(國發[2000]18號)) which was issued on June 24, 2000, the development of software and IC industries were encouraged.

The Circular of the State Council on Printing and Distributing Policies for Further Encouraging the Development of the Software Industry and the Integrated Circuit Industry (《國務院關於印發進一步鼓勵軟件產業和集成電路產業發展若干政策的通知》(國發[2011]4號)) became effective on January 28, 2011 and the Notice on Enterprise Income Tax Preferential Policies for Software and IC Enterprises (《關於軟件和集成電路產業企業所得稅優惠政策有關問題的通知》(財稅[2016]49號)) became effective on January 1, 2015 and stipulated the following provisions: (i) implementing preferential value-added tax policies for software enterprises continually; (ii) implementing and improving relevant preferential business tax policies; (iii) corporate income tax shall be exempted at half of the statutory rate on the basis of certification; (iv) granting more preferential policies on investment and financing to software and IC manufacturing enterprises; and (v) other preferential policies on intellectual properties, human resources, input and output and marketing. Circular on Issues Concerning Enterprise Income Tax Policies for Integrated Circuit Manufacturers (《關於集成電路生產企業有關企業所得稅政策問題的通知》(財稅[2018]27號)) which was issued on March 28, 2018 and became effective on January 1, 2018, supplemented the provisions of the enterprise income tax for integrated circuit manufacturers.

REGULATORY OVERVIEW

The State Council issued the Outline for Promoting the Development of the National Integrated Circuit Industry (《國家集成電路產業發展推進綱要》) on June 24, 2014, which emphasizes that great efforts shall be put on to develop the IC design industry. It is the goal to drive the development of the manufacturing industry through the rapid growth of the design industry by focusing on the industrial chain of key areas and strengthening IC design, software development, system integration, collaborative innovation in contents and services.

The Notice on Implementing Major Engineering Packages in Emerging Industries (《國家發展改革委關於實施新興產業重大工程包的通知》(發改高技[2015]1303號)) issued on June 8, 2015 by the NDRC highlights the efforts in developing IC construction infrastructures, selecting areas with more mature technology, good industrial base and wide application potential, focusing on enhancing the level of advanced technology, design industry concentration ratio and industrial chain supporting ability, and accelerating the industrialization of high performance IC products.

The State Council issued the Notice of the 13th Five-Year Plan for National Informatization (《國務院關於印發“十三五”國家信息化規劃的通知》(國發[2016]73號)) on December 15, 2016. According to the Notice, it is necessary to strengthen the layout of strategic innovative technologies, including blockchain technology, and others such as enhanced quantum communications, future networks, brain-like computing, artificial intelligence, holographic display, virtual display, big data cognitive analysis, new nonvolatile storage, driverless vehicles and gene editing, etc.

Pursuant to the Notice on Issuing New Generation AI Development Plan (《關於印發新一代人工智能發展規劃的通知》(國發[2017]35號)) issued by the State Council on July 8, 2017, advancing the integration of blockchain technology and artificial intelligence and establishing a new social credit system will significantly minimize the cost and risk of interpersonal communications.

PRC POLICIES AND REGULATIONS RELATING TO THE BITCOIN INDUSTRIES

On December 3, 2013, the Circular on Prevention of Risks from Bitcoin (《關於防範比特幣風險的通知》(銀發[2013]289號)) was issued by the People’s Bank of China, the MIIT, the China Banking Regulatory Commission, the China Securities Regulatory Commission and the China Insurance Regulatory Commission, and it came into force on the same day. Pursuant to the Circular, financial institutions and payment institutions shall not be engaged in the business of Bitcoin in view of that Bitcoin shall be a kind of virtual commodity in nature and not have same equal legal status with currencies, which also shall not be circulated and used as currencies in markets.

The Announcement on Prevention of Risks from Offering and Financing of Cryptocurrencies (《關於防範代幣發行融資風險的公告》) was issued by the People’s Bank of China, Office of the Central Cyberspace Affairs Commission, the MIIT, the State Administration for Industry and Commerce, the China Banking Regulatory Commission, the China Securities Regulatory Commission and China Insurance Regulatory Commission on September 4, 2017, and it became effective simultaneously. On the basis of the Announcement, it is forbidden to offer and finance cryptocurrencies in the PRC. These activities may be considered as illegal offering of securities or illegal fundraising. Besides, financial institutions and payment institutions are banned from the business relating to transactions of offering and financing of cryptocurrencies.

REGULATORY OVERVIEW

PRC LAWS AND REGULATIONS RELATING TO INTELLECTUAL PROPERTY RIGHTS

Trademark

Trademarks are protected by the Trademark Law of the PRC (《中華人民共和國商標法》) which was promulgated on August 23, 1982 and last amended on August 30, 2013 and became effective on May 1, 2014 by Standing Committee of the National People’s Congress (“SCNPC”), as well as the Implementation Regulations of the Trademark Law of the PRC (《中華人民共和國商標法實施條例》) promulgated by the State Council on August 3, 2002 and last amended on April 29, 2014 and became effective on May 1, 2014. In the PRC, registered trademarks include commodity trademarks, service trademarks, collective marks and certification marks.

The Trademark Office of the SAMR is responsible for the registration and administration of trademarks in China. The SAMR under the State Council has established a Trademark Review and Adjudication Board for resolving trademark disputes. Registered trademarks are valid for ten years from the date the registration is approved. A registrant may apply to renew a registration within twelve months before the expiration date of the registration. If the registrant fails to undergo the procedure in a timely manner, a grace period of six additional months may be granted. As for trademarks, the PRC Trademark Law has adopted a “first come, first file” principle with respect to trademark registration. Where trademark for which a registration application has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark may not prejudice the existing right first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a “sufficient degree of reputation” through such party’s use.

Patent

According to the Patent Law of the PRC (《中華人民共和國專利法》) (the “**Patent Law**”) promulgated on March 12, 1984 and last amended on December 27, 2008 and became effective on October 1, 2009 by SCNPC, and Implementation Regulations of the Patent Law of the People’s Republic of China(《中華人民共和國專利法實施細則》) promulgated on June 15, 2001 and last amended on January 9, 2010 and became effective on February 1, 2010 by the State Council, the State Intellectual Property Office of the PRC is responsible for administering patents in the PRC. The patent administration departments of provincial or autonomous regions or municipal governments are responsible for administering patents within their respective jurisdictions. The Patent Law and its implementation rules provide for three types of patents, “invention”, “utility model” and “design”. Invention patents are valid for twenty years, while design patents and utility model patents are valid for ten years, from the date of application. The Chinese patent system adopts a “first come, first file” principle, which means that where more than one person files a patent application for the same invention, a

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patent will be granted to the person who files the application first. To be patentable, invention or utility models must meet three criteria: novelty, inventiveness and practicability. A third-party player must obtain consent or a proper license from the patent owner to use the patent. Otherwise, the use constitutes an infringement of the patent rights.

Copyright

China has adopted comprehensive legislation governing intellectual property rights, including trademarks and copyrights. China is a signatory to the primary international conventions on intellectual property rights and has been a member of the Agreement on Trade Related Aspects of Intellectual Property Rights since its accession to the WTO in December 2001.

On September 7, 1990, the SCNPC promulgated the Copyright Law of the People's Republic of China (《中華人民共和國著作權法》), and it was last amended on October 27, 2001 and February 26, 2010 respectively. The amended Copyright Law extends copyright protection to internet activities, products disseminated over the internet and software products. In addition, there is a voluntary registration system administered by the Copyright Protection Centre of China. In order to further implement the Computer Software Protection Regulations (《計算機軟件保護條例》), promulgated by the State Council in June 1991 and last amended on December 20, 2011 and January 30, 2013 respectively, the National Copyright Administration issued Computer Software Copyright Registration Procedures (《計算機軟件著作權登記辦法》) on February 20, 2002, which specify detailed procedures and requirements with respect to the registration of software copyrights.

Layout Designs of Integrated Circuits

On April 2, 2001, the Regulations on the Protection of Layout Designs of Integrated Circuits (《集成電路布圖設計保護條例》) was issued by the State Council and took effect on October 1, 2001. On September 18, 2001, the Detailed Implementing Rules of the Regulations on the Protection of Layout Designs of Integrated Circuits (《集成電路布圖設計保護條例實施細則》) was promulgated by the State Intellectual Property Office, and took effect on October 1, 2001.

According to the above Regulations and Rules, a PRC citizen, legal person or other organization who create a layout-design shall enjoy the exclusive right including: (i) reproducing a layout-design in its entirety or any part which shall be protected complying with the requirement of originality; and (ii) commercially exploiting a protected layout-design, an IC containing a protected layout-design, or an article containing such an IC.

Only after being registered with the intellectual property administration department of the State Council, an exclusive right of a layout-design can be acquired, or it shall not be protected under the relevant laws and regulations. The exclusive right of a layout-design shall be protected for 10 years from the date of filling for registration or from the date on which it was first commercially exploited anywhere in the world, whichever expires earlier. And the protection of a layout-design shall be no longer than 15 years after the date of the completion of its creation no matter whether it has been registered or commercially exploited.

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If a lay-out design does not file an application for its registration with the intellectual property administration department of the State Council within two years from the date on which it was first commercially exploited anywhere in the world, it shall no longer be registered by this department.

In accordance with the relevant laws and regulations, without the authorization of the holder of the right of a layout-design, reproducing a protected layout-design in its entirety or any part complying with the requirement of originality, importing, selling, or otherwise distributing for commercial purposes a protected layout design, an IC incorporating such a layout-design, or an article incorporating such an IC would constitute an infringement of the layout-design.

The profits earned by the infringer through the infringement or the losses suffered by the infringed which includes the reasonable expenses paid by the infringed for the purposes of stopping the infringement shall be contained in the amount of compensation for the damage caused by an infringement of the exclusive right.

Domain Name

In August 24, 2017, the MIIT promulgated the Administrative Measures on Internet Domain Names (《互聯網域名管理辦法》), which became effective on November 1, 2017 for the purpose to regulate the registration of domain names, such as the top-level domain name “.cn”. On May 28, 2012, the China Internet Network Information Center issued the Implementing Rules for Domain Name Registration (《中國互聯網絡信息中心域名註冊實施細則》) setting forth the detailed rules for registration of domain names. Measures of the China Internet Network Information Center for the Resolution of Domain Name Disputes (2014 Revision) (《中國互聯網絡信息中心域名爭議解決辦法(2014修訂)》) issued by China Internet Network Information Center (“CINIC”) which became effective on September 1, 2014 provides that Domain name disputes shall be submitted to institutions authorized by the CINIC for resolution.

PRC LAWS RELATING TO PRODUCT QUALITY

On February 22, 1993, the Product Quality Law of the PRC (《中華人民共和國產品質量法》) was promulgated and it was amended on July 8, 2000 and last amended on August 27, 2009, respectively. According to the Product Quality Law of the PRC, the product quality supervision department under the State Council is responsible for supervising nationwide product quality. All the relevant departments under the State Council are responsible for product quality supervision in accordance with their respective responsibilities. It is the responsibility of local product quality supervision departments at or above the county level to supervise product quality within their own administrative areas.

The internal product quality management systems shall be established and improved by manufacturers and sellers, and the quality norms, quality responsibilities and corresponding measures for their assessment shall be rigorously implemented.

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The PRC government encourages enterprises to use scientific quality management methods and adopt advanced science and technology. Enterprises are encouraged to make sure that their product quality reaches or surpasses trade standards, national standards and international standards. If the entities and individuals have made outstanding achievements in exercising advanced management of product quality and in bringing product quality up to the advanced international levels, they shall be awarded.

PRC LAWS RELATING TO PRODUCTION SAFETY

The Work Safety Law of the PRC (《中華人民共和國安全生產法》) which was promulgated on June 29, 2002, and last amended on August 31, 2014 and came into force on December 1, 2014, is the principal law that governs the supervision and administration of production safety in the PRC. Entities conducting production and business activities within the territory of the PRC shall observe the relevant legal requirements such as providing training on production safety and providing safe working environment and so on. Any entities shall not engage in production activities if it is unable to provide the required safe working environment. Violation of the aforesaid provisions or failing to rectify noncompliance within a time limit may result in fines and penalties, suspension of operations, ceasing of operations, or even criminal liability in severe situations.

PRC LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

Pursuant to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) issued on December 26, 1989, amended on April 24, 2014 and effective on January 1, 2015, entities that cause environmental pollution and other public nuisances shall adopt effective measures to prevent the pollution of and hazards caused to the environment. Construction projects shall be equipped with constructional environmental protection facilities, which must be simultaneously designed, built and put into operation with the main part of the construction. The competent environmental protection authority shall record unlawful environmental acts of enterprises in the social credit file, and disclose information in a timely manner.

PRC LAWS AND REGULATIONS RELATING TO LAND, PLANNING AND CONSTRUCTION PERMITS

Land Use Rights

According to the Land Administration Law of the PRC (《中華人民共和國土地管理法》) promulgated by the SCNPC on June 25, 1986, implemented on January 1, 1987 and revised on December 29, 1988, August 29, 1998 and August 28, 2004, land owned by the State may be remised or allotted to construction units or individuals in accordance with the law. The people's government at or above the county level shall register and put on record uses of state-owned land used by construction units or individuals, and issue certificates to certify the land use rights.

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Construction Work Planning Permit

According to the Urban and Rural Planning Law of the People’s Republic of China (《中華人民共和國城鄉規劃法》), to build any building, structure, fixture, road, pipeline or other engineering project within a city or town planning area, the relevant construction entity or individual shall apply for a Construction Work Planning Permit from a competent urban and rural planning administrative department of the people’s government at the municipal or county level or to the people’s government of town as recognized by the people’s government of a province, autonomous region or municipality directly under the Central Government.

PRC LAWS AND REGULATIONS RELATING TO TAXATION

Corporate Income Tax

On March 16, 2007, the Corporate Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the “**CIT Law**”) was issued by the National People’s Congress and it was last amended on February 24, 2017. The CIT Law and its implementing rules apply a uniform 25% enterprise income tax rate to both foreign-invested companies and domestic companies, except where tax incentives are granted to special industries and projects.

The newly revised Administrative Measures for the Accreditation of High-tech Enterprises (《高新技術企業認定管理辦法》) (the Administrative Measures), which became effective on January 1, 2016, stipulates that High-tech enterprises recognized on the basis of the Administrative Measures can apply for the tax preferential policy according to the CIT Law and the Implementing Measures thereof, the Law of PRC Concerning the Administration of Tax Collection (《中華人民共和國稅收徵收管理法》) and Implementing Rules of the Law of the PRC Concerning the Administration of Tax Collection (《中華人民共和國稅收徵收管理法實施細則》). Based on the above laws and regulations, a qualified high-tech enterprise will be taxed at a rate of 15% on CIT Law. After obtaining the High-tech enterprise qualification, an annual form shall be filed before the end of May of each year. A significant change such as change of name or other conditions related to the High-tech enterprises identified shall be reported to the relevant competent tax authority within three months. If an enterprise changes its name, a new certificate would be re-issued with the certificate number and the duration of validity will remain unchanged. In addition, the certificate will be invalid three years after the date of issuance of the certificate of High-tech enterprise.

The Announcement of the State Administration of Taxation on Several Issues Concerning the Corporate Income Taxes on the Indirect Transfer of Properties by Non-resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (“**Circular 7**”) was promulgated and took effect on February 3, 2015, and was amended on October 17, 2017 and December 29, 2017. The Announcement of the State Administration of Taxation on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises (《國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告》) (“**SAT Circular 37**”) was issued on October 17, 2017 and took effect on December 1, 2017, and was amended on June 15, 2018. If a non-resident enterprise implements arrangements that are not for reasonable commercial

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purpose to indirectly transfer equities and other properties of a PRC resident enterprise, or PRC Taxable Properties, for the purpose of evading its obligation of paying corporate income tax, such indirect transfer shall be re-identified and recognized as the direct transfer of PRC Taxable Properties in the provisions of Article 47 of the CIT Law. According to the Announcement, PRC Taxable Properties include properties of a PRC entity or establishment located in the PRC, real estate in the PRC and an equity investment directly held by a non-resident enterprise in a PRC resident enterprise. The proceeds obtained by transferring PRC Taxable Properties shall be subject to CIT Law in the PRC. Transferring an equity interest or other similar right or interest in an overseas enterprise (excluding the PRC resident enterprise registered overseas) and directly or indirectly holding the PRC Taxable Properties by a non-resident company is indirect transfer of PRC Taxable Properties, and which effectively has the same or a similar effect as a direct transfer of such PRC Taxable Properties.

However, pursuant to Circular 7, the following conditions will not be subject to the aforesaid provisions: (i) a non-resident enterprise buys and sells the shares of the same overseas listed company in a public stock exchange; and (ii) a non-resident enterprise whose proceeds would be exempt from CIT under the applicable tax treaty or arrangement directly held and transferred PRC Taxable Properties.

Value-Added Tax

On the basis of the Provisional Regulations on Value-Added Tax of the PRC (《中華人民共和國增值稅暫行條例》) promulgated by the Stated Council on December 13, 1993 with the last amended version effective from November 19, 2017, and its implementing rules (《中華人民共和國增值稅暫行條例實施細則》) promulgated by MOF on December 25, 1993 and revised on December 18, 2008 and October 28, 2011, all taxpayers selling goods, providing processing, repair or replacement services or importing goods within the PRC shall pay Value-Added Tax. On the basis of the Notice of MOF and the State Administration of Taxation ("SAT") on the Adjustment to Value-Added Rates (《財政部、國家稅務總局關於調整增值稅稅率的通知》(財稅[2018]32號)) promulgated by MOF and SAT on April 4, 2018, taking effect from May 1, 2018, the deduction rates of 17% and 11% applicable to the taxpayers who have Value-Added taxable sales activities or imported goods have been adjusted to 16% and 10%, respectively.

The Notice on Value-added Tax Policies of Software Products (《關於軟件產品增值稅政策的通知》) provides that a general taxpayer could enjoy a levy-refund policy on value-added tax after being taxed at the fixed rate of 17% if it sells self-develop software products and borne a value-added tax more than 3%. As far as we know, such general taxpayer shall present the license of software products (軟件產品登記證書) or registration certificates of software copyrights (計算器軟件著作權登記證書) to prove the software products were developed and produced by its own in practice.

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PRC LAWS AND REGULATIONS RELATING TO DIVIDEND DISTRIBUTION

The Law of the PRC on Wholly Foreign-Owned Enterprises (《中華人民共和國外資企業法》) was issued by the National People’s Congress of the PRC in 1986 and revised by the SCNPC on October 31, 2000 and September 3, 2016 respectively. The Implementing Rules for the Law of the People’s Republic of China on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法實施細則》) (“**the Implementing Rules on Wholly Foreign-owned Enterprises**”) was issued on February 19, 2014 and came into force on March 1, 2014. According to the Implementing Rules on Wholly Foreign-owned Enterprises, foreign-invested enterprises in the PRC may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, unless these foreign-invested enterprises put apart at least 10% of their respective accumulated profits after tax each year (if any) to fund certain reserve funds until the accumulative amount reaches 50% of the enterprise’s registered capital, the enterprises may not distribute profits. These reserves are not distributable as cash dividends.

And according to the Corporate Income Tax Law (《中華人民共和國企業所得稅法》) and its implementing rules, dividends paid to investors of an eligible PRC resident enterprise can be exempted from corporate income tax, nevertheless dividends paid to foreign investors are subject to a withholding tax rate of 10%, unless relevant tax agreements entered into by the PRC government provide otherwise.

The PRC and the government of Hong Kong entered into the Arrangement between the Mainland of the PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Incomes (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) on August 21, 2006. According to the Arrangement, 5% withholding tax rate shall apply to the dividends paid by a PRC company to a Hong Kong resident, provided that such Hong Kong resident directly holds at least 25% of the equity interests in the PRC company, and 10% of withholding tax rate shall apply if the Hong Kong resident holds less than 25% of the equity interests in the PRC company.

On February 20, 2009, the Circular on Relevant Issues Relating to the Implementation of Dividend Clauses in Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》) was issued by the SAT with immediate effect. The Circular stipulates that if a fiscal resident of the other party to a tax agreement needs to be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement for the dividends paid to it by a PRC resident company, the following requirements shall be satisfied: (i) such a fiscal resident shall be a company as provided in the tax agreement; (ii) owner’s equity interests and voting shares of the PRC resident company which are directly owned by such a fiscal resident shall reach a specified percentage; and (iii) the equity interests of the PRC resident company directly owned by such a fiscal resident shall reach a percentage specified in the tax agreement at any time during the 12 months prior to obtaining the dividends.

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On August 24, 2009, the Tentative Administrative Measures on Tax Convention Treatment for Non-Residents (《非居民享受稅收協定待遇管理辦法(試行)》) was delivered by the SAT and it took effect on October 1, 2009. In accordance with the Administrative Measures, a non-resident enterprise that receives dividends from a PRC resident enterprise shall submit an application for approval to the competent tax authority if it wishes to enjoy the favorable tax benefits according to the tax arrangements. Only after being approved can the non-resident enterprise enjoy such a favorable tax treatment.

On August 27, 2015, the Administrative Measures on Tax Convention Treatment for Non-Resident Taxpayers (《非居民納稅人享受稅收協定待遇管理辦法》) was promulgated by the SAT and became effective on November 1, 2015, and revised on June 15, 2018 by the SAT, which replaced the Tentative Administrative Measures on Tax Convention Treatment for Non-Residents. The new Administrative Measures provides that a non-resident enterprise that receives dividends from a PRC resident enterprise could enjoy the favorable tax benefits stipulated by the tax arrangements without prior approval by the competent tax, but subject to the subsequent regulation of the competent tax authority.

PRC LAWS AND REGULATIONS RELATING TO LABOR

The PRC Labor Law (《中華人民共和國勞動法》) promulgated on July 5, 1994 and took effect on January 1, 1995, and revised on August 27, 2009, and the PRC Labor Contract Law (《中華人民共和國勞動合同法》) promulgated on June 29, 2007, revised on December 28, 2012 and effective from July 1, 2013, require employers to provide written contracts to their employees, restrict the use of temporary workers and aim to give employees long-term job security. Employers must pay their employees' wages equal to or above local minimum wage standards, establish labor safety and workplace sanitation systems, comply with state labor rules and standards and provide employees with appropriate training on workplace safety.

On January 22, 1999, the Interim Regulations on Levying Social Insurance Premiums (《社會保險費徵繳暫行條例》) was issued by State Council with immediate effect. On March 19, 1999, the Interim Measures concerning the Administration of the Registration of Social Insurance (《社會保險登記管理暫行辦法》) was issued by Ministry of Labor and Social Security with immediate effect. On December 3, 2005, Decisions of the State Council on Modifying the Basic Endowment Insurance System for Enterprise Employees (《國務院關於完善企業職工基本養老保險制度的決定》) was promulgated by State Council and took effect immediately. Decision on Establishment of Basic Medical System for Urban Employee (《國務院關於建立城鎮職工基本醫療保險制度的決定》) was issued by State Council with effect from December 14, 1998. The Regulations on Unemployment Insurance (《失業保險條例》) was issued by State Council with effect from January 22, 1999. Regulations on Work-Related Injury Insurance (《工傷保險條例》) was promulgated on April 27, 2003 with effect from January 1, 2004, and was last amended on December 20, 2010. The Interim Measures concerning the Maternity Insurance for Enterprise Employees (《企業職工生育保險試行辦法》) was promulgated on December 14, 1994 with effect from January 1, 1995. According to the above laws and regulations, it is necessary for employers to register with the competent social insurance authorities and also shall provide their employees with welfare schemes which include pension insurance, unemployment insurance, maternity insurance, work-related injury insurance and medical insurance.

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Pursuant to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) issued by Standing Committee of the National People's Congress on October 28, 2010, which became effective on July 1, 2011, employers and the employees shall jointly cover the cost of basic pension insurance, basic medical insurance and unemployment insurance, which all employees are required to participate in. Work-related injury insurance and maternity insurance shall be contributed by the employers, which all employees are also required to participate in. In addition, employers are required to complete registrations with local social insurance authorities. The social insurance contributions must be made timely except for mandatory exceptions such as force majeure. If an employer fails to make social insurance contributions in full and on time, it may pay late fees or fine.

The Administrative Regulations on the Housing Provident Fund (《住房公積金管理條例》) became effective from April 3, 1999, was last amended on March 24, 2002. According to the Administrative Regulations, enterprises shall register with the competent administrative centers of housing provident fund and open housing provident fund bank accounts for their employees. Employers shall also pay housing fund contributions for their employees timely and fully. The housing provident fund management center shall order the employer who fails to submit and deposit registration of housing provident fund or fails to go through the formalities of opening housing provident fund accounts for its employees to go through the formalities within a prescribed time limit. Failing to do so at the expiration of the time limit will be fined or conducted enforcement exerted by the court.

PRC LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE

Foreign Exchange

On January 29, 1996, Administrative Regulations of the PRC on Foreign Exchange (《中華人民共和國外匯管理條例》) was promulgated by the State Council and last amended on August 1, 2008 with effect from August 5, 2008. Pursuant to the Administrative Regulations and various regulations issued by the State Administration of Foreign Exchange, or the State Administration of Foreign Exchange ("SAFE"), and other PRC regulatory agencies, the Renminbi for current account items is freely convertible, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for capital account items, such as direct investments, loans, and investments in securities outside of the PRC, unless the prior approval of the SAFE or its local counterpart is obtained. Foreign invested enterprises are permitted to convert their after-tax dividends into foreign exchange and to remit such foreign exchange out of their foreign exchange bank accounts in the PRC.

SAFE Circular 59

On November 19, 2012, the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》) ("SAFE Circular 59"), was promulgated by SAFE and became effective on December 17, 2012 and was last amended on May 4, 2015.

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SAFE Circular 59 substantially amends and simplifies the previous foreign exchange procedure. Under SAFE Circular 59, approval is not required for the opening of an account entry in foreign exchange accounts under direct investment, for domestic transfer of the foreign exchange under direct investment. Furthermore, multiple capital accounts for the same entity may be opened in different provinces based on SAFE Circular 59. It is not necessary to get SAFE’s approval when conducting reinvestment of lawful incomes derived by foreign investors in the PRC (e.g. profit, proceeds of equity transfer, capital reduction, liquidation and early repatriation of investment), and purchase and remittance of foreign exchange as a result of capital reduction, liquidation, early repatriation or share transfer in a foreign-invested enterprise.

SAFE Circular 19

On March 30, 2015, the Circular on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (“**SAFE Circular 19**”), was issued by SAFE, which came into effect on June 1, 2015. On the basis of Circular 19, the foreign exchange capital of foreign-invested enterprises shall be on the basis of the Discretionary Foreign Exchange Settlement. The Discretionary Foreign Exchange Settlement means that the foreign exchange capital in the capital account of a foreign-invested enterprise for which the rights and interests of monetary contribution has been confirmed by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) can be settled at the banks grounded on the enterprise’s actual operational needs. The proportion of Discretionary Foreign Exchange Settlement of the foreign exchange capital of an FIE is temporarily determined as 100%. The Renminbi converted from the Foreign exchange capital will be kept in an appointed account and it still needs to provide supporting documents and go through the review process with the banks if a foreign-invested enterprise needs to make further payment from such account.

Meanwhile, SAFE Circular 19 provides that the use of capital by foreign-invested enterprises shall follow the principles of authenticity and self-use within the business scope of enterprises. SAFE Circular 19 also stipulates the prohibitions of several purposes of using the capital of an FIE and capital in Renminbi obtained by the FIE from foreign exchange settlement.

SAFE Circular 37

Circular of the State Administration of Foreign Exchange on Issues Concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), or the SAFE Circular 37, was issued and became effective on July 4, 2014. Pursuant to SAFE Circular 37, an SPV refers to an offshore entity directly or indirectly established or controlled by PRC residents or entities with the view of seeking offshore financing or making offshore investment, using legitimate domestic or offshore assets or interests. Meanwhile “round trip investment”

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refers to the direct investment in China by PRC residents or entities through SPVs, which means someone establishes foreign-invested enterprises to obtain the ownership, control rights and management rights. Prior to contributing domestic and overseas legitimate assets or interests to an SPV, a domestic resident shall apply to SAFE for foreign exchange registration of overseas investment. The Circular No. 37 supersedes the Circular No. 75 and revises and regulates the relevant matters involving foreign exchange registration for round-trip investment. Under the Circular No. 37, in the event the change of basic information of the registered offshore special purpose vehicle such as the individual shareholder, name, operation term, etc., or if there is a capital increase, decrease, equity transfer or swap, merge, spin-off or other amendment of the material items, the domestic resident shall complete the change of foreign exchange registration formality for offshore investment. If a non-listed SPV uses its own equity interests or options to grant equity incentives to the directors, supervisors, senior management and other employees of a domestic enterprise which is under its direct or indirect control, relevant domestic resident individuals may apply to SAFE for foreign exchange registration of the SPV before exercising their rights.

SAFE Circular 13

Pursuant to Circular on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “**SAFE Circular 13**”) promulgated by SAFE on February 13, 2015 and with effect from June 1, 2015, the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment are canceled. In addition, it simplifies the procedure of registration of foreign exchange and investors shall register with banks to have the registration of foreign exchange under the condition of direct domestic investment and direct overseas investment.

REGULATORY OVERVIEW OF CERTAIN OVERSEAS JURISDICTIONS

We export our products to various overseas markets, including countries mainly in North America and Europe, and our sales may be affected by the regulatory environment in these overseas markets. The following sets forth a description of certain laws, regulations and government policies relating to cryptocurrencies and cryptocurrency mining in the United States, Canada and Hong Kong which we consider key markets for our overseas business.

United States

The United States has a patchwork of United States federal and individual states’ regulations that govern various types of cryptocurrency related activities. We are not aware of any United States federal law that currently prohibits any legal entity or natural person from engaging in the importation of mining hardware to the United States, or the manufacturing or sale of mining hardware within the United States. However, the legal status of Bitcoin and other cryptocurrencies continues to evolve in the United States, both under U.S. federal law and the laws of the U.S. states. Whether any digital asset that is labeled as a cryptocurrency is regulated by United States federal and/or state law depends on the characteristics and use of the particular asset and the analysis of the relevant United States federal or state regulatory body.

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For example, the United States Commodity Futures Trading Commission (“CFTC”) has taken the position that cryptocurrencies, such as Bitcoin, are “commodities” under the Commodity Exchange Act. As a result, transactions in cryptocurrencies are subject to anti-fraud and anti-manipulation regulations under the Commodity Exchange Act and CFTC regulations and transactions involving cryptocurrency derivatives, such as futures and swaps, are subject to comprehensive regulatory regimes administered by the CFTC. In March 2018, a United States federal court affirmed the CFTC’s authority to regulate cryptocurrencies.

Canada

The importation of mining hardware into Canada, the sale of mining hardware within Canada and the operation of Bitcoin mining businesses within Canada are not prohibited under any Canadian federal laws. Canadian federal and local provincial and territorial laws impose consumer and personal data protection, conduct of business, health, safety, employment, taxation and other general laws which would apply to such activities as they would to other businesses conducting business in a jurisdiction of Canada. The importation and sale of equipment and operation of such businesses is also subject to Canadian federal laws governing the use and transmission of proceeds of crime, anti-money laundering, economic and other sanctions, as well as import controls.

There are no restrictions under Canadian federal laws that prohibit natural person from possessing, selling, trading, or engaging in the mining of Bitcoins in Canada. However, activities such as the possession, use, transfer, or trading of cryptocurrencies may also be subject to Canadian provincial securities and derivatives laws to the extent that the cryptocurrency is considered a “security” or a “derivative” for the purposes of such laws. In determining whether an individual cryptocurrency is a security or a derivative, the securities and derivatives regulators will consider the substance of the cryptocurrency over its form. To the extent a cryptocurrency is considered a security or a derivative, the issuance or distribution to the public is subject to document, qualification or similar requirements, and any person or company engaged in the business of trading or advising with respect to securities or derivatives is subject to dealer and advisor registration requirements. Persons or companies operating or administering collective investment structures that hold or invest in cryptocurrencies may also be subject to investment fund manager registration requirements, and such structures themselves may be subject to reporting and conduct requirements that apply to investment funds. Exchanges or other platforms that facilitate the purchase, transfer or exchange of cryptocurrencies that are considered securities or derivatives are also be subject to recognition requirements as securities or derivatives exchanges or marketplaces. Generally, prescribed or bespoke exemptions may be available in respect of any of the foregoing requirements under securities or derivatives laws subject to the satisfaction of applicable conditions and acceptance by the applicable regulators.

REGULATORY OVERVIEW

Hong Kong

In Hong Kong, cryptocurrencies are not considered a medium of payment and are treated as virtual commodities as opposed to legal tender. There are no restrictions under Hong Kong law that prohibit any legal entity or natural person from engaging in the importation or exportation of mining hardware to or from Hong Kong, or the manufacturing or sales of mining hardware in Hong Kong.

Since early 2014, the Hong Kong government’s position has been that virtual commodities have yet to be widely accepted as a medium of payment in Hong Kong, their circulation as a medium of exchange in daily life or business transactions is insignificant, and it is unlikely that virtual commodities will have a systemic impact on Hong Kong’s financial system at this stage. On the other hand, by March 2014, government bodies such as the Hong Kong Monetary Authority (“**HKMA**”), the Securities and Futures Commission (“**SFC**”), the Office of the Commissioner of Insurance and Customers and Excise Department (“**CED**”) had all circulated notices to financial institutions, warning them to ensure a higher level of awareness of AML and terrorist financing risks associated with virtual commodities. Notices to the general public warning about the highly speculative nature of bitcoin trading, hacking and fraud risks are published periodically.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OVERVIEW

We are China’s second largest and among the world’s top ten fabless IC design companies in terms of revenue in 2017, according to Frost & Sullivan. We focus on the design of ASIC chips specialized in cryptocurrency mining and AI applications, and we are the fourth largest global fabless ASIC chip design company in terms of revenue in 2017, according to Frost & Sullivan.

Mr. Zhan Ketuan and Mr. Wu Jihan are the Co-founders of our Group. Mr. Zhan Ketuan has nearly 15 years of managerial and operational experience in the IC industry. Mr. Wu Jihan has years of experience in the cryptocurrency industry with an in-depth understanding of the market. For details of their respective biography, see the section headed “Directors and Senior Management” of this document.

BUSINESS MILESTONES

The following is a summary of our key business development milestones since our inception in 2013:

<u>Year</u>	<u>Event</u>
2013	our Company was established <i>Antminer S1</i> , our first generation mining hardware, was launched
2014	<i>Antpool</i> , our first mining pool was launched, soon becoming one of the world’s largest cryptocurrency mining pools
2015	<i>Antminer S7</i> , our mining hardware with 28nm ASIC chip, was launched
2016	<i>Antminer S9</i> , our mining hardware with 16nm ASIC chip, was launched
2017	our mining hardware for non-bitcoin cryptocurrency was launched our first generation of AI ASIC chip BM1680 was launched under the <i>Sophon</i> brand
2018	our second generation of AI ASIC chip BM1682 was launched under the <i>Sophon</i> brand we successfully launched our first generation of 7nm ASIC chips

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OUR MAJOR SUBSIDIARIES AND OPERATING ENTITIES

The principal business activities and date of establishment and commencement of business of each member of our Group that made a material contribution to our results of operations during the Track Record Period are shown below:

Name of entity	Principal business activities	Date of establishment and commencement of business
Bitmain Hong Kong	Offshore sales center, research and development, and offshore procurement	January 10, 2014
Beijing Bitmain Technologies	Research and development and management	October 28, 2013
Shenzhen Century Cloud Core Technology	Production management and PRC procurement	December 13, 2013
Fujian Zhanhua Intelligence Technologies	PRC sales center	July 5, 2017

MAJOR SHAREHOLDING CHANGES OF OUR COMPANY

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on November 18, 2013, with an authorized share capital of US\$50,000 divided into 500,000,000 Shares with a par value of US\$0.0001 each. As at November 18, 2013, Successful Cool Limited, a company wholly-owned by Mr. Wu Jihan, held one ordinary share in our Company.

On October 26, 2016, Successful Cool Limited transferred one ordinary share to Long Shot Investment Corporation, a company wholly-owned by Mr. Wu Jihan, and we allotted and issued 7,953,595 ordinary shares to Long Shot Investment Corporation and other companies wholly-owned by our Co-founders and other Founding Parties at the subscription price of US\$0.0001 per share as follows:

Name	Number of Ordinary Shares Issued	Shareholding Percentage in our Company immediately after the Issuance
Great Simplicity Investment Corporation ⁽¹⁾	4,000,000	50.29%
Long Shot Investment Corporation ⁽²⁾	2,249,595	28.28%
SHINNING STONE INVEST CO., LTD. ⁽³⁾	696,000	8.75%

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Name	Number of Ordinary Shares Issued	Shareholding Percentage in our Company immediately after the Issuance
Sharesun Investment Corporation ⁽⁴⁾	464,000	5.83%
Zizai Investment Corporation ⁽⁵⁾	464,000	5.83%
BOUNTIFUL WISH LIMITED ⁽⁶⁾	80,000	1.01%
TOTAL	7,953,595	100%

Notes:

- (1) Great Simplicity Investment Corporation is wholly-owned by Mr. Zhan Ketuan, our Co-founder, executive Director, Co-Chairman and Co-Chief Executive Officer.
- (2) Long Shot Investment Corporation is wholly-owned by Mr. Wu Jihan, our Co-founder, executive Director, Co-Chairman and Co-Chief Executive Officer.
- (3) SHINNING STONE INVEST CO., LTD. is wholly-owned by Mr. Zhao Zhaofeng (趙肇豐), one of our Founding Parties.
- (4) Sharesun Investment Corporation is wholly-owned by Mr. Ge Yuesheng (葛越晟), one of our Founding Parties and an executive Director.
- (5) Zizai Investment Corporation is wholly-owned by Mr. Hu Yishuo (胡一說), one of our Founding Parties.
- (6) BOUNTIFUL WISH LIMITED is wholly-owned by Mr. Song Wenbao (宋文寶), one of our Founding Parties.

On June 28, 2017, we effected a capital reorganization, following which the ordinary shares in our authorized share capital were re-classified and re-designated into Class A Shares and Class B Shares, each with par value of US\$0.0000001. All ordinary shares indirectly held by the Co-founders were re-designated as Class B Shares and all ordinary shares indirectly held by the other Founding Parties were re-designated as Class A Shares. After such re-designation was effected, each Class A Share is entitled to one vote and each Class B Share is entitled to ten votes at general meetings of our Company. Both Class A Shares and Class B Shares rank pari passu in all other respects.

On August 8, 2017, we entered into a share subscription agreement with each of the Series A Preferred Shareholders, pursuant to which the Series A Preferred Shareholders agreed to subscribe for an aggregate of 500,000,000 Series A Preferred Shares at the price of US\$0.1 per share, for a total consideration of US\$50,000,000, further details of which are set out in the sub-section headed “– [REDACTED] Investments” in this section.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

On June 19, 2018, we entered into a share repurchase agreement with the Co-founders and other Founding Parties, pursuant to which we repurchased and cancelled an aggregate of 4,877,560 Class A Shares and 17,496,569 Class B Shares at the price of US\$1.117 per share, for a total consideration of US\$25,000,000. Such repurchase was completed on July 3, 2018. For further details, see the section headed “Statutory and General Information – Changes in share capital of our Company” in Appendix IV to this document.

On the same day, we entered into a share subscription agreement with each of the Series B Preferred Shareholders, pursuant to which the Series B Preferred Shareholders agreed to subscribe for an aggregate of 261,956,309 Series B Preferred Shares at the price of US\$1.117 per share, for a total consideration of US\$292,700,000, further details of which are set out in the sub-section headed “– [REDACTED] Investments” in this section.

On August 7, 2018, we entered into a share subscription agreement with each of the Series B+ Preferred Shareholders, pursuant to which the Series B+ Preferred Shareholders agreed to subscribe for an aggregate of 339,102,307 Series B+ Preferred Shares at the price of approximately US\$1.304 per share, for a total consideration of US\$442,050,000, further details of which are set out in the sub-section headed “– [REDACTED] Investments” in this section.

Before the [REDACTED], the Co-founders and other Founding Parties of our Company (other than Mr. Song Wenbao) will transfer the shares indirectly held by them to their respective family trusts. For details of such family trusts, see the sub-section headed “Capitalization of our Company” below.

Before the [REDACTED], we will issue 2,046,404,000 Class A Shares to Oceanic Summit Holdings Limited, an indirect wholly-owned subsidiary of Vistra Trustee (Hong Kong) Limited, to be held on trust under the Share Incentive Scheme for the purpose of granting share-based compensation awards to, among others, our Directors, employees and consultants to incentivize their performance and align their interests with our Company. See “Statutory and General Information – Share Incentive Scheme” in Appendix IV to this document for details of the Share Incentive Scheme.

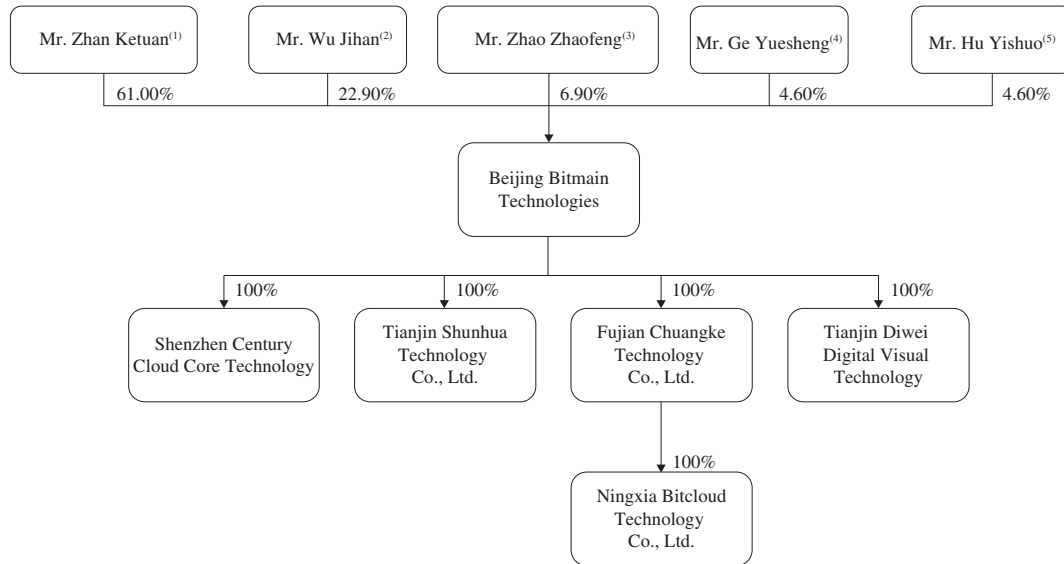
MAJOR ACQUISITIONS, DISPOSALS AND MERGERS

We have not conducted any acquisitions, disposals or mergers since our inception that we consider to be material to us. For certain minority investments that we have made, none of which we consider to be material, please see “Waivers from Compliance with the Listing Rules – Waiver in respect of Companies Acquired/to be Acquired after the Track Record Period.”

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

CORPORATE REORGANIZATION

The following diagram illustrates a simplified corporate structure of Beijing Bitmain Technologies and its principal subsidiaries immediately before the reorganization as described below:



Notes:

- (1) Mr. Zhan Ketuan is our Co-founder, executive Director, Co-Chairman and Co-Chief Executive Officer.
- (2) Mr. Wu Jihan is our Co-founder, executive Director, Co-Chairman and Co-Chief Executive Officer.
- (3) Mr. Zhao Zhaofeng (趙肇豐) is one of our Founding Parties.
- (4) Mr. Ge Yuesheng (葛越晟) is one of our Founding Parties and an executive Director.
- (5) Mr. Hu Yishuo (胡一說) is one of our Founding Parties.

We underwent and conducted the following reorganization before the [REDACTED].

Conversion of Beijing Bitmain Technologies into a Sino-Foreign Joint Venture Company

On September 14, 2016, Beijing Bitmain Technologies increased its registered capital from RMB10,000,000 to RMB11,111,111. The additional capital of RMB1,111,111 was contributed by a foreign individual, who is an independent third-party. On November 16, 2016, Beijing Bitmain Technologies was converted into a sino-foreign joint venture company.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Conversion of Beijing Bitmain Technologies into a Wholly Foreign-Owned Enterprise

On November 28, 2016, the then shareholders of Beijing Bitmain Technologies transferred all their equity interests in Beijing Bitmain Technologies to Bitmain Hong Kong, a direct wholly-owned subsidiary of our Company, and Beijing Bitmain Technologies was converted into a wholly foreign-owned enterprise. After the completion of such transfer, on November 29, 2016, Beijing Bitmain Technologies became our indirect wholly-owned subsidiary.

Our PRC Legal Advisor has confirmed that (1) the above capital increase and equity transfer were legally completed under the PRC laws and regulations; and (2) all necessary approvals and registrations from the relevant PRC authorities have been obtained and completed and the reorganization has been carried out in accordance with applicable PRC laws and regulations.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

CAPITALIZATION OF OUR COMPANY

The following table sets out our shareholding structure immediately prior to and immediately upon completion of the [REDACTED], assuming the [REDACTED] is not exercised.

Shareholders	Ordinary shares of par value US\$0.000001 each	Series A Preferred Shares	Series B Preferred Shares	Series B+ Preferred Shares	Aggregate total number of shares of par value US\$0.000001 each ⁽¹⁾	Aggregate ownership percentage immediately prior to completion of the [REDACTED] ⁽¹⁾	Aggregate ownership percentage upon completion of the [REDACTED] ⁽²⁾
Cosmic Frontier Limited ⁽³⁾	3,988,768,187	-	-	-	3,988,768,187	36.00%	[REDACTED]
Victory Courage Limited ⁽⁴⁾	2,243,331,244	-	-	-	2,243,331,244	20.25%	[REDACTED]
Oceanic Summit Holdings Limited ⁽⁵⁾	2,046,404,000	-	-	-	2,046,404,000	18.47%	[REDACTED]
Soaring Summit Limited ⁽⁶⁾	694,031,077	-	-	-	694,031,077	6.26%	[REDACTED]
Flourishing Well Limited ⁽⁷⁾	462,657,552	-	-	-	462,657,552	4.18%	[REDACTED]
Golden Navigate Investments Limited ⁽⁸⁾	462,657,552	-	-	-	462,657,552	4.18%	[REDACTED]
BOUNTIFUL WISH LIMITED ⁽⁹⁾	79,776,259	-	-	-	79,776,259	0.72%	[REDACTED]
SCC Venture VI Holdco G, Ltd. ⁽¹⁰⁾	-	187,500,000	-	-	187,500,000	1.69%	[REDACTED]
Richway Investment Limited ⁽¹¹⁾	-	125,000,000	4,474,826	-	129,474,826	1.17%	[REDACTED]
Sinovation Fund III, L.P. ⁽¹²⁾	-	125,000,000	-	-	125,000,000	1.13%	[REDACTED]
Blue Lighthouse Services Inc. ⁽¹³⁾	-	42,500,000	23,269,095	-	65,769,095	0.59%	[REDACTED]
IDG China Venture Capital Fund IV, L.P.	-	10,638,000	-	-	10,638,000	0.10%	[REDACTED]
Beijing Integrated Circuit Industry International Fund, L.P.	-	8,000,000	-	-	8,000,000	0.07%	[REDACTED]
IDG China IV Investors L.P.	-	1,362,000	-	-	1,362,000	0.01%	[REDACTED]
SCC Growth V 2018-A, L.P. ⁽¹⁰⁾	-	-	70,702,249	-	70,702,249	0.64%	[REDACTED]
SCC Growth V Holdco G, Ltd. ⁽¹⁰⁾	-	-	44,748,259	-	44,748,259	0.40%	[REDACTED]
SC GGFIII Holdco, Ltd. ⁽¹⁰⁾	-	-	44,748,259	-	44,748,259	0.40%	[REDACTED]
CHINA TAIJIA GROUP LIMITED ⁽¹⁴⁾	-	-	26,848,955	-	26,848,955	0.24%	[REDACTED]
Coatue CT XXVII LLC	-	-	15,661,891	-	15,661,891	0.14%	[REDACTED]
EDB Investments Pte Ltd	-	-	12,529,513	-	12,529,513	0.11%	[REDACTED]
RISING DELIGHT ENTERPRISES LIMITED	-	-	7,159,721	-	7,159,721	0.06%	[REDACTED]
FreeS Bit SPV Fund LP	-	-	7,159,721	-	7,159,721	0.06%	[REDACTED]
Han Guang Capital Management Limited	-	-	3,579,862	-	3,579,862	0.03%	[REDACTED]
FBH Partners Limited	-	-	894,965	-	894,965	0.01%	[REDACTED]
Breyer Labs LLC	-	-	178,993	-	178,993	0.00%	[REDACTED]
Crimson Partners, LP ⁽¹⁵⁾	-	-	-	114,338,195	114,338,195	1.03%	[REDACTED]
CASMAIN L.P. ⁽¹⁶⁾	-	-	-	32,985,860	32,985,860	0.30%	[REDACTED]
CICFH Entertainment Opportunity SPC-CICFH Blockchain Fund SP ⁽¹⁷⁾	-	-	-	30,684,521	30,684,521	0.28%	[REDACTED]
Lioness Capital LP ⁽¹⁸⁾	-	-	-	25,314,730	25,314,730	0.23%	[REDACTED]
BLUEBELL GLOBAL HOLDINGS LIMITED ⁽¹⁹⁾	-	-	-	23,013,390	23,013,390	0.21%	[REDACTED]
Gortune Avatar Inv. Limited ⁽²⁰⁾	-	-	-	23,013,390	23,013,390	0.21%	[REDACTED]
Palace Investments Pte. Ltd. ⁽²¹⁾	-	-	-	23,013,390	23,013,390	0.21%	[REDACTED]
Jumbo Sheen Amber LP	-	-	-	15,342,260	15,342,260	0.14%	[REDACTED]

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Shareholders	Ordinary shares of par value US\$0.0000001 each	Series A Preferred Shares	Series B Preferred Shares	Series B+ Preferred Shares	Aggregate total number of shares of par value US\$0.0000001 each ⁽¹⁾	Aggregate ownership percentage immediately prior to completion of the [REDACTED] ⁽¹⁾	Aggregate ownership percentage upon completion of the [REDACTED] ⁽²⁾
Pavilion Capital Fund Holdings Pte. Ltd. ⁽²¹⁾	-	-	-	15,342,260	15,342,260	0.14%	[REDACTED]
Xin BM Investment Limited	-	-	-	15,342,260	15,342,260	0.14%	[REDACTED]
Newegg Tech Corporation	-	-	-	11,506,695	11,506,695	0.10%	[REDACTED]
SHANGHAI INVESTMENT CORPORATION SPC	-	-	-	9,205,356	9,205,356	0.08%	[REDACTED] [REDACTED]
Public Shareholders	-	-	-	-	-	-	-

Notes:

- (1) Our Company has adopted a WVR structure through two classes of ordinary shares, namely Class A Shares and Class B Shares. Class A Shares entitle the holders to one vote per share and Class B Shares entitle the holders to ten votes per share at general meetings of our Company (other than with respect to the Reserved Matters). In all other respects, Class A Shares and Class B Shares rank *pari passu*.
- (2) Assuming the [REDACTED] is not exercised.
- (3) The entire interest of Cosmic Frontier Limited is indirectly held on trust for the benefit of Mr. Zhan Ketuan and his family members. For further details, see the section headed “Substantial Shareholders.”
- (4) The entire interest of Victory Courage Limited is indirectly held on trust for the benefit of Mr. Wu Jihan and his family members. For further details, see the section headed “Substantial Shareholders.”
- (5) The entire interest of Oceanic Summit Holdings Limited is held on trust for the benefit of the participants of our Company’s Share Incentive Scheme, which may include, among others, the Directors, employees and consultants of our Company and its subsidiaries.
- (6) The entire interest of Soaring Summit Limited is indirectly held on trust for the benefit of Mr. Zhao Zhaofeng (趙肇豐) and his family members. For further details, see the section headed “Substantial Shareholders.”
- (7) The entire interest of Flourishing Well Limited is indirectly held on trust for the benefit of Mr. Ge Yueheng (葛越晟) and his family members. For further details, see the section headed “Substantial Shareholders.”
- (8) The entire interest of Golden Navigate Investments Limited is indirectly held on trust for the benefit of Mr. Hu Yishuo (胡一說) and his family members. For further details, see the section headed “Substantial Shareholders.”
- (9) BOUNTIFUL WISH LIMITED is wholly-owned by Mr. Song Wenbao (宋文寶).
- (10) The sole shareholder of SCC Venture VI Holdco G, Ltd. is Sequoia Capital China Venture Fund VI, L.P. SCC Growth V 2018-A, L.P. is an exempted limited partnership established under the laws of the Cayman Islands. The sole shareholder of SCC Growth V Holdco G, Ltd. is Sequoia Capital China Growth Fund V, L.P. The sole shareholder of SC GGFIII Holdco, Ltd. is Sequoia Capital Global Growth Fund III, L.P.
- (11) Richway Investment Limited is beneficially owned and controlled by Pang Kee Chan Hebert.
- (12) The general partner of Sinovation Fund III, L.P. is Sinovation Fund Management III, L.P., and the general partner of Sinovation Fund Management III, L.P. is Sinovation Fund III GP, Ltd, which is wholly owned by Lee Kaifu.
- (13) Blue Lighthouse Services Inc. is beneficially owned by Shang Fengjiao, Lei Ming, Cheng Tao, He Zeping, Liu Fengcheng, Tang Philip, Zhang Lina, Zhao Jingming, Evergreen Tree Holding Limited, Glut Treasure International Limited, Gold ALP International Limited and Prime Star Financial Limited.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (14) CHINA TAIJIA GROUP LIMITED is beneficially owned by Chen Taiye and Chen Lei.
- (15) Crimson Partners, LP is beneficially owned by Liu Yanyan.
- (16) CASMAIN L.P. is beneficially owned by CAS Investment Management Co., Ltd.
- (17) CICFH Entertainment Opportunity SPC-CICFH Blockchain Fund SP is beneficially owned by China Capital Zhongcai Fund Management Co., Ltd.
- (18) Lioness Capital LP is beneficially owned by Zhou Quanqiu.
- (19) BLUEBELL GLOBAL HOLDINGS LIMITED is beneficially owned by Xu Jing.
- (20) Gortune Avatar Inv. Limited is beneficially owned by Guangdong Private Investment Limited (廣東民營投資股份有限公司).
- (21) Palace Investments Pte. Ltd. and Pavilion Capital Fund Holdings Pte. Ltd. are beneficially owned by Temasek Holdings (Private) Limited.

[REDACTED] INVESTMENTS

1. Overview

Since our establishment, our Company has received three rounds of [REDACTED] Investments which are summarized below.

Round	Date of share subscription agreement	Closing date	Total number of shares under the share subscription agreement	Cost per share paid	Amount of total consideration	Discount to the [REDACTED] ⁽¹⁾
1. Series A	August 8, 2017	August 17, 2017 August 29, 2017 ⁽²⁾	500,000,000 Series A Preferred Shares	US\$0.10	US\$50,000,000	[REDACTED]%
2. Series B	June 19, 2018	June 25, 2018 July 3, 2018 July 6, 2018 ⁽³⁾	261,956,309 Series B Preferred Shares	US\$1.1173619	US\$292,700,000	[REDACTED]%
3. Series B+	August 7, 2018	August 20, 2018	339,102,307 Series B+ Preferred Shares	US\$1.3035889	US\$442,050,000	[REDACTED]%

Notes:

- (1) The discount to the [REDACTED] is calculated based on the assumption that the [REDACTED] is HK\$[REDACTED] per Share, being the mid-point of the indicative [REDACTED] of HK\$[REDACTED] to HK\$[REDACTED].
- (2) The subscription of the Series A Preferred Shares was completed in two stages on August 17 and August 29, 2017, respectively.
- (3) The subscription of the Series B Preferred Shares was completed in three stages on June 25, July 3 and July 6, 2018, respectively.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Principal terms of the [REDACTED] Investments and [REDACTED] Investors’ rights

Lock-up period	No [REDACTED] Investor shall effect any direct or indirect sale of the Shares (except as part of the [REDACTED]) during the period beginning 14 days prior to the date of this document until the earlier of (i) such time as our Company and the [REDACTED] shall agree; and (ii) 180 days after the consummation of the [REDACTED].
Use of proceeds from the [REDACTED] Investments	We utilized the proceeds from the [REDACTED] Investments for purpose of research and development, business expansion and general working capital needs of our Group. As of the Latest Practicable Date, the proceeds from the [REDACTED] Investments had not yet been fully utilized.
Strategic benefits the [REDACTED] Investors brought to our Company	At the time of the [REDACTED] Investments, our Directors were of the view that our Company would benefit from the additional capital provided by the [REDACTED] Investors’ investments in our Company and their knowledge and experience.
Basis of determining the consideration paid	The consideration for the [REDACTED] Investments were determined based on arm’s length negotiations between our Company and the [REDACTED] Investors after taking into consideration the timing of the investments and the status of our business and operating entities.
Conversion	The conversion of the Preferred Shares to Class A Shares will be effected at a fixed conversion price and based on the initial conversion ratio of 1:1. The initial conversion ratio, which shall be initially based on the issue price of the Preferred Shares, may be adjusted from time to time by customary events such as share splits, combinations, share dividends and other distributions. In the event of a Qualified [REDACTED] (as defined below), the adjustment to the conversion ratio of the Preferred Shares is not linked to the [REDACTED] or the market capitalization of our Company and is in line with the principles and requirements under HKEx-GL44-12.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

2. Special rights of the [REDACTED] Investors

All of our [REDACTED] Investors are currently bound by the terms of the existing articles of association of our Company, which will be replaced by our Articles effective upon completion of the [REDACTED]. Pursuant to our [REDACTED] Shareholders Agreement entered into, among others, by our Company, holders of our ordinary Shares and Preferred Shares, the [REDACTED] Investors were granted certain special rights in relation to our Company, including, among others, customary rights of first refusal, co-sale rights, pre-emptive rights and information rights.

The special rights granted under the [REDACTED] Shareholders Agreement will automatically terminate on, inter alia, the occurrence of a qualified [REDACTED] (“**Qualified [REDACTED]**”), meaning a firm commitment [REDACTED] of the ordinary shares of our Company (or depositary receipts or depositary shares thereof) in the United States on the New York Stock Exchange or the Nasdaq Global Market pursuant to an effective Registration Statement under the United States Securities Act of 1933, as amended, or on the Hong Kong Stock Exchange, Shanghai Stock Exchange, Shenzhen Stock Exchange or another internationally recognized stock exchange approved by our Company, a majority of the [REDACTED] Investors and Co-founders, in any case, with an [REDACTED] (net of [REDACTED] and expenses) that implies a market capitalization of our Company immediately prior to such [REDACTED] of not less than US\$[REDACTED] and which results in [REDACTED] to our Company of at least US\$[REDACTED], provided that a [REDACTED] that does not meet the foregoing market capitalization or [REDACTED] requirements that receives the approval of the Co-founders and a majority of the [REDACTED] Investors shall be deemed to be a Qualified [REDACTED].

The [REDACTED] is expected to constitute a Qualified [REDACTED], which will terminate the special rights granted under the [REDACTED] Shareholders Agreement. No special rights granted to the [REDACTED] Investors will survive after the [REDACTED]. All of the Preferred Shares will convert to Class A Shares with a par value of US\$0.0000001 each upon completion of the [REDACTED] at which time our share capital will comprise two classes of shares, namely Class A Shares and Class B Shares. For further information on the rights attached to our Class A Shares and Class B Shares, please see the section headed “Share Capital.”

3. Public Float

Upon the completion of the [REDACTED] (assuming the [REDACTED] is not exercised), the [REDACTED] Investors will collectively hold 1,101,058,616 Class A shares or approximately [REDACTED]% of the issued share capital of our Company (on a one share, one vote basis).

No [REDACTED] Investor is a core connected person of our Company. Therefore, all the Shares held by the [REDACTED] Investors will count towards the public float.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Information on the Principal [REDACTED] Investors

Set out below is a description of our [REDACTED] Investors that are sophisticated investors, being private equity funds and investment companies, and that have made meaningful investments in our Company (each holding between approximately 1.03% to approximately 3.14% of our total issued and outstanding shares immediately prior to completion of the [REDACTED]).

SCC Venture VI Holdco G, Ltd., SCC Growth V Holdco G, Ltd. and SC GGFIII Holdco, Ltd. are exempted companies with limited liability incorporated under the laws of the Cayman Islands. The sole shareholder of SCC Venture VI Holdco G, Ltd. is Sequoia Capital China Venture Fund VI, L.P. The sole shareholder of SCC Growth V Holdco G, Ltd. is Sequoia Capital China Growth Fund V, L.P. The sole shareholder of SC GGFIII Holdco, Ltd. is Sequoia Capital Global Growth Fund III, L.P. SCC Growth V 2018-A, L.P. is an exempted limited partnership established under the laws of the Cayman Islands. All of Sequoia Capital China Venture Fund VI, L.P., Sequoia Capital China Growth Fund V, L.P., Sequoia Capital Global Growth Fund III, L.P. and SCC Growth V 2018-A, L.P. are investment funds whose primary purpose is to make equity investments in private companies. Immediately prior to completion of the [REDACTED], SCC Venture VI Holdco G, Ltd., SCC Growth V Holdco G, Ltd., SC GGFIII Holdco, Ltd. and SCC Growth V 2018-A, L.P. collectively hold approximately 3.14% of our total issued and outstanding shares. Upon completion of the [REDACTED] (assuming the [REDACTED] is not exercised), SCC Venture VI Holdco G, Ltd., SCC Growth V Holdco G, Ltd., SC GGFIII Holdco, Ltd. and SCC Growth V 2018-A, L.P. will collectively hold approximately [REDACTED]% of our total issued and outstanding shares.

Richway Investment Limited (a company incorporated in the BVI with limited liability) is an investment company focusing on technology, media, telecom, industrial investment and financial investment in China. Richway Investment Limited is beneficially owned and controlled by Pang Kee Chan Hebert. Immediately prior to completion of the [REDACTED], Richway Investment Limited holds approximately 1.17% of our total issued and outstanding shares. Upon completion of the [REDACTED] (assuming the [REDACTED] is not exercised), Richway Investment Limited will hold approximately [REDACTED]% of our total issued and outstanding shares.

Sinovation Fund III, L.P. (a limited liability partnership established under the laws of the Cayman Islands) is a venture capital fund that invests in start-ups in China and in the United States in specific technology focus areas. The general partner of Sinovation Fund III, L.P. is Sinovation Fund Management III, L.P., and the general partner of Sinovation Fund Management III, L.P. is Sinovation Fund III GP, Ltd, which is wholly-owned by Lee Kaifu. Immediately prior to completion of the [REDACTED], Sinovation Fund III, L.P. holds approximately 1.13% of our total issued and outstanding shares. Upon completion of the [REDACTED] (assuming the [REDACTED] is not exercised), Sinovation Fund III, L.P. will hold approximately [REDACTED]% of our total issued and outstanding shares.

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Crimson Partners, LP (a limited liability partnership established under the laws of the Cayman Islands) is a private equity fund focusing on manufacturing industry, healthcare industry and consumer services. Crimson Partners, LP is beneficially owned by Liu Yanyan. Immediately prior to completion of the [REDACTED], Crimson Partners, LP holds approximately 1.03% of our total issued and outstanding shares. Upon completion of the [REDACTED] (assuming the [REDACTED] is not exercised), Crimson Partners, LP will hold approximately [REDACTED]% of our total issued and outstanding shares.

COMPLIANCE WITH INTERIM GUIDANCE AND GUIDANCE LETTERS

Based on the documents provided by our Company relating to the [REDACTED] Investments, the Sole Sponsor confirms that the [REDACTED] Investments are in compliance with Guidance Letter HKEX-GL29-12 issued by the Stock Exchange in January 2012 and updated in March 2017, Guidance Letter HKEX-G43-12 issued by the Stock Exchange in October 2012 and updated in July 2013 and March 2017 and Guidance Letter HKEX-44-12 issued by the Stock Exchange in October 2012 and updated in March 2017.

PRC REGULATORY REQUIREMENTS

According to the M&A Rules jointly issued by MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the SAT, the CSRC, the SAIC and the SAFE on August 8, 2006, effective as of September 8, 2006 and amended on June 22, 2009, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (ii) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (iv) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise. The M&A Rules, among other things, further purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies.

Commerce & Finance Law Offices, our PRC Legal Advisor, is of the opinion that, based on its understanding of the current PRC laws and regulations, prior CSRC approval for this [REDACTED] is not required because our wholly foreign-owned PRC subsidiary was not established through a merger or acquisition of equity interest or assets of a PRC domestic company as defined under the M&A Rules.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

SAFE REGISTRATION IN THE PRC

Pursuant to the Circular of the SAFE Circular 37, promulgated by SAFE and which became effective on July 4, 2014 and replaced the SAFE Circular 75, (i) a PRC resident must register with the local SAFE branch in connection with their contribution of offshore assets or domestic enterprises’ equity interests in an overseas special purpose vehicle (the “**Overseas SPV**”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting overseas investment or financing, and (ii) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change in respect of the Overseas SPV, including, among other things, a change of Overseas SPV’s PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV’s capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular 37, failure to comply with these registration procedures may result in penalties. In addition, the PRC subsidiaries of that Overseas SPV may be prohibited from distributing their profits and dividends to their offshore parent company or from carrying out other subsequent cross-border foreign exchange activities, and the Overseas SPV and its offshore subsidiary may be restricted in their ability to contribute additional capital to their PRC subsidiaries.

Pursuant to the Circular of the SAFE on Further Simplification and Improvement in Foreign Exchange Administration on Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》), promulgated by SAFE and effective on June 1, 2015, the power to accept SAFE registration was delegated from local SAFE to qualified banks.

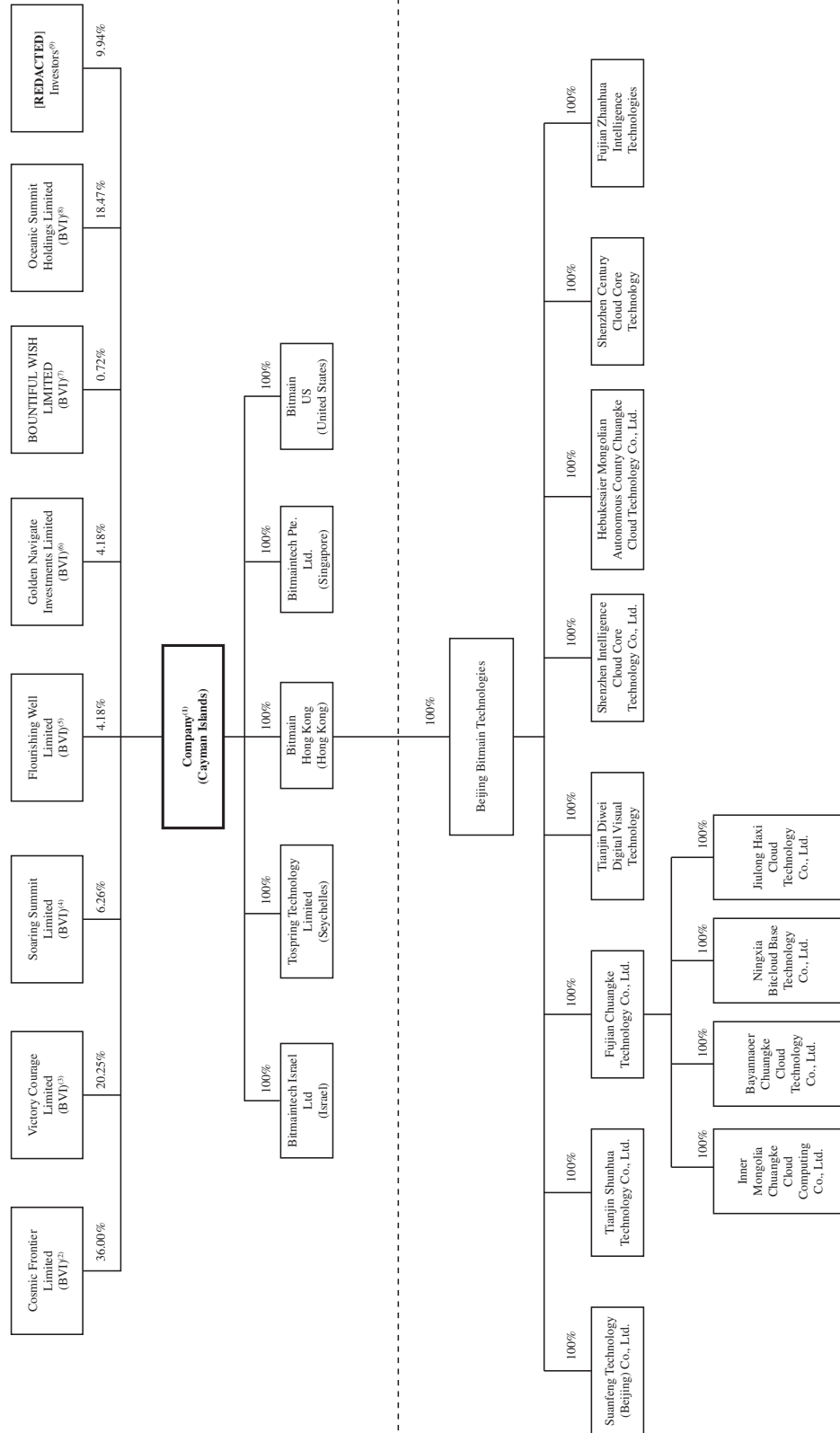
As advised by Commerce & Finance Law Offices, our PRC Legal Advisor, our Co-founders, namely Mr. Zhan Ketuan and Mr. Wu Jihan, have completed the registration under the SAFE Circular 37.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

CORPORATE STRUCTURE

Corporate structure before the [REDACTED]

The following diagram illustrates the simplified corporate and shareholding structure of our Company and principal subsidiaries after completion of our corporate reorganization and immediately prior to the completion of the [REDACTED]:



offshore

onshore

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

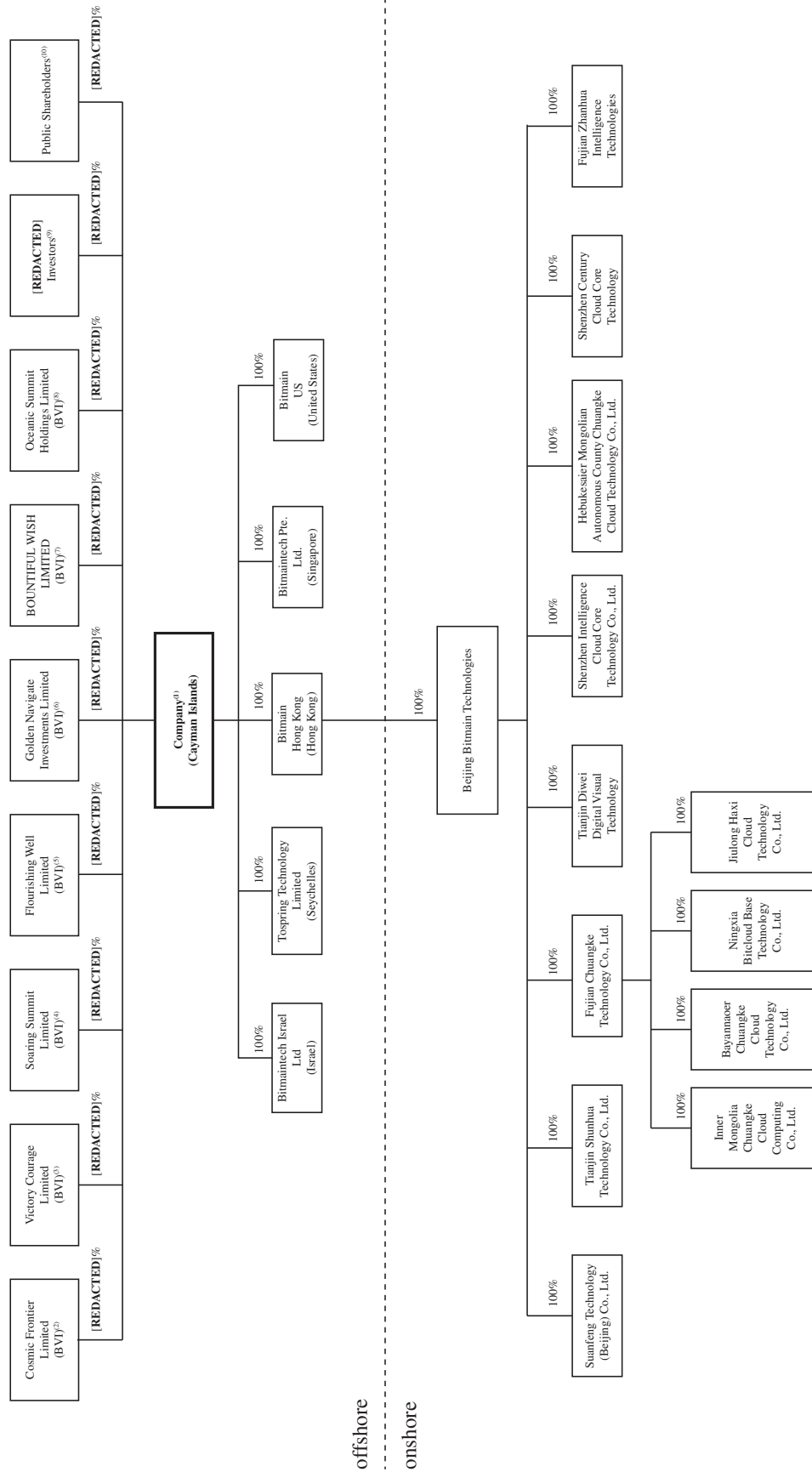
Notes:

- (1) Our Company has adopted a WVR structure and will continue to have the WVR structure upon the completion of the [REDACTED]. For further details, please refer to the section headed “Share Capital – Weighted Voting Rights Structure.”
- (2) The entire interest of Cosmic Frontier Limited is indirectly held on trust for the benefit of Mr. Zhan Ketuan and his family members. For further details, see the section headed “Substantial Shareholders.” Mr. Zhan Ketuan is our Co-founder, executive Director, Co-Chairman and Co-Chief Executive Director.
- (3) The entire interest of Victory Courage Limited is indirectly held on trust for the benefit of Mr. Wu Jihan and his family members. For further details, see the section headed “Substantial Shareholders.” Mr. Wu Jihan is our Co-founder, executive Director, Co-Chairman and Co-Chief Executive Director.
- (4) The entire interest of Soaring Summit Limited is indirectly held on trust for the benefit of Mr. Zhao Zhaofeng and his family members. For further details, see the section headed “Substantial Shareholders.” Mr. Zhao Zhaofeng is one of our Founding Parties.
- (5) The entire interest of Flourishing Well Limited is indirectly held on trust for the benefit of Mr. Ge Yuesheng and his family members. For further details, see the section headed “Substantial Shareholders.” Mr. Ge Yuesheng is one of our Founding Parties and an executive Director.
- (6) The entire interest of Golden Navigate Investments Limited is indirectly held on trust for the benefit of Mr. Hu Yishuo and his family members. For further details, see the section headed “Substantial Shareholders.” Mr. Hu Yishuo is one of our Founding Parties.
- (7) The entire interest of Oceanic Summit Holdings Limited is held on trust for the benefit of the participants of our Company’s Share Incentive Scheme, which may include, among others, the Directors, employees and consultants of our Company and its subsidiaries.
- (8) BOUNTIFUL WISH LIMITED is wholly-owned by Mr. Song Wenbao, one of our Founding Parties.
- (9) Please refer to the sub-section headed “– Capitalization of our Company” of this section for details of the [REDACTED] Investors.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Corporate structure immediately following the [REDACTED]

The following diagram illustrates the simplified corporate and shareholding structure of our Company and principal subsidiaries immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised):



HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Notes:

- (1) to (9) Please refer to the notes to the diagram under “– Corporate Structure before the [REDACTED]” in this section for details.
- (10) The expected public float immediately following completion of the [REDACTED] is approximately [REDACTED] on a one share, one vote basis (assuming the [REDACTED] are not exercised), which comprises the shares to be held by the [REDACTED] Investors and the other Shareholders that constitute the public pursuant to Rule 8.24 of the Listing Rules.

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OVERVIEW

We are China's second largest and among the world's top ten fabless IC design companies in terms of revenue in 2017, according to Frost & Sullivan. We focus on the design of ASIC chips specialized in cryptocurrency mining and AI applications, and we are the fourth largest global fabless ASIC chip design company in terms of revenue in 2017, according to Frost & Sullivan.

According to Frost & Sullivan, we are the largest global ASIC-based cryptocurrency mining hardware company in terms of sales revenue in 2017, accounting for a market share of 74.5%. We offer a variety of mining hardware equipped with proprietary ASIC chips under our Antminer brand. We specialize in the front-end and back-end of cryptocurrency mining ASIC chip design, and cooperate with industry-leading production partners to manufacture our chips and hardware products. With strong commitment in research and development, we have been constantly upgrading our ASIC chips, the core of our mining hardware. Our innovation in ASIC chips to improve both performance and cost-effectiveness has enabled us to deliver high computing power and great power-efficient mining hardware at reasonable prices. Meanwhile, we have focused on developing mining hardware with different algorithms covering major cryptocurrencies, including Bitcoin, Bitcoin Cash, Ether, Litecoin, Dash and Zcash, which makes us one of the few companies offering mining solutions for various cryptocurrencies. As a result, our products are able to maintain a competitive edge in the cryptocurrency mining hardware market.

Riding on our success and expertise in ASIC chip design and powerful research and development capabilities, we have extended our focus to the revolutionary field of AI and achieved promising results. We are among one of the few AI chip companies in the world, mainly including Google and NVIDIA, that are capable of developing chips for cloud training and inference. Our AI chips function as a tensor computing acceleration processor for deep learning, applicable to training and/or inference on artificial neural networks. We have launched our second generation of AI chip BM1682 in the first quarter of 2018, and have been cooperating with industry-leading AI companies to explore business opportunities in the future. In July 2018, the superior performance of our AI chip BM1682 was showcased at Baidu Create 2018, Baidu's annual AI developer conference, where our chip was demonstrated to be compatible with Baidu's latest AI inference acceleration engine.

In addition to our ASIC chip design business and in an effort to supplement our mining hardware sales business, we manage mining farms where we offer our customers custodian services for their mining hardware, and operate mining pools where miners contribute their computing power and split mining rewards. As of June 30, 2018, we had opened 11 mining farms in the PRC, located in Sichuan Province, Xinjiang and Inner Mongolia, with an aggregate capacity to store approximately 200,000 sets of mining hardware. We also primarily operate two mining pools, BTC.com and Antpool, the world's largest and second largest Bitcoin mining pools in terms of computing power. As of August 31, 2018, these two mining pools together contributed to approximately 37.1% of the aggregate hashrate of the Bitcoin network calculated by their aggregate block rewards as a percentage of the total block rewards generated from the Bitcoin network for the preceding 12 months.

BUSINESS

We have experienced exponential growth during the Track Record Period. Our revenue increased from US\$137.3 million in 2015 to US\$2,517.7 million in 2017, representing a CAGR of 328.2%, and increased by 936.6% from US\$274.5 million for the six months ended June 30, 2017 to US\$2,845.5 million for the six months ended June 30, 2018. During the same period, our profit for the year increased from US\$48.6 million in 2015 to US\$701.4 million in 2017 with a CAGR of 279.9%, and increased by 794.8% from US\$83.0 million for the six months ended June 30, 2017 to US\$742.7 million for the six months ended June 30, 2018. Our adjusted net profit, which is our profit excluding share-based compensation expenses and fair value changes of convertible redeemable preferred shares, increased from US\$48.6 million in 2015 to US\$113.6 million in 2016 and further to US\$952.6 million in 2017, and our adjusted net profit increased from US\$83.0 million for the first six months of 2017 to US\$952.2 million for the first six months of 2018. Our adjusted EBITDA, which is our profit before taxation excluding fair value changes of convertible redeemable preferred shares, finance cost, share-based compensation expenses, depreciation and amortization increased from US\$57.9 million in 2015 to US\$138.1 million in 2016 and further to US\$1,152.1 million in 2017, and our adjusted EBITDA increased from US\$101.8 million for the first six months of 2017 to US\$1,122.9 million for the first six months of 2018. Please see “Financial Information – Non-IFRS Measures: Adjusted EBITDA and Adjusted Net Profit” for more information. However, given the volatile nature of cryptocurrencies and that our business and financial condition correlate with the market price of cryptocurrencies, we may not be able to sustain our high historical growth rates. Please see “Risk Factors – Risks Relating to Our Business and Industry – We may not be able to sustain our historical growth rates, and our historical performance may not be indicative of our future growth or financial results given our limited operating history” and “Summary – Recent Developments.”

OUR STRENGTHS

Leader in the global ASIC chip industry

We are China’s second largest and among the world’s top ten fabless IC design companies in terms of revenue in 2017, according to Frost & Sullivan. We focus on the design of ASIC chips specialized in cryptocurrency mining and AI applications, and we are the world’s fourth largest fabless ASIC chip design company in terms of revenue in 2017, according to Frost & Sullivan.

We have seen a booming market for ASIC chips in recent years. ASIC chips are widely used in cutting-edge technologies, including blockchain, AI applications and IoT, due to ASIC chips’ unique features of high speed performance and great power efficiency. We started our business in 2013, dedicating to the design of cryptocurrencies mining chips. Since 2015, we have constantly ranked first in the global cryptocurrency mining hardware market by both shipment and revenue, according to Frost & Sullivan. In 2017, we achieved a prominent market share of 74.5% in the global ASIC-based cryptocurrency mining hardware market in terms of revenue.

We have accumulated rich experience in ASIC chip design, and are a pioneer in developing ASIC chips under various fabrication standards. With leading research and development capabilities and advanced technology, we successfully launched our first generation of 7nm ASIC chips, currently the most advanced IC fabrication technology,

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according to Frost & Sullivan. Compared to our previous ASIC chips, our latest 7nm ASIC chips have significantly improved in computing performance and power efficiency. In addition, we are developing the next generation of 7nm ASIC chips. Leveraging our advanced technology capabilities and leading market position, we believe we are well-positioned to capture the promising market opportunities of the ASIC chip design industry.

Pioneer in the thriving blockchain ecosystem

By tapping into the cryptocurrency industry, a phenomenal blockchain application, we have been yielding inventions that define cryptocurrency mining and blockchain infrastructure. We have pioneered in the offering of one-stop cryptocurrency mining solutions, ranging from the development of ASIC chips and mining hardware to the operations of mining farms and mining pools. Leveraging our insight into blockchain technology and leading market position in the cryptocurrency mining industry, we further explore the applications of blockchain technology to capture additional development opportunities, and perfect the blockchain ecosystem.

Since our incorporation, we have focused on the development of ASIC chips for cryptocurrency mining and ASIC chip-based mining hardware. We have been leading the mining hardware market with cutting-edge products that have high computing power and great power efficiency in response to the evolving needs of the blockchain ecosystem. We have released cryptocurrency mining hardware covering various major cryptocurrencies, including Bitcoin, Bitcoin Cash, Ether, Litecoin, Dash and Zcash, making us one of the few companies offering mining solutions for various cryptocurrencies, according to Frost & Sullivan. Our superior products and diverse solutions have thus helped us build a trusted brand name among cryptocurrency miners.

Our innovation in ASIC chip development has contributed to the growth of the Bitcoin mining market. With the increase in shipment of mining hardware, the demand for mining hardware custodian services has also grown. To cater to such needs, as of June 30, 2018, we had opened 11 mining farms where our customers can place their mining hardware in our custody and we will help them run and maintain their equipment. As of June 30, 2018, our mining farms had an aggregate capacity to store approximately 200,000 sets of mining hardware. In addition, we operate mining pools where miners contribute their computing power to platforms to jointly mine cryptocurrencies and share mining rewards. Our mining pools reduce the risks and volatility of mining and facilitate a steady return for individual cryptocurrency miners, which encourage more participants to engage in mining activities.

According to Frost & Sullivan, the total revenue of the global blockchain market will grow from US\$13.8 billion in terms of revenue in 2017 to US\$69.3 billion in 2022, representing a CAGR of 38.1%. Accordingly, we have initiated a series of blockchain infrastructure development to further expand into this market, and have leveraged our technology capabilities to cooperate with promising companies in the blockchain industry through strategic alliances and investment. For example, we strategically invested in promising companies in different segments of the blockchain ecosystem, including Circle Internet Financial Limited, a global crypto finance company that received one of the first virtual currency licenses granted by the New York State and the British government, according to Frost & Sullivan. We aim to achieve a win-win cooperation with our strategic partners and

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continue to construct and cultivate the blockchain ecosystem. For example, in July 2018, we made a donation of RMB10.0 million to Tsinghua University and jointly established with them the Research Center for Digital Financial Assets, which is dedicated to research and development in the field of digital financial assets, the revolutionary front of blockchain. With our strategic presence in the blockchain ecosystem, we are able to diversify our revenue sources, strengthen our market position, and seize more market opportunities from the development of the blockchain industry.

Strong contender in AI chip industry

Riding on our success and expertise in ASIC chip design and powerful research and development capabilities, we have extended our focus to the revolutionary field of AI and achieved promising results. We focus on the specific AI application of deep learning, where neural networks are trained to recognize patterns from massive amount of data. Deep learning presents significant challenges to the design of chips with big data processing capabilities and great power efficiency. As we have addressed similar challenges in our development of cryptocurrency mining ASIC chips, we are able to translate our relevant experience into developing AI ASIC chips.

We are among one of the few AI chip companies in the world, mainly including Google and NVIDIA, that are capable of developing chips for cloud training and inference, according to Frost & Sullivan. Our AI chips function as a tensor computing acceleration processor for deep learning, applicable to training and inference on artificial neural networks. We launched our pilot AI chip BM1680, our first generation of AI ASIC chip, in the second quarter of 2017, and our second generation of AI chip BM1682 in the first quarter of 2018. We have also developed various AI hardware, including accelerating cards and servers equipped with our AI ASIC chips for deep learning. Our AI hardware is mainly applied in image identification, facial recognition and big data analysis. In July 2018, the superior performance of our AI chip BM1682 was showcased at Baidu Create 2018, Baidu’s annual AI developer conference, where our chip was demonstrated to be compatible with Baidu’s latest AI inference acceleration engine. According to Frost & Sullivan, the global cloud AI chip market is expected to grow from US\$2.1 billion in 2017 to US\$23.5 billion in 2022 with a CAGR of 62.1%. We are also extending our footprint into other AI technologies, such as edge chips, algorithms and development platforms to capture the great growth potentials in the AI industry.

Outstanding research and development capabilities

Innovation is at our core. We have been devoted to research and development efforts since our inception. As of June 30, 2018, we had built a strong research and development team of 840 full-time engineers, which accounted for over 30% of the total number of employees. Our research and development team members specialize in chip design, algorithm development, platform architecture and software and hardware. We have accumulated valuable experience in teamwork and coordination for chip design through the successful development of top-tier chips under various fabrications.

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We have accumulated advanced know-how and developed leading capabilities in ASIC chip design, which have been fueling our growth. We are committed to designing cutting-edge chips with high tape-out rates and launching state-of-the-art products equipped with our chips through industrial mass production. We not only focus on research and development efforts that enhance ASIC chip performance, but also on improving the cost-effectiveness of our chips to further commercialize our products. On the one hand, we have been constantly optimizing algorithms and chip architecture to improve the efficiency and performance of ASIC chips without altering the fabrication process. On the other hand, we have kept pace with development in fabrications and designed new algorithms and constructed arrays on upgraded fabrications.

We have consistently been the leader achieving significant technological breakthroughs in ASIC chip design. According to Frost & Sullivan, we were one of the first firms in the cryptocurrency industry to release ASIC chip-based Bitcoin mining hardware in 2013, and we became a market leader in the production of cryptocurrency mining hardware in early 2014. We led the development of 16nm ASIC chip in 2016, which was one of the only two 16nm ASIC chips for cryptocurrency mining purpose in China at the time. Compared to our competitors, our mining hardware generally consumes less energy while achieving the same level of computing power. For example, our Antminer S9 released in 2016 attained a power efficiency of 0.10W/(GH/s), with our competitors taking nearly one year to develop comparable products. Our Antminer S9 is still one of the most popular mining hardware on the market, accounting for around 60% of shipment among all Bitcoin mining hardware in 2017, according to Frost & Sullivan. Meanwhile, we have successfully launched our 7nm ASIC chips, which have a significant improvement in computing performance and power efficiency, and we are developing the next generation of 7nm ASIC chips. In the AI field, we are also among the first few companies to develop and commercialize AI ASIC chips for cloud training and inference. While achieving the milestones in the development of ASIC chips, we are still able to maintain high tape-out success rate and final yield.

Close partnership with leading supply chain partners

Our scale of business and industry leading position enable us to establish close strategic partnerships with leading suppliers in the chip production industry to boost our ASIC chip development capabilities. Given our rapid growth during the Track Record Period, we have become a key customer to our upstream suppliers and outsourcing manufacturers, which effectively stabilizes our supply chain and reduces the impact of industrial fluctuations on our product output and delivery cycle. In particular, we have established a close and stable relationship with our wafer fabrication partner TSMC, the world's leading foundry, which named us as one of its key customers, among Apple Inc., Qualcomm Inc., Broadcom Corporation and others. We also maintain collaborative relationships with leading OSAT companies, including the ASE Group and JCET, for packaging and testing services.

We appeal to our business partners because of our dominant market position and outstanding research and development capabilities. We believe we are one of the few companies capable of developing such strong relationship with these industry leaders in the chip production supply chain. Our collaborative relationships with suppliers and service providers have streamlined our product development, and ensure stable production of our chips.

BUSINESS

Visionary management team believing in blockchain technology and AI

Our management team is led by our visionary Co-founders Mr. Zhan Ketuan and Mr. Wu Jihan. Their clear sense of mission, long-term focus and commitment to the belief that blockchain technology and AI will move the world have been pivotal to our success.

Mr. Zhan Ketuan, with nearly 15 years of managerial and operational experience in the IC industry, has deep technical expertise and acute insight into the development of ASIC chips. He leads our chip research and development team to achieve each technology breakthrough and drive the evolution of cutting-edge products.

Mr. Wu Jihan is widely recognized as the leader in the global cryptocurrency and blockchain technology community. He is known as the first person to translate Satoshi Nakamoto’s white paper “Bitcoin: A Peer-to-Peer Electronic Cash System” into Chinese in 2011. He was named one of “The Ledger 40 under 40” by Fortune Magazine in 2018 for transforming business at the leading edge of finance and technology. Mr. Wu Jihan has been guiding our strategic development with his deep understanding of the blockchain industry.

We have built a core management and technical team with graduates from top-tier universities and who have previously worked at leading semiconductor and technology companies. Our highly seasoned team fully appreciates the blockchain and AI technology, and are capable of leading chip design in these fields.

OUR STRATEGIES

Continuing to invest in research and development to strengthen our leading market position in chip design

We will continue to invest in research and development and accumulate knowledge in ASIC chip design, especially for cryptocurrency mining ASIC chip. Specifically, we will improve and upgrade our chip design to increase the chips’ computing power while lowering their power consumption, and expand our research and development efforts to design more ASIC chips for additional cryptocurrencies. We will also focus on developing key technologies in AI chips. Leveraging our extensive knowledge in chip design and industry expertise, we will continue to advance our AI chips and explore technological breakthroughs.

To empower our research and development capabilities, we will expand our team and upgrade our facilities for research and development. We will continue to attract top talent around the world specialized in chip architecture, algorithm optimization and software and hardware development, and incentivize them to innovate and enhance our research and development capabilities.

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Advancing our presence in the blockchain industry

Blockchain technology has been widely recognized around the world and has immense market potentials. Leveraging our existing strategic presence in the blockchain technology ecosystem, outstanding research and development capabilities and financial capabilities, we will continue to underpin the blockchain infrastructure and support the development of blockchain applications.

We will also explore new market opportunities, strategically lay out our infrastructure in the blockchain technology ecosystem, and expand our business operation and market share in the blockchain technology industry. Specifically, we will foster relationship with our existing business partners, and selectively explore new collaboration opportunities with other participants in the blockchain technology ecosystem through strategic alliances and investment.

Continuing to invest in AI and promote the commercial application of our AI technologies and solutions

We will continue leveraging our specialties in ASIC chip design to develop new AI chips and products. We have accumulated expertise in each step of AI ASIC chip design and production, including tape-out, packaging and testing, as well as technology in AI applications. Hence, we are well-positioned to accelerate the application of AI ASIC chips and take a leading step into the AI market, which in turn will significantly enlarge our AI business scale and increase our AI business revenue.

We will continue to focus on cloud training and inference, and expand into new AI territories including edge chips, algorithms and development platforms to capture the promising growth potentials of the AI market. We aim to provide one stop AI solutions with AI system equipped with our proprietary cloud and edge chips at competitive prices to achieve image identification, facial recognition, big data analysis and other AI applications. We will also diversify our customer portfolio to scale our AI business. By accumulating customers early on in the development of AI market, we will be able to create entry barriers for our competitors and leverage our first-mover advantage to seize significant market share.

While focusing on designing AI chips, we will also refine the developer platform of our AI chips to better assist users in their development of AI applications on our AI ASIC chips. By improving user interfaces and enhancing user experiences, we plan to expand the market for AI applications, which in turn will attract more developers and bring us more customers and promising business opportunities.

OUR BUSINESS MODEL

We engage in the design of ASIC chips for cryptocurrency mining and AI applications, sales of cryptocurrency mining hardware and AI hardware, management of mining farms, operation of mining pools and other cryptocurrency-related businesses. At the core of our

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cryptocurrency mining hardware business is the front-end and back-end of ASIC chip design, the major links in the product development chain for cryptocurrency mining hardware. Catering to our customers’ evolving needs, we supplement our core cryptocurrency mining ASIC chip design business with our mining farm business, where we provide mining hardware custodian services to our customers, and our mining pool business, where miners contribute their computing power to platforms to jointly mine cryptocurrencies and share mining rewards. Meanwhile, we have expanded our efforts to the revolutionary field of AI, primarily the design of AI ASIC chips and the development of AI hardware. Set forth below is a revenue breakdown by business segments during the Track Record Period.

	Years ended December 31,						Six months ended June 30,			
	2015		2016		2017		2017		2018	
	<i>USD'000</i>	%	<i>USD'000</i>	%	<i>USD'000</i>	%	<i>USD'000</i>	%	<i>USD'000</i>	%
Revenue										
Mining hardware sales	107,878	78.6	214,698	77.3	2,263,237	89.9	220,902	80.5	2,683,853	94.3
Mining pool service	295	0.2	3,644	1.3	32,906	1.3	7,330	2.7	43,217	1.5
Mining farm service	–	–	5,205	1.9	20,592	0.8	4,983	1.8	21,823	0.8
Proprietary mining	27,944	20.3	53,586	19.3	199,330	7.9	40,652	14.8	94,343	3.3
Others	1,226	0.9	479	0.2	1,654	0.1	583	0.2	2,231	0.1
Total	137,343	100	277,612	100	2,517,719	100	274,450	100	2,845,467	100

OUR PRODUCTS AND SERVICES

ASIC Chip Design

Introduction

Our core business focuses on the design of ASIC chips for cryptocurrency mining and AI applications. An ASIC is an application-specific integrated circuit and, in the specific context of cryptocurrency mining, it is a microchip designed to solve cryptographic algorithms as quickly as possible. Compared to its predecessors, such as CPUs, and GPUs, ASIC chips can solve cryptographic algorithms much faster and with a greater energy efficiency. As AI technologies, especially machine learning, also place great demands on computing power for training algorithms and running applications, the development of specialized AI ASIC chips has grown rapidly. AI chips are processors for AI-related computing tasks. Leveraging our ASIC chip design capacities, we engage in the development of both cryptocurrency mining ASIC chips and AI ASIC chips.

We engage in the front-end and back-end of ASIC chip design, the major links in the product development chain for cryptocurrency mining hardware and AI applications. See “Procurement, Production, Inventory and Logistics” for details on the production process.

BUSINESS

Cryptocurrency Mining Chips and Hardware

Since our incorporation in 2013, we have dedicated our Company to the development of powerful and energy-efficient cryptocurrency mining hardware and providing our customers with various cryptocurrency mining solutions. The core of cryptocurrency mining hardware lies in the ASIC chips. Equipped with our proprietary ASIC chips, our most popular Bitcoin mining hardware can process at a speed of up to 14.5TH/s with the best power efficiency of 0.09W/(GH/s). To suit our customers' needs for mining different types of cryptocurrencies, we offer them a comprehensive suite of mining hardware covering Bitcoin, Bitcoin Cash, Ether, Litecoin, Dash, and Zcash. As the cryptographic algorithms involved for mining different types of cryptocurrencies are different, we have developed various unique ASIC chip designs to drive such mining hardware.

The design of the integrated circuit on an ASIC chip primarily determines the energy consumption of the chip, and we constantly upgrade our ASIC chip design to improve our mining hardware, optimize computing power and power efficiency, so that we can maintain our competitive advantage in the cryptocurrency mining hardware market. Set forth below is a summary of the milestones and status of the development of our cryptocurrency mining ASIC chips.

Series	Cryptocurrency/ Algorithm	Process	Launch Date	Status
BM1382	Bitcoin, Bitcoin Cash/SHA256	28nm	June 2014	Production discontinued
BM1384			December 2014	
BM1385			August 2015	
BM1387		16nm	March 2016	In production
BM1391	7nm	September 2018		
BM1790	Ether/Ethash	28nm	March 2018	
BM1485	Litecoin/Scrypt	28nm	September 2016	
BM1760	Dash/X11	28nm	July 2017	
BM1740	Zcash/Equihash	10nm	April 2018	

We are developing the next generation of 7nm ASIC chips. In addition to perfecting our ASIC chip design, we have also been improving other mining hardware to increase power efficiency. To reduce power consumption, we carefully engineered a high-grade aluminum case, customized heat-sinks and computer-controlled fans in most of our mining hardware to keep them cool during operation. Additionally, our mining hardware features low maintenance costs.

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We offer a variety of mining hardware under the Antminer brand catering to customers’ various needs. Set forth below is a summary of the features and status of our major cryptocurrency mining hardware during the Track Record Period and up to the Latest Practicable Date.

Product series	Cryptocurrency/ Algorithm	ASIC	Number of ASIC Chips in Each Product	Best Power Efficiency	Computing Power under Best Power Efficiency
Antminer S4+	Bitcoin, Bitcoin Cash/ SHA256	BM1382	204	0.58 W/(GH/s)	2.57 TH/s
Antminer S5		BM1384	60	0.51 W/(GH/s)	1.15 TH/s
Antminer S5+			432	0.45 W/(GH/s)	7.72 TH/s
Antminer S7		BM1385	135	0.25 W/(GH/s)	4.73 TH/s
Antminer T9		BM1387	171	0.13 W/(GH/s)	11.50 TH/s
Antminer T9+			162	0.14 W/(GH/s)	10.50 TH/s
Antminer S9			189	0.09 W/(GH/s)	14.50 TH/s
Antminer S9 Hydro			216	0.096 W/(GH/s)	18.00 TH/s
Antminer E3	Ether/Ethash	BM1790	18	4.00 W/(MH/s)	190.00 MH/s
Antminer L3	Litecoin/Scrypt	BM1485	144	1.60 W/(MH/s)	250.00 MH/s
Antminer L3+			288	1.59 W/(MH/s)	504.00 MH/s
Antminer D3	Dash/X11	BM1760	180	57.06 W/(GH/s)	17.00 GH/s
Antminer Z9	Zcash/Equihash	BM1740	48	28.19 W/(Ksol/s)	40.80 KSol/s
Antminer Z9 mini			12	30.00 W/(Ksol/s)	10.00 KSol/s

In addition to mining hardware, we also offer power supply units customized for our mining hardware to enhance mining performance. Our proprietary power supplies increase power efficiency, reduce mining noises and improve heat dissipation. Certain series of mining hardware come with a free power supply unit and our customers can also choose to buy the power supply unit separately or as a set with the mining hardware.

We price our cryptocurrency mining hardware in consideration of the market price of cryptocurrencies, prices of our competitors’ products, expected economic return of cryptocurrency mining, product types and demand for mining hardware. Additionally, we have adopted a floating pricing mechanism, consistent with industry practice. We normally set an initial price for our product at launch and lower the price as more competing products enter the market. When the market price of a cryptocurrency fluctuates, we will adjust the price of our mining hardware accordingly. Our product price also depends on the type of mining hardware we are selling. During the Track Record Period, the average selling price of our Bitcoin/Bitcoin Cash mining hardware was US\$463, US\$767, US\$1,231 and US\$1,012 for the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018. We began selling other types of cryptocurrency mining hardware in 2016, and their average selling price was US\$1,310, US\$1,553 and US\$936 for the years ended December 31, 2016 and 2017 and the six months ended June 30, 2018.

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We sell our cryptocurrency mining hardware mainly through online direct sales via our websites. Our customers place orders on our official website and we also accept payment in the form of cryptocurrencies. In 2017, approximately 27% of our mining hardware sales was paid in cryptocurrencies.

During the Track Record Period, we sold approximately 0.23 million, 0.26 million and 1.62 million sets of mining hardware in 2015, 2016 and 2017, respectively, and approximately 0.18 million and 2.56 million in the six months ended June 30, 2017 and 2018, respectively. Specifically, sales volume of Bitcoin/Bitcoin Cash mining hardware accounted for 100%, 99.7%, 68.4%, 96.5% and 73.2% of our total sales volume of mining hardware (excluding ancillary accessories) for the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, respectively.

We realized significant revenue growth from sales of our mining hardware during the Track Record Period. For the years ended December 31, 2015, 2016 and 2017, revenue from sales of our mining hardware was US\$107.9 million, US\$214.7 million and US\$2,263.2 million, respectively, with a CAGR of 358.0%, and our revenue from sales of mining hardware increased by 1,115.0% from US\$220.9 million in the six months ended June 30, 2017 to US\$2,683.9 million in the six months ended June 30, 2018.

Artificial Intelligence Chips and Hardware

Having accumulated rich experience in developing and perfecting ASIC chips for cryptocurrency mining, we began to engage in ASIC chip design for AI applications in 2015. We see a promising future for the application of ASIC chips in AI and will continue focusing on the AI chip market, especially in cloud training and inference applications. According to Frost & Sullivan, the global cloud AI chip market is expected to grow from US\$2.1 billion in 2017 to US\$23.5 billion in 2022, with a CAGR of 62.1%. The State Council also listed AI as a top priority in the “13th Five-Year National Science and Technology Innovation Plan.”

AI ASIC chip design primarily faces technological barriers in the engineering process, high-speed interconnection, memory bandwidth, on-chip memory, and ecosystem. Having encountered and overcome similar difficulties in designing cryptocurrency-mining ASIC chips, we are able to leverage our knowledge and develop AI ASIC chips with greater computing power and energy efficiency. In particular, we are among the few companies capable of developing AI products targeting cloud training and inference. AI chips targeting cloud training and inference are generally used for processing big data on the cloud server, in the process of which an AI model is trained to analyze the data, learn from the data and obtain the intelligence to perform the analysis and conduct the inference, such as image recognition. Our latest generation of AI ASIC chip to be launched in the fourth quarter of 2018 will be able to match the world’s leading cloud inference technology at more competitive prices. We have also expanded our business to encompass broader AI technologies and applications, such as edge chips, algorithms and development platforms to capture the great growth potentials in the AI industry.

BUSINESS

We have launched our second generation of AI ASIC chip BM1682. Set forth below is a summary of the milestones and status of the development of our AI ASIC chips.

Series	Process	Application	Status
BM1680	28nm	Cloud training and inference	Launch in the second quarter of 2017
BM1682	28nm	Cloud inference	Launch in the first quarter of 2018
BM1684	12nm	Cloud inference	Expected launch in the fourth quarter of 2018

We pay special attention to the application of AI ASIC chips, which are mainly used for cloud training and inference in the fields of image identification and facial recognition. We have also developed accelerating cards and servers equipped with our AI ASIC chips for deep learning.

In July 2018, the superior performance of our AI chip BM1682 was showcased at Baidu Create 2018, Baidu's annual AI developer conference, where our chip was demonstrated compatible with Baidu's latest AI inference acceleration engine.

Mining Farms

To better serve our customers, we offer them custodian services at our mining farms. A mining farm functions as a storage facility, where mining hardware is placed on different shelves which are technologically equipped to mine cryptocurrencies. Miners may choose to place their mining hardware in our mining farms, where technicians run and monitor the mining process for them. As of June 30, 2018, we managed 11 mining farms, including conducting daily maintenance on the mining hardware and other infrastructure.

Mining farms are usually built at sites with low land and electricity costs to reduce mining expense for our customers. We select sites for our mining farms based on such preferences and have established mining farms in Sichuan Province, Xinjiang and Inner Mongolia. Our mining farms are also equipped with supporting personnel to trouble shoot basic everyday technical difficulties.

Our mining farms charge our customers custodian fees based on electricity and maintenance costs. During the Track Record Period, our mining farms realized a revenue of nil, US\$5.2 million and US\$20.6 million for the years ended December 31, 2015, 2016 and 2017, respectively, and a revenue of US\$5.0 million and US\$21.8 million for the six months ended June 30, 2017 and 2018, respectively. Revenue from our mining farm business contributed to 1.9%, 0.8% and 0.8% of our total revenue for the years ended December 31, 2016 and 2017 and the six months ended June 30, 2018, respectively.

BUSINESS

Domestic Mining Farms

Through careful site selection for our mining farms, our domestic mining farms can normally guarantee over 300MW electricity supply for our customers and hosted approximately 125,000 sets of mining hardware as of June 30, 2018. As of the same date, we operated 11 mining farms in the PRC, mainly located in Sichuan Province, Xinjiang and Inner Mongolia. Our largest mining farm, located in Inner Mongolia, can host approximately 60,000 sets of mining hardware with a total power capacity of approximately 90MW. Our mining farms mainly host the mining hardware of our major customers as well as our own proprietary mining hardware.

Overseas Mining Farms

We aim to expand our mining farms overseas to utilize cheap electricity around the globe. While we have not yet opened any mining farms overseas, we have selected certain sites in countries with low electricity prices and have started the construction of several mining farms. Set forth below is a summary of our major mining farms in the pipeline.

- United States: we have three mining farms under construction, one in each of the States of Washington, Texas and Tennessee, and we expect these mining farms to commence operation by the first quarter of 2019. We are also planning to construct a repair and maintenance center in the State of Washington to support nearby mining farms.
- Canada: we are contemplating the construction of mining farms in Quebec, where cheap hydropower is available.

Mining Pools

A mining pool is a platform where miners contribute their computing power to jointly mine cryptocurrencies and share mining rewards. Taking Bitcoin as an example, an individual miner's daily expected rewards are proportionate to its contribution to the Bitcoin network's aggregate hashrate, the aggregate computing power of the Bitcoin network. Yet, given the probabilistic nature of the Bitcoin network hash function, the chance of successfully mining blocks is probabilistically determined by the law of large numbers and there is significant variance involved in mining, especially for individual miners. Due to the extremely high hashrate on the Bitcoin network, there is no guarantee that an individual miner will mine a block and receive Bitcoin. Mining pools generally mutualize the risk of mining and their members can share mining rewards on a daily basis pro rata based upon each miner's contribution to computing power to the pool. In a mining pool, especially a sizeable one, the individual mining process is repeated a large number of times by all its members, and the expected rewards for the mining pool are generally proportionate to its contribution to the aggregate computing power of the Bitcoin network. Thus, it is more likely for the mining pool to successfully mine any particular block. While a miner needs to split its rewards with other members of the mining pool, he is more likely to receive a smaller, yet steady, stream of mining proceeds.

BUSINESS

We primarily operate two mining pools, BTC.com and Antpool, currently the world's largest and second largest Bitcoin mining pools in terms of computing power, respectively, according to Frost & Sullivan. As of August 31, 2018, these two mining pools together contributed approximately 37.1% of the aggregate hashrate of the Bitcoin network, with BTC.com accounting for around 21.0% of the aggregate hashrate of the Bitcoin network and Antpool around 16.1%, calculated by their respective block rewards as a percentage of the total block rewards generated from the Bitcoin network for the preceding 12 months according to Frost & Sullivan. As of August 31, 2018, BTC.com had a Bitcoin hashrate of around 8,461.00 PH/s, and Antpool had a Bitcoin hashrate of approximately 6,736.93 PH/s, according to Frost & Sullivan. Their members share mining rewards based on their contribution of computing power to the pool. BTC.com mainly targets Bitcoin and Bitcoin Cash mining, while Antpool supports mining of ten types of cryptocurrencies, including Bitcoin, Bitcoin Cash, Ether, Litecoin and Dash.

Our mining pools generate revenue from a portion of the mining rewards generated from the mining activities of our mining pools. Subject to different distribution structures, we generally collect up to 5% of the total mining rewards generated from operating the mining pools. During the Track Record Period, our mining pools realized a revenue of US\$0.3 million, US\$3.6 million and US\$32.9 million for the years ended December 31, 2015, 2016 and 2017, respectively, and a revenue of US\$7.3 million and US\$43.2 million for the six months ended June 30, 2017 and 2018, respectively. Revenue from our mining pool business contributed to 0.2%, 1.3%, 1.3%, 2.7% and 1.5% of our total revenue for the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018, respectively.

Other Cryptocurrency-related Business

We have expanded into other cryptocurrency-related business to offer our customers a one-stop mining experience. We provide a free blockchain browser, BTC.com browser that allows users to search and navigate blockchain information. We aim to attract more members and increase user traffic with our blockchain browser.

In addition to offering products and services to our customers, we also engage in proprietary mining. To capture the profitable returns of cryptocurrency mining, we will utilize mining hardware to mine cryptocurrencies ourselves. During the Track Record Period, we generated a revenue of US\$27.9 million, US\$53.6 million and US\$199.3 million for the years ended December 31, 2015, 2016 and 2017, respectively, and a revenue of US\$40.7 million and US\$94.3 million for the six months ended June 30, 2017 and 2018, respectively, from proprietary mining. Proprietary mining revenue accounted for 20.3%, 19.3%, 7.9% and 3.3% of our total revenue for the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, respectively.

BUSINESS

RESEARCH AND DEVELOPMENT

Research and development is key to innovation and business growth, and we place a strong emphasis on building our research and development team. As of June 30, 2018, we had 840 full-time engineers on our research and development team, among them, 366 members specialize in product design, 298 members focus on AI ASIC chip development and 176 members focus on the development of mining hardware and accessories. We are highly selective when recruiting our research and development team members, among whom 40.95% had academic degrees at PhD or master’s level, and 54.05% had academic degrees at bachelor’s level. Our research and development team members graduated from top-tier universities, including Peking University, Tsinghua University and Chinese Academy of Sciences, and have previous work experience with other top-tier technology companies, such as AMD, IBM, Baidu and NetEase. To incentivize ingenuity and innovative thinking, we offer various bonuses to research and development team members based on their research achievements.

We actively promote research and development projects and, during the Track Record Period, we incurred US\$5.7 million, US\$16.6 million and US\$72.6 million in research and development expenses for the years ended December 31, 2015, 2016 and 2017, respectively, and US\$87.0 million for the six months ended June 30, 2018. Our research and development expenditures are recognized as expenses in the period they were incurred.

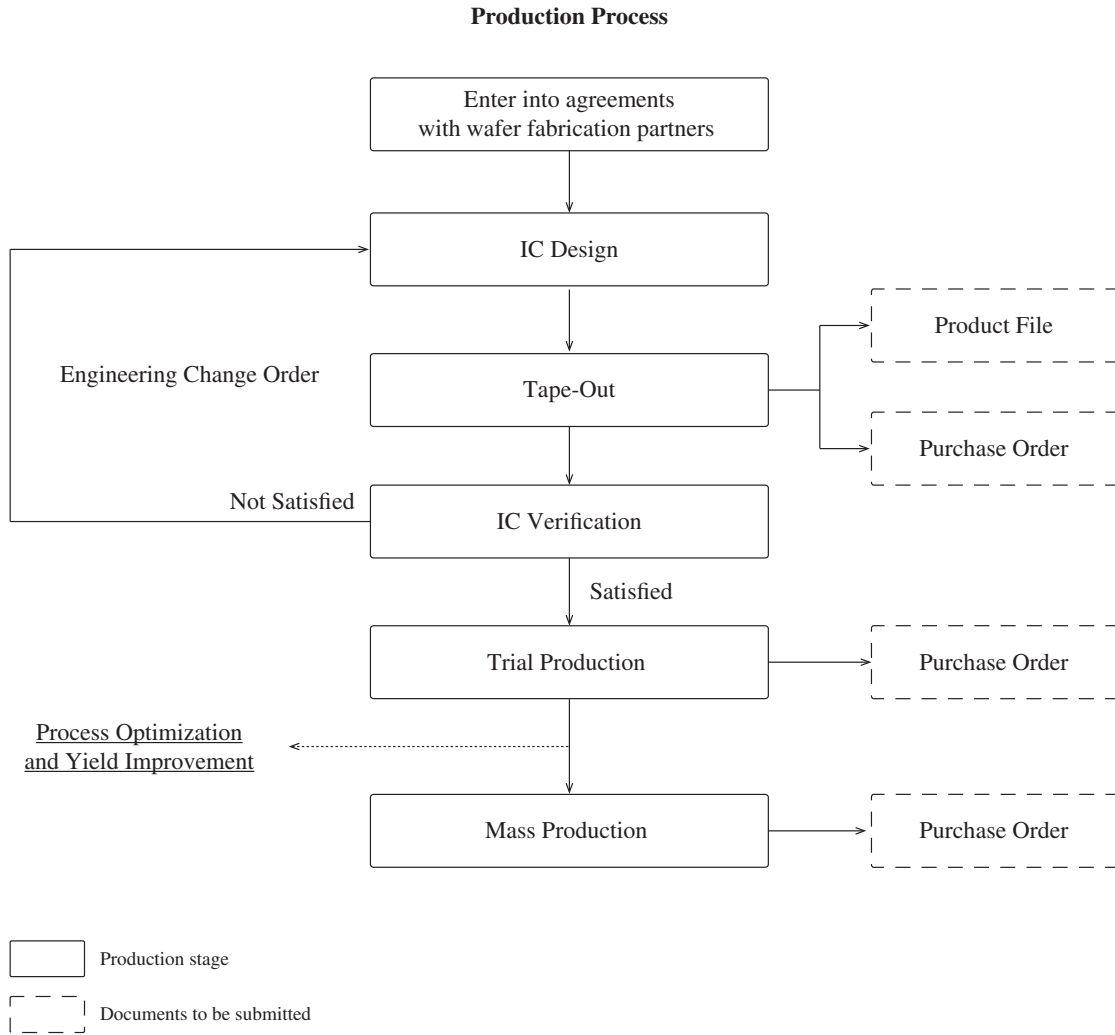
BUSINESS

PROCUREMENT, PRODUCTION, INVENTORY AND LOGISTICS

Our Fabless Model

We do not directly manufacture ASIC chips for our cryptocurrency mining hardware or for AI applications. Instead, we adopt a fabless model, whereby we cooperate with world-class production partners for all phases of the manufacturing process of our ASIC chips, including wafer fabrication and packaging and testing. Under the fabless model, we are able to leverage the expertise of industry leaders in areas such as fabrication, assembly, quality control and reliability and testing packaging, while we focus our resources on research and development, product design and additional quality control.

The following flowchart illustrates the general process of ASIC chip design and production for our cryptocurrency mining business and AI business.



BUSINESS

Fabless ASIC Chip Design

We focus on the front-end and back-end of ASIC chip design, and have specialized teams of research and development personnel dedicated to the design of ASIC chips for cryptocurrency mining and AI applications, respectively. We determine the parameters of the chip, establish basic logic of the design, map out the initial plan for the physical layout, and conduct back-end verification on the design. We then work with the wafer foundry, which has the expertise in photomask making, to finalize the layout. The chip design process generally ends with “tape-out”, where the graphic for the photomask of the chip is sent to the wafer foundry before mass production begins.

Wafer Fabrication

We collaborate with TSMC, a leading foundry, which is also our only wafer fabrication partner, to produce wafers for our ASIC chips. We and TSMC first enter into a non-disclosure agreement to maintain intellectual property rights. We then provide TSMC with basic preliminary information about our chip design, and work with them to finalize the layout. Once our design is taped out, TSMC fabricates a prototype for us to confirm. Once confirmed, TSMC procures necessary materials and mass production of the wafers can then be conducted, and we place actual purchase orders according to our business needs. It takes an average of approximately three months from the time we place our orders to the delivery of the wafers. Pursuant to our arrangement with TSMC, we usually prepay TSMC for fabrication prior to delivery. We have been cooperating with TSMC since our incorporation, and we do not maintain any long-term contract or framework agreement with TSMC.

Packaging and Testing

After the wafers are manufactured, they are shipped to an OSAT company for packaging into ASIC chips, which are then tested to ensure that they meet all the quality control procedures. We also maintain collaborative relationships with leading OSAT companies, including the ASE Group and JCET, for packaging and testing services. According to agreements with our packaging and testing partners, we provide order forecasts to them 30 days in advance for them to purchase necessary materials. It usually takes our packaging and testing partners about five to eight days for packaging. Upon delivery, we have the right to request our partners to reimburse us for defective chips with a yield lower than expected. We typically settle with our packaging and testing partners on a monthly basis and we are required to pay them within 30 days upon receipt of invoices.

Procurement of Other Components

In addition to our proprietary ASIC chips, our mining hardware consist of other components, including PCBs, auxiliary chips, other electronic components, fans and aluminum casings. We procure most of these components within the PRC in accordance with our sales plans. We store raw materials at our warehouses and distribute them to our hardware manufacturing partners based on each order.

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As a steady supply of quality components is crucial to our business, we carefully evaluate the suitability of potential suppliers and their ability to assure timely delivery of quality components. Specifically, we examine a supplier’s operational scale, operating history, corporate reputation, product quality and quality control effectiveness, technological expertise and engineering capability, price, reliability and ability to meet our delivery timeline and production capacity. We then group potential candidates into a supplier pool from which we can further choose the suitable supplier for each order. For each type of our other components, we typically maintain at least two suppliers. We also enter into strategic framework agreement or memorandum of understanding with certain suppliers to guarantee a steady supply of rare components.

We place significant emphasis on protection of intellectual property. We oversee the core components of mining hardware and require all our suppliers to sign framework agreements with terms of confidentiality before entering into business cooperation. Except for TSMC, our suppliers typically offer us a credit term of 30 to 120 days from receipt of products.

Assembly

Once the chips have been manufactured, production of mining hardware entails PCB assembly and general assembly. PCB assembly is the process of creating mounted circuit boards and, through general assembly, the circuit boards are then integrated with other components and parts to produce the final products.

We engage third-party service providers to assemble our products. The terms of our subcontracting arrangement are set out in individual written work orders, and the amount of work outsourced is determined on an as-needed basis. To maintain our product quality, we institute strict quality control measures in addition to those of our production partners. These measures include requiring product testing at various stages of production and utilizing our proprietary software to record and report the quality testing results. See “Quality Control” for more details.

Warehousing

The final quality check and packaging are carried out through our subsidiary, Shenzhen Century Cloud Core Technology. As of June 30, 2018, we had a final quality control and warehousing center with a GFA of approximately 20,000 square meters in Shenzhen, China, where we sample and test the products assembled by our service providers, package the products and store them for delivery pick-ups.

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Our Suppliers

TSMC has been our single largest supplier since our incorporation. For the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, procurement from TSMC accounted for approximately 44.8%, 58.5%, 58.6% and 59.2% of our total procurement, respectively, while purchases from our top five suppliers accounted for approximately 60.8%, 73.6%, 78.3% and 74.8% of our total procurement for the respective periods. For more information on our other suppliers, please see “– Procurement, Production, Inventory and Logistics”, “Risk Factors – Risks Relating to Our Business and Industry – We rely on services provided by a single third-party foundry, and any failure to obtain sufficient foundry capacity from this foundry or shift to another foundry may adversely affect our business operations” and “– We rely on a limited number of third parties for IC packaging and testing services.” Our Directors confirm that, as of the Latest Practicable Date, all of our five largest suppliers are independent third parties and none of our directors or their associates or our existing Shareholders who, to the knowledge of our Directors, own more than 5% of our issued share capital, has any interest in any of our five largest suppliers.

Inventory Management

As of June 30, 2018, we operated seven warehouses in Shenzhen. Our warehouses have capacity for storing about 1.5 million sets of mining hardware.

Our inventory includes components, semi-finished products and finished products. To avoid the accumulation of components in our inventory, we arrange the procurement and delivery of various components according to our monthly and quarterly sales plans. We typically only keep an inventory of components that can meet our production needs. We also implement a “first-in first-out” system as part of our inventory management policy. We have in place an ERP System to monitor our inventory level as well as our procurement and shipment activities. See “Financial Information – Analysis of Selected Consolidated Statements of Financial Position Items – Inventories” for details of our inventory during the Track Record Period.

Logistics

TSMC is responsible for the shipping of wafers from its foundry to the packaging and testing service providers, and we are responsible for shipping the product to our warehouses located in Shenzhen, China. We generally coordinate logistics services for our customers in China and overseas after receipt of their payment. The logistics services providers ship our products to locations designated by our customers and the risk of damage and loss is transferred to the customers once we ship the products to the logistics services providers. We require the logistics providers to possess transportation permits and other relevant qualifications to conduct their business, as well as other qualifications required by law. We currently collaborate with UPS, DHL, FEDEX and other logistics service providers to deliver our products.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any significant delay in delivery that materially affected our business operations.

BUSINESS

QUALITY CONTROL

We emphasize quality control in all aspects of our operations, including product development, component sourcing, product assembly and delivery. We apply strict quality control standards and have implemented various quality control checks to ensure that our products meet our customers’ expectations and international and industry standards. We also require our business partners, including wafer manufacturer, packaging and testing service providers, assembly service providers, components suppliers and delivery service companies, to apply their stringent quality control standards and meet our internal requirements.

We have in place quality control measures at each stage of the production process, including wafer fabrication, chip packaging and testing, procurement of raw materials and final product assembly.

- *Wafer fabrication.* We cooperate exclusively with TSMC for wafer fabrication as wafer fabrication requires highly advanced technologies and TSMC is a global leader in wafer fabrication. We believe, as a leading wafer manufacturer, TSMC has stringent quality standards that safeguard the quality of wafers we use for our ASIC chips. We inspect wafers before delivery for packaging and testing.
- *Packaging and testing.* Our packaging and testing partners also conduct inspection of the wafers for us. Upon delivery of packaged and tested chips, we further conduct our own inspection to ensure the chips’ quality.
- *Procurement of raw materials.* We have always been selective in choosing our suppliers for raw materials. We only purchase from qualified suppliers, and the qualification process includes rigorous requirements regarding quality control. See “Procurement, Production, Inventory and Logistics – Procurement of Other Components” for detailed supplier selection criteria. We constantly monitor the raw materials we source for assembly, and conduct quarterly reviews and evaluations on our suppliers’ performance, covering the quality of the components supplied, the timeliness of delivery, pricing and ability to provide value-added services. Pursuant to our arrangement with various suppliers, any components delivered that fail our quality inspection will be returned to our suppliers at their cost, and we will terminate our relationship with such suppliers if they fail to rectify the defects.
- *Assembly.* We have adopted stringent safety and quality standards for final product assembly in addition to those of our third-party subcontractors for assembly services. Specifically, we conduct quality sampling tests on the components used in the assembly process, semi-finished products and final products.

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We have devoted and will continue to devote significant resources to product quality control. As of June 30, 2018, our quality control department had 96 staff members. During the Track record Period and as of the Latest Practicable Date, we have not experienced any penalty in relation to product quality or any material product quality disputes.

WARRANTY AND AFTER-SALES SERVICES

We provide our customers with a free six-month warranty, which we believe is in line with, or even longer than, prevailing warranty periods in the industry. Our warranties cover regular maintenance services and parts and labor for repairs.

We rarely accept exchanges of products except for cases of major defects. We believe our exchange policy is consistent with relevant PRC laws and regulations governing product quality and consumer rights and interests. During the Track Record Period, we have not experienced any product recall that adversely impacted our reputation, business operations, and financial condition.

To better provide quality and convenient customer services, we have opened online customer service channels, and have also posted information on us, our products, customer service policy and process on WeChat, our website and forums. Additionally, we offer VIP customers direct one-on-one customer service to better suit their immediate and special needs. As of June 30, 2018, our customer service team consisted of 209 members, including 106 in the post-sales service team, 28 in the online customer service team and 75 in the repair and maintenance team.

MARKETING AND BRANDING

We engage in limited sales and marketing efforts as we mainly rely on “word-of-mouth” branding. Additionally, given the high entry barrier of the fabless ASIC chip design industry, there are only a few notable providers of cryptocurrency mining solutions in the market, resulting in favorable supply-demand dynamics for us.

In addition to limited marketing efforts associated with new product launch, we from time to time host and participate in cryptocurrency and blockchain technology events, conferences and summits, such as the World Blockchain Conference held in Wuzhen and the “Scaling for Consensus” Bitcoin Cash Anniversary International Summit held in Hong Kong. We also engage in regional customer acquisition programs overseas through our website, social networking accounts, promotion and advertising activities as well as word-of-mouth marketing. As of June 30, 2018, we had a team of 74 sales and marketing personnel, and for the years ended December 31, 2015, 2016 and 2017 as well as the six months ended June 30, 2017 and 2018, we incurred US\$0.6 million, US\$2.2 million, US\$8.0 million, US\$1.0 million, and US\$12.4 million in selling expenses, respectively.

BUSINESS

OUR CUSTOMERS

Our customers primarily consist of individuals and companies interested in cryptocurrency business as well as those seeking AI solutions. Our customer base increased from nearly 6,000 in 2015 to over 46,000 in 2017 and further to over 80,000 in the six months ended June 30, 2018. Our diverse customer base is located in various countries, mainly including China, Asia (excluding the PRC), the US, and countries in Europe, and we have seen increasing sales overseas in recent years. In 2017, approximately 48.2% of our total revenue were generated in China and 51.8% were generated from overseas market. Specifically, for the year ended December 31, 2017, approximately 35.7% of our overseas sales of mining hardware were made to North America, 43.0% to Asia (excluding the PRC) and 20.7% to Europe in terms of revenue.

We currently have a balanced mix of individual and corporate customers, and our sales have been scattered among our customers. Revenue generated from our largest customer accounted for approximately 5.3%, 4.6%, 3.4% and 3.3% of our total revenue for the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, while revenue from our top five customers accounted for approximately 16.1%, 20.4%, 10.9% and 10.9% of our total revenue for the respective periods. Our Directors confirm that, to the knowledge of our Directors, as of the Latest Practicable Date, our five largest customers were independent third parties and none of our Directors or their associates or our existing Shareholders who own more than 5% of our issued share capital, has any interest in any of the five largest customers.

The key terms of our sales agreements of mining hardware include:

- **Pricing:** The price of the product is determined based on the official price with applicable discount.
- **Purchase Order:** Purchases by customers are made through our official website, and purchase orders specify the purchase volume, product type and product specifications.
- **Settlement:** Customers are required to settle the bills in full before product delivery, except for certain major customers, to whom we may extend a small credit line for a short period of time.
- **Delivery:** Customers will pay for delivery of the products and bear the risks of damage to products and delay in delivery.
- **Warranty and After-Sales Services:** We provide our customers with a free six-month warranty. See “– Warranty and After-Sales Services” for details. We may provide technical support to customers for initial installation.

BUSINESS

COMPETITION

Cryptocurrency Mining Hardware

The global cryptocurrency mining hardware industry consists of all hardware used for mining cryptocurrencies under various kinds of chip architecture and algorithms, currently dominated by ASIC-based and GPU-based mining hardware. According to Frost & Sullivan, the market size of the global ASIC-based cryptocurrency mining hardware industry in terms of revenue increased from US\$0.04 billion in 2013 to US\$3.0 billion in 2017, representing a CAGR of 195.3%.

The global cryptocurrency mining hardware market is highly competitive and dominated by a limited number of major players. According to Frost & Sullivan, the global top three ASIC-based cryptocurrency mining hardware companies, including us, together accounted for approximately 85.2% of the market share in terms of sales revenue in 2017. Among them, we ranked first, accounting for approximately 74.5% of the market share in terms of sales revenue in 2017. Set forth below is our market share and sales revenue of ASIC-based mining hardware compared with our main competitors, according to Frost & Sullivan.

<u>Ranking</u>	<u>Company</u>	<u>ASIC-based Cryptocurrency Mining Hardware Estimated Sales Revenue</u> <i>(US\$ Million)</i>	<u>ASIC-based Cryptocurrency Mining Hardware Market Share (Revenue)</u> <i>(%)</i>
1	Bitmain	2,263.2	74.5%
2	Company E	189.8	6.2%
3	Company F	135.5	4.5%

Notes:

- (1) The ranking only considers the participants producing final products.
- (2) Exchange Rate is calculated as the midpoint of the Renminbi exchange rate published by the People’s Bank of China on August 8, 2018 (1 US\$ = 6.8313 RMB)

Source: Frost & Sullivan

With our dominant market shares and deep technical knowledge in ASIC chip design, we are well-positioned to compete with other existing cryptocurrency mining hardware providers in offering quality cryptocurrency mining products with greater energy efficiency and computing power. At the same time, we are able to leverage our first mover advantage against new market entrants who face significant challenges and barriers in recruiting talent with deep industry knowledge and expertise, acquiring resources in research and development and establishing a professional network in the industry.

Artificial Intelligence Chips

Over the past few years, a large number of competitors, including leading IC designers as well as startups, have flocked into the AI chip market. Well-known IC designers and leading high-tech companies are the major competitors in the global AI chip market.

BUSINESS

Due to high entry barriers, currently there are only a limited number of cloud AI chip suppliers in the global market, mainly dominated by a few global players such as NVIDIA and Google. As the first mover in China in the cloud AI chip market, we compete primarily with well-established international suppliers and a number of domestic players who have recently launched their cloud AI chips. With rapid development of the AI chip industry, we expect that the market competition will continue to intensify, considering the potential increase in supplies and unpredictable demands.

INTELLECTUAL PROPERTY

Intellectual property rights are fundamental to our business, and we devote significant time and resources to their development and protection. We rely on a combination of patent, trademark, copyright and domain name protection in the PRC and other jurisdictions, as well as confidentiality procedures and contractual provisions to protect our intellectual property. In general, our employees enter into a standard confidentiality, non-compete and intellectual property agreement which includes a clause acknowledging that all intellectual properties generated by them on our behalf are our property, and assigning to us any ownership rights that they may claim in respect of those works. Despite our precautions, however, third parties may obtain and use intellectual property that we own or license without our consent. During the Track Record Period, we did not find any material breaches of our intellectual property rights. However, unauthorized use of our intellectual property by third parties and the expenses incurred in protecting our intellectual property rights from such unauthorized use may adversely affect our business and results of operations. See “Risk Factors – Risks Relating to Our Business and Industry – If we fail to adequately protect our IP rights, our ability to compete effectively or to defend ourselves from litigation could be impaired, which could reduce our total revenue and increase our costs.”

As of June 30, 2018, we had 54 registered patents and 168 pending patent applications in the PRC and other jurisdictions, including 12 pending patent applications for our artificial intelligence business.

As of June 30, 2018, we had 20 registered trademarks and 262 pending trademark applications in the PRC. We also had 46 registered trademarks and 145 trademark applications in overseas jurisdictions as of June 30, 2018.

BUSINESS

As of June 30, 2018, we held 32 software copyrights and six works copyrights, and had two software copyright applications with the State Copyright Bureau of China.

As of June 30, 2018, we owned 25 registered domain names, with 21 of them registered in the PRC and the other four registered overseas, and all of them are in effect. Our legal department monitors our domain names on a quarterly basis, informs each department as their expiration dates approach and follows up with each department on the status of domain name renewal. If any of our domain name registrations cannot be renewed for any reason, the domain name registrar may deregister the relevant domain name.

We did not have any material disputes of intellectual property rights with third parties during the Track Record Period and up to the Latest Practicable Date.

Please see “Appendix IV – Statutory and General Information – Further Information about Our Business – Intellectual property rights” for details of our material intellectual property rights.

EMPLOYEES

As of June 30, 2018, we had a total of 2,594 full-time employees. Most of our core staff graduated from top-tier universities, including Peking University, Tsinghua University and Chinese Academy of Sciences, and have worked for other top-tier technology companies. A significant portion of our employees are based in the PRC, primarily at Beijing. The following table sets out the breakdown of our full-time employees by function as of June 30, 2018:

<u>Function</u>	<u>Number of Employees</u>	<u>% of Total</u>
Research and development	840	32.38%
Production management	701	27.02%
Maintenance and management of mining farms	535	20.62%
Administration	235	9.06%
Customer service	209	8.06%
Sales and marketing	74	2.85%
Total	2,594	100.00%

Our success depends on our ability to attract, retain and motivate qualified personnel. We primarily recruit our employees through recruitment agencies, on-campus job fairs and online channels. We have adopted a training program, pursuant to which employees regularly receive general and department-specific trainings from internal speakers.

BUSINESS

As required under PRC regulations, we enter into employment contracts with employees and participate in housing fund and various employee social security plans that are organized by applicable local governments, including pension, medical, maternity, work-related injury and unemployment benefit plans, under which we make contributions at specified percentages of the salaries of our employees. We purchase commercial health and accident insurance for our employees and their families. We also enter into confidentiality and non-competition agreements with our employees to protect our cutting-edge technologies.

As part of our recruitment and retention strategy, we offer employees competitive salaries, benefits, performance-based cash bonuses and certain other incentives. Bonuses are generally discretionary and based in part on employee performance and in part on the overall performance of our business. In particular, we have granted, and plan to continue to grant share-based incentive awards to our employees in the future to incentivize their performance and align their interests with our Shareholders. As of the Latest Practicable Date, the total number of underlying Shares of awards that have been granted under the Share Incentive Scheme is [941,491,000], none of which has been vested. See “Statutory and General Information – Share Incentive Scheme” in Appendix IV for further details.

None of our employees are currently represented by labor unions. We believe that we maintain a good working relationship with our employees and we have not experienced any significant labor disputes or any difficulty in recruiting staff for our operations. However, labor unrest directed against us could, directly or indirectly, prevent or hinder our normal operating activities, and, if not resolved in a timely manner, could adversely affect our business, financial condition and results of operations. See “Risk Factors – Risks Relating to Our Business and Industry – We may be subject to liability in connection with industrial accidents and labor disputes.”

PROPERTIES

As of the Latest Practicable Date, we operated our businesses through 50 leased properties and seven self-owned properties in the PRC, and 20 leased properties in Hong Kong, the United States, Canada, Brazil, Georgia, Israel, Kyrgyzstan, Malaysia, the Netherlands, Russia, Singapore and Switzerland. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules and primarily serve as our offices, warehouse facilities and/or for operational uses.

BUSINESS

Owned Properties

The following table sets forth a summary of the land use rights we owned in the PRC as of the Latest Practicable Date:

<u>No.</u>	<u>Description/Location</u>	<u>Gross Site Area</u> <i>(square meters)</i>	<u>Existing Use</u>	<u>Expiry Date</u>
1	Inner Mongolia	31,045.42	operational use	2068.6.12
2	Inner Mongolia	45,345.18	operational use	2068.6.7
3	Ningxia	33,335.70	operational use	2066.8.23
4	Sichuan Province	9,338.00	operational use	2020.1.31

As of the Latest Practicable Date, we owned seven properties with an aggregate GFA of approximately 56,800 square meters, which are primarily used for offices and operational uses. We are in the process of obtaining the relevant building ownership certificates for these seven properties.

As of the Latest Practicable Date, we had obtained certain construction-related approvals and permits for three of them, two of which are located in Inner Mongolia and one in Ningxia. As advised by our PRC Legal Advisor, pursuant to applicable PRC laws and regulations, the chance that these properties with construction-related approvals and permits will be ordered to be demolished is remote.

As of the Latest Practicable Date, we had not obtained the construction-related approvals or permits for the other four self-owned properties located in Sichuan Province and Xinjiang. These properties had an aggregate GFA of approximately 7,100 square meters, representing approximately 4.52% of the aggregate GFA of the properties we occupy, as of the Latest Practicable Date. As at the Latest Practicable Date, we are in the process of obtaining such approvals and permits. As advised by our PRC Legal Advisor, pursuant to the applicable PRC laws and regulations, we may be ordered to demolish such properties or pay fines imposed by the relevant governmental authorities. As (i) the relevant business operation conducted on such properties made minimal revenue contribution to our Company during the Track Record Period, and (ii) as of the Latest Practicable Date, we had not received any notice from any governmental authorities that orders us to demolish such properties or imposes any other rectification measures on us, our PRC Legal Advisor concurs with our Directors' view that the lack of the relevant certificates as described above would not have material adverse impacts on our business and operations.

BUSINESS

Leased Properties

As of the Latest Practicable Date, we leased the land use rights of five parcels of lands with an aggregate Gross Site Area of approximately 15,200 square meters. These lands are primarily used for operation.

The lessors of four parcels of our leased lands located in Sichuan Province and Xinjiang have not provided the respective certificates of land use rights. As advised by our PRC Legal Advisor, pursuant to the applicable PRC laws and regulations, we as a lessee will not be subject to fines or penalties with respect to the lack of certificates of land use rights for leased lands, but our leases may be affected if the title or the lessors' right to lease are challenged by competent governmental authorities or third-parties.

As of the Latest Practicable Date, we leased 50 leased properties with an aggregate GFA of approximately 99,700 square meters in the PRC. These properties are primarily used for offices, warehouse facilities and operational uses.

Of the 50 leased properties in the PRC, lessors of 23 leased properties with an aggregate GFA of approximately 37,200 square meters and representing approximately 23.79% of our total occupied GFA, did not provide valid title certificates. Our PRC Legal Advisor has advised us that we would not be subject to fines or penalties with respect to these properties, but our leases may be affected if the title or the lessor's right to lease is challenged by third-parties.

As of the Latest Practicable Date, 48 lease agreements had not been registered with relevant authorities. Our PRC Legal Advisor is of the view that the non-registration of the lease agreements will not affect their validity, but the relevant local housing administrative authorities may require us to complete registration within a specified timeframe and we may be subject to a fine between RMB1,000 and RMB10,000 per lease for any delay in making such registration. Therefore, we have the rights to use such properties in accordance with the leasing agreements but we may be subject to fines if the lease registration is not completed within a specified time frame as required by the relevant local housing administrative authorities.

BUSINESS

INSURANCE

We have in place the mandatory insurance policies required by PRC laws and regulations in all material aspects and in accordance with the commercial practices in our industry. Our employee-related insurance consists of pension insurance, maternity insurance, unemployment insurance, work-related injury insurance, medical insurance and housing funds, as required by PRC laws and regulations. We also purchase supplemental commercial medical insurance and accident insurance for our employees.

We maintain various insurance policies to safeguard against risks and unexpected events. We have purchased property insurance covering risks of physical loss, destruction or damage to inventory, work-in-process and raw materials of our products and our fixed assets, including manufacturing facilities. We also maintain freight transport insurance for products to be delivered to our customers.

In line with general market practice, we do not maintain any business interruption insurance, which is not mandatory under the relevant laws of the PRC. We do not maintain key-man life insurance or insurance policies covering damage to our IT infrastructure or information technology systems. During the Track Record Period, we did not make any material insurance claims in relation to our business. See “Risk Factors – Risks Relating to Our Business and Industry – Our insurance coverage is limited and may not be adequate to cover potential losses and liabilities. A significant uninsured loss or a loss in excess of our insurance coverage could have a material adverse effect on our results of operations and financial condition.”

ENVIRONMENTAL MATTERS

We are subject to PRC environmental laws and regulations, including the Environmental Protection Law of the PRC. These laws and regulations govern a broad range of environmental matters, including air pollution, noise emissions and water and waste discharge. We consider the protection of the environment to be important and have implemented measures in the operation of our business to ensure our compliance with all applicable requirements under the PRC environmental laws and regulations. Due to the nature of our business, our operational activities do not directly generate industrial pollutants, and we did not incur significant cost for compliance with applicable environmental protection laws and regulations during the Track Record Period. Our Directors do not expect that we will incur significant costs in this aspect in the future.

During the Track Record Period, we had not received any material complaint, notice or warning in respect of any environmental protection issues, nor had we been subject to material fines, penalties or other legal actions by government authorities in the PRC resulting from any non-compliance with any environmental protection laws or regulations in the PRC.

BUSINESS

OCCUPATIONAL HEALTH AND WORK SAFETY

Our operations are subject to PRC laws and regulations, national standards and industrial standards which stipulate the requirements to maintain safe working conditions and to protect the occupational health of our employees. Pursuant to the above requirements, we require new employees to participate in safety training to familiarize themselves with the relevant safety rules and procedures. We have implemented work safety policies and procedures to ensure compliance with applicable regulatory requirements and to minimize the risk of injury of our employees. We have also implemented an internal control system to ensure the proper documentation of any workplace safety incidents.

During the Track Record Period, we had not experienced any severe accidents during our ordinary course of business, nor had we been subject to material fines, penalties or other legal actions by government authorities in the PRC resulting from any non-compliance with applicable PRC laws and regulations in relation to occupational health and work safety matters.

RISK MANAGEMENT AND INTERNAL CONTROL

We are exposed to various types of risks during our ordinary course of business, including (i) financial reporting risks relating to our financial statements preparation and budget management; (ii) investment risks relating to our business strategy and planning; (iii) internal control risks in relation to our business operations; (iv) IT system risks; (v) human resources risks; and (vi) cryptocurrency risks, primarily risks associated with the market price of cryptocurrencies. For more information, see the section headed “Risk Factors – Risks Relating to Our Business and Industry” in this document.

We have designed and implemented relevant risk management policies to address these potential risks identified in relation to our business. Our risk management system sets out procedures to identify, analyze, assess, mitigate and monitor any potential risks. The procedures also set out the relevant reporting hierarchy of risks identified during our operations. Our Board is responsible for overseeing our overall risk management and our Audit Committee, comprising of Mr. Sun Hanhui, Mr. Wang Xiaochun and Mr. Deng Feng, is responsible for implementation and supervision of risk management strategies, measures and policies. We continually review the implementation of our risk management policies and measures to ensure that our policies and implementation are effective and sufficient.

Financial Reporting Risk Management

We have in place a set of accounting policies in connection with our financial reporting risk management, such as financial report management policies, budget management policies, financial statements preparation policies and financial department and staff management policies. We have various procedures in place to implement accounting policies, and our financial department reviews our management accounts based on such procedures. We also provide regular training to our financial department staff to ensure that they understand our accounting policies.

BUSINESS

As of June 30, 2018, our finance department consisted of 72 employees. It is headed by Mr. Liu Jianchun, who has years of experience in financial management.

Investment Risk Management

We have invested in and will continue to invest in and acquire businesses that are complementary to our business and growth strategies, which are generally members of the broader “blockchain ecosystem.” For more information, see the sections headed “Business – Our Strengths – Pioneer in the thriving blockchain ecosystem” and “– Our Strategies – Advancing our presence in the blockchain industry” in this document.

We have set up an annual investment plan in line with our business strategies. An investment budget is set up based on our overall financial conditions every year.

To manage potential risks associated with investment, we normally require our investee companies to grant us certain protective rights, which may include veto rights, information rights, liquidation preference, redemption rights, anti-dilution rights, pre-emptive rights and rights of first refusal and co-sale rights. Depending on our negotiations with the investee companies, we may not be granted all of the rights requested.

Our investment department is responsible for investment project sourcing, screening, execution and portfolio management. The department sources investment projects in accordance with our investment strategy, and conducts thorough pre-investment due diligence to assess the risks and potentials of the investment projects. We employ different levels of approval and due diligence mechanisms corresponding to the specific circumstances involved in an investment project.

In addition, our investment department is responsible for monitoring the performance of each investment on a regular basis. The department is also responsible for preparing analysis reports and providing recommendations on measures to reduce any risks involved in each investment project, and it reports to the head of the department and then to our Board if there is any material change to the financial position of an investment.

Internal Control Risk Management

We have designed and adopted stringent internal procedures to ensure the compliance of our business operations with the relevant rules and regulations. Each department of our Company is separately responsible for implementing and effecting these policies. Internal control processes and procedures are established for various aspects of the business such as research and design project management, contract management, sales and collections management, procurement and payment management, inventory and warehousing management, quality assurance management, human resources and payroll management, cash management and intellectual property management. Policies and procedures in respect of these business areas are mostly formalized, and we have in place regular channels for the escalation of any internal control issues.

BUSINESS

In accordance with our internal procedures, our in-house legal department, which consists of 16 employees as of June 30, 2018 with rich experience in internal control, performs the basic function of reviewing and updating the form of contracts we enter into with our customers, suppliers, production partners and other service providers. Our legal department typically examines the contract terms and reviews relevant documents for our business operations, including licenses and permits of our business partners and due diligence materials, before we enter into any contract or business arrangement. Meanwhile, we have in place enhanced internal procedures to ensure that our in-house legal department continues to oversee our legal and regulatory compliance-related matters, and retain external legal advisors to advise on compliance matters when necessary. Our in-house legal department is also responsible for obtaining all material requisite governmental pre-approvals and consents, including preparing and submitting necessary documents for filing with relevant government authorities on time.

For IP-related issues, we have engaged devoted and specialized external IP legal advisors to work with our in-house IP department in registering, and applying and reviewing the relevant patent and trademark rights of our IPs.

IT System Risk Management

The proper functioning of our technology infrastructure is critical to the conduct of our business. Given that we receive, process, store and transmit, often electronically, the data of our customers and others, most of which is confidential, cyber-security is essential to our success. We have in place a set of enhanced internal procedures and controls to ensure the satisfactory performance, reliability and availability of our platform, our transaction-processing systems and our network infrastructure. We have also implemented relevant security measures for the collection, storage and use of user data to protect user data and prevent loss of such data, whether through hacking, fraud or other means.

As of June 30, 2018, our IT security center consisted of 18 employees in total, responsible for the security of our IT systems and infrastructure, including, among others, ensuring that the usage, maintenance and protection of user data are in compliance with our internal rules and the applicable laws and regulations.

We have established a systematic and universal user account authorization and management mechanism based on which we periodically review the status of user accounts and the related authorization information. We regularly perform security configuration assessments on our databases and servers and implement procedures for system log management.

We have in place a series of back-up management procedures. For our mining pools, we deploy different back-up mechanisms, including local back-ups and offsite back-ups, depending on the needs of our business, to minimize the risk of user data loss or leakage. We have established protocols for the design, implementation and monitoring of offsite back-ups. We perform data recovery tests on a regular basis and retain relevant records.

BUSINESS

We provide information security training to our employees, conduct ongoing trainings and discuss any issues and updates from time to time. We have also implemented a set of *Information Safety Management Procedures* to mitigate the risks involved in the management of our daily operational data and information. Procedures such as information system development and maintenance, IT equipment management, access control, password policy, user authorization review and approval and data back-up, as well as data recovery tests, are adopted to safeguard our information assets and ensure the proper management of our operational data.

Human Resources Risk Management

We provide regular and specialized training tailored to the needs of our employees in different departments. We have a training center which regularly organizes internal training sessions conducted by senior employees or outside consultants on topics critical to our business operations. The training center schedules regular trainings, reviews training materials and follows up with employees to evaluate the trainings. Through these trainings, we ensure that our staff's skillsets remain up to date and that they are able to deepen their understanding of the industry.

We have implemented *Human Resources Control Procedures* to ensure the efficient management of our human resources, including internal rules and guidelines relating to recruitment, staffing, talent management, training and performance review. We have in place an employee handbook, which is approved by our management and shared with all our employees.

We also have in place an anti-corruption policy and whistleblowing process to safeguard against any corruption and other act that infringes the lawful rights and interests of our Company or our employees within our Company. We have issued the *Management Policy on Business Conduct and Code of Ethics* to our staff to explain our principles and internal rules in respect of best commercial practice, work ethics, confidentiality, compliance with law and preventive mechanisms to avoid conflicts of interest. We have also issued the *Complaint Reporting Management Policy* to keep our internal reporting channel open and available for our staff to report any acts of corruption, and our staff can also make anonymous reports to our risk management department. Our risk management department is responsible for investigating the incidents reported and taking appropriate measures.

Cryptocurrency Risk Management

Our business and financial condition correlate closely with the market price of cryptocurrencies. We held approximately 28% of our total assets in cryptocurrency as of June 30, 2018. We accumulated cryptocurrencies mainly through payments received from customers for the sale of mining hardware and proprietary mining activities. We account for cryptocurrency assets at cost, instead of revaluing cryptocurrencies at their fair value on each accounting reference date. In addition, we only recognize impairment from cryptocurrency assets, if any, and do not recognize any increase in value from the appreciation of cryptocurrency assets over the original cost prior to our disposal of cryptocurrencies.

BUSINESS

We have a dedicated team to manage our cryptocurrencies. Our finance department monitors the amount of and fluctuations in the market price of cryptocurrencies received from our ordinary operations on a daily basis and makes recommendations to the management team on conversion of cryptocurrencies into standard currencies based on our operational and cash flow needs. In addition, we conduct regular pressure tests of the value of cryptocurrencies to effectively control the risk of volatility in the price of the cryptocurrencies.

After due consideration, our Directors are of the view that our current internal control measures are adequate and effective.

LEGAL PROCEEDINGS AND REGULATORY COMPLIANCE

Legal Proceedings

We may from time to time be subject to legal proceedings, investigations and claims relating to the conduct of our business. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors. See “Risk Factors – Risks Relating to Our Business and Industry – We may be involved in legal and other disputes from time to time arising out of our operations, including any dispute with our raw material or component suppliers, production partners, other third-party service providers, customers or employees.”

As of the Latest Practicable Date, we were not a party to, nor are we aware of, any material litigations, arbitrations, investigations or claims pending or threatened by or against us or any of our Directors, which, in the opinion of our Directors, were likely to have a material adverse effect on our business, financial condition or results of operations.

Compliance

During the Track Record Period and up to the Latest Practicable Date, we had no material incidents of non-compliance relating to our operation.

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You should read the following discussion of our financial position and results of operations in conjunction with our historical financial information and related notes set out in the Accountants’ Report included in Appendix I to this document. The Accountants’ Report contains our historical financial information as of and for the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018. Our historical financial information have been prepared in accordance with IFRSs; which may differ in material respects from generally accepted accounting principles in other jurisdictions. This discussion contains forward-looking statements that involve risks and uncertainties. Our future results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those described in the section headed “Risk Factors” and elsewhere in this document.

OVERVIEW

We are China’s second largest and among the world’s top ten fabless IC design companies in terms of revenue in 2017, according to Frost & Sullivan. We focus on the design of ASIC chips specialized in cryptocurrency mining and AI applications, and we are the fourth largest global fabless ASIC chip design company in terms of revenue in 2017, according to Frost & Sullivan.

We primarily offer and sell mining hardware equipped with our proprietary ASIC chips, which have strong computing power and great energy efficiency. Our cryptocurrency mining hardware covers a variety of cryptocurrencies, including Bitcoin, Bitcoin Cash, Ether, Litecoin, Dash and Zcash. We specialize in the front-end and back-end of cryptocurrency mining ASIC chip design, and cooperate with production partners for all phases of the manufacturing process, including wafer fabrication and packaging and testing. Riding on our success and expertise in ASIC chip design and powerful research and development capabilities, we have extended our focus to the revolutionary field of AI and achieved promising results. We are among one of the few AI chip companies in the world, including mainly Google and NVIDIA, that are capable of developing chips for cloud training and inference. Our AI chips function as a tensor computing acceleration processor for deep learning, applicable to training and/or inference on artificial neural networks. To supplement our mining hardware sales business, we also manage mining farms where we offer our customers custodian services for their mining hardware, and operate mining pools where miners contribute their computing power and split mining rewards.

We have experienced exponential growth during the Track Record Period. Our revenue increased from US\$137.3 million in 2015 to US\$2,517.7 million in 2017, representing a CAGR of 328.2%, and increased by 936.6% from US\$274.5 million for the six months ended June 30, 2017 to US\$2,845.5 million for the six months ended June 30, 2018. During the same period, our profit for the year or period increased from US\$48.6 million in 2015 to US\$701.4 million in 2017 with a CAGR of 279.9%, and increased by 794.8% from US\$83.0 million for the six months ended June 30, 2017 to US\$742.7 million for the six months ended June 30, 2018. Our adjusted net profit, which is our profit excluding share-based compensation expenses and fair value changes of convertible redeemable preferred shares, increased from US\$48.6 million in 2015 to US\$113.6 million in 2016 and further to US\$952.6 million in 2017, and our adjusted

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net profit increased from US\$83.0 million for the first half of 2017 to US\$952.2 million for the first half of 2018. Our adjusted EBITDA, which is our profit before taxation excluding fair value changes of convertible redeemable preferred shares, finance cost, share-based compensation expenses, depreciation and amortization increased from US\$57.9 million in 2015 to US\$138.1 million in 2016 and further to US\$1,152.1 million in 2017, increased from US\$101.8 million for the first half of 2017 to US\$1,122.9 million for the first half of 2018. Please see “Financial Information – Non-IFRS Measures: Adjusted EBITDA and Adjusted Net Profit” for more information. However, given the volatile nature of cryptocurrencies and that our business and financial condition correlate with the market price of cryptocurrencies, we may not be able to sustain our high historical growth rates. Please see “Risk Factors – Risks Relating to Our Business and Industry – We may not be able to sustain our historical growth rates, and our historical performance may not be indicative of our future growth or financial results given our limited operating history” and “Summary – Recent Developments.”

BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with all applicable IFRS which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board (“IASB”). The measurement basis used in the preparation of the financial statements is the historical cost basis except for equity investments and convertible redeemable preferred shares which are stated at their fair value.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgements made by management in the application of IFRS that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3 to the Accountants’ Report included in Appendix I to this document.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, materially affected by a number of factors, many of which are outside of our control, including the following:

Acceptance and development of cryptocurrencies

We generate most of our revenue from sale of cryptocurrency mining hardware and other cryptocurrency-related business, which rely on the acceptance and development of the

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cryptocurrency. In recent years, the global ASIC-based cryptocurrency mining hardware market has undergone significant growth in terms of revenue from US\$0.04 billion in 2013 to US\$3.0 billion in 2017 with a CAGR of 195.3%, according to Frost & Sullivan. In addition, we have also witnessed rapid development in the overall cryptocurrency computing services industry, consisting of not only ASIC-based cryptocurrency mining hardware but also mining farm service, mining pool operation and other services related to cryptocurrency mining. The global cryptocurrency computing services industry increased from a market size of US\$0.04 billion in terms of revenue in 2013 to US\$4.1 billion in 2017, representing a CAGR of 217.8%, according to Frost & Sullivan. However, adverse development in and negative publicity towards blockchain technology or cryptocurrency industry, may significantly affect our business and results of operations. For example, diverging beliefs in the concept of decentralization, lack of acceptance of cryptocurrencies, and hacking and fraud risks may significantly reduce demand for our cryptocurrency mining products and services. See “Risk Factors – Risks Relating to our Business and Industry – The development of blockchain technology and cryptocurrency is in its early stage and any adverse development in the cryptocurrency or blockchain market could adversely affect our business and results of operations,” “– We may increasingly become a target for public scrutiny, including complaints to regulatory agencies, negative media coverage, and malicious allegations, all of which could severely damage our reputation and materially and adversely affect our business and prospects,” and “– Cryptocurrency exchanges and wallets, and to a lesser extent, a cryptocurrency blockchain itself, may suffer from hacking and fraud risks, which may adversely erode user confidence in cryptocurrencies and reduce demand for our products and services” for a full discussion.

Market price of cryptocurrencies

The market price of cryptocurrencies affects cryptocurrency mining activities and the demand for our cryptocurrency mining products and services. The value of most cryptocurrencies is not anchored to any standard currency or precious metal and cryptocurrencies are not backed or guaranteed by governments or private enterprises. Fluctuations in the prices of cryptocurrencies can be drastic. Take Bitcoin as an example, its price increased from US\$428 as of December 31, 2015 to US\$960 as of December 31, 2016 and further to US\$14,166 as of December 31, 2017 but subsequently decreased to US\$6,381 as of June 30, 2018, according to Blockchain.info. An increase in the market price of cryptocurrencies will lead to increase in cryptocurrency transactions and mining activities, and hence increasing demand for our cryptocurrency mining products and services and we may adjust our product price upwards. On the contrary, if the market price of cryptocurrencies decreases, economic returns for mining activities will fall and result in decrease in cryptocurrency mining activities as well as demand for our mining hardware and related services, which in turn would require us to adjust our price downwards.

Moreover, approximately 27% of our mining hardware sales revenue were paid with cryptocurrencies in 2017, and as of June 30, 2018, approximately 28% of our total assets are cryptocurrencies. Thus, fluctuations in the market price of cryptocurrencies may directly affect our financial performance and position.

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Expected economic return of Bitcoin mining

Expected economic return of Bitcoin mining drives Bitcoin mining activities. Thus, the demand for our Bitcoin mining hardware and related services is primarily determined by the expected economic return of Bitcoin mining. The economic return of Bitcoin mining is primarily affected by the following factors: (i) Bitcoin price; (ii) transaction fees which are positively correlated to the activity level of Bitcoin transactions; (iii) mining difficulty which is positively correlated with the total computing power of the entire Bitcoin network; (iv) purchase price of mining hardware; (v) energy/computing power efficiency of the mining hardware; and (vi) electricity prices. Typically, increases in Bitcoin price, transaction fees and energy/computing power efficiency, as well as decreases in mining difficulty, price of mining hardware and electricity will lead to higher economic return of Bitcoin mining and thus increasing demand for our mining products and related services.

Regulatory environment

We operate our business globally and are subject to laws and regulations of various jurisdictions. We currently have a diverse customer base located in various countries and have in recent years witnessed an increasing trend of overseas sales. In both 2016 and 2017, over 50% of sales were generated overseas. As such, we need to make efforts to ensure compliance with laws and regulations of different jurisdictions we operate in. The uncertainty of the regulatory environment and our ability to anticipate and respond to potential changes in government policies and regulations will have a significant impact on our business operations in these countries and our overall results of operations. See “Risk Factors – Risks Relating to Our Business and Industry – We are subject to regulatory risks with regard to mining, holding, using, or transferring cryptocurrencies, which could negatively affect our business, results of operations and financial position” and “– We face risks associated with our global operation. If we are unable to effectively manage these risks, they could impair our ability to expand our business.”

Competition

The global ASIC-based cryptocurrency mining hardware market we operate in is highly competitive and dominated by a small number of major players. According to Frost & Sullivan, the global top three ASIC-based cryptocurrency mining hardware companies, including us, together accounted for approximately 85.2% of the market share in terms of sales revenue in 2017, and we ranked first among these players. To maintain our competitiveness in the market, we will take into consideration of price of our competitors and demand for mining hardware to price our mining hardware. According to Frost & Sullivan, IC chips have short life cycles and experience decreases in average selling prices over time. We are generally able to set a relatively high price for our product at launch given our products’ superior performance and will adjust our price as more competing products enter the market.

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Innovation

The fabless IC design industry is characterized by rapid launches of new products and continuous technological advancements, and thus innovation is at our core. As a fabless ASIC chip design company, our innovation in ASIC chip development has contributed to the growth of the Bitcoin mining market. To enhance our competitive edge, we have devoted significant research and development resources to improve and upgrade our chip design to increase the chips’ computing power while lowering their power consumption, to design ASIC chips for a variety of cryptocurrencies as well as ASIC chips for AI applications. Our market insights and ability to develop and upgrade ASIC chips and products with potentials in both the cryptocurrency mining market as well as the AI industry, will have a material effect on our production and sales and, consequently, our business operations and financial performance.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our historical financial information. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items, in which case, the management needs to make such judgments based on past experience, industry practices, future expectations and other information or financial data that may change in future periods. There has not been any material deviation from our management’s estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future. When reviewing our historical financial information, you should consider (i) our significant accounting policies, (ii) the judgments and other uncertainties affecting the application of such policies, and (iii) the sensitivity of reported results to changes in conditions and assumptions.

We set forth below those accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our historical financial information. Our significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in detail in Notes 2 and 3 to the Accountants’ Report included in Appendix I to this document.

Revenue Recognition

Income is classified as revenue when it arises from the sale of goods and the provision of services in the ordinary course of the Group’s business.

Revenue is recognized when control over a product or service is transferred to the customer at the amount of promised consideration to which we expect to be entitled. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

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Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to us, revenue recognized under that contract includes the interest expense accreted on the contract liability under the effective interest method. We take advantage of the practical expedient in paragraph 63 of IFRS 15 and do not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Mining Hardware Sales

Revenue is recognized when customers obtain control over the mining hardware. This usually occurs when the logistics company, as selected by customers, picks up the mining hardware from our premises and the associated legal titles and risks and rewards are transferred. Sales of mining hardware are typically settled in advance and, if they are settled in cryptocurrencies, then the related revenue are measured at fair value of the relevant cryptocurrencies on the date of receipt.

Mining pool service

A mining pool is a platform where miners contribute their computing power to jointly mine cryptocurrencies and share mining rewards. Our mining pools generate revenue from a portion of the mining rewards generated from the mining activities of our mining pools. Subject to different distribution structures, we generally collect up to 5% of the total mining rewards generated from operating the mining pools. The amount of revenue recognised is measured with reference to the spot price to standard currencies on the date when it is earned.

Mining farm service

We offer custodian services at its mining farms. A mining farm functions as a storage facility, where mining hardware is placed on shelves which are technologically equipped to mine cryptocurrencies. The income is recognised in profit or loss when the related services have been rendered.

Proprietary mining

We perform mining activities with our own mining hardware to earn cryptocurrency reward. We recognize revenue when we receive the cryptocurrency as a result of our mining activity. The amount of revenue recognized is measured with reference to the spot price to standard currencies on the date when they are earned.

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Cryptocurrencies

Cryptocurrencies are, by their nature, identifiable non-monetary assets that lack physical substance. Future economic benefits attributable to cryptocurrencies are expected to flow to us because cryptocurrencies can be exchanged to standard currencies on public trading platforms. Furthermore, the cost of our cryptocurrency assets can be measured reliably because (a) a majority of our cryptocurrencies are earned from the sales of the mining hardware and the “exchange rates” for cryptocurrencies on public trading platforms provide evidence of the fair value and the cost of the cryptocurrencies, and (b) cryptocurrencies earned from proprietary mining activities and our mining pool services can also be measured with reference to the spot price to standard currencies on the date when they are earned.

We conclude that cryptocurrencies received from the sales of mining hardware, proprietary mining and operation of mining pools as intangible assets with indefinite useful life in our consolidated statements of financial position because, at the time of assessment, there is no foreseeable limit to the period over which such assets are expected to generate cash flows. We also recognize cryptocurrencies received from the provision of such goods and services as income from principal activities in profit or loss.

We further choose the cost model to account for our cryptocurrencies and review their useful life and impairment at each reporting date in accordance with IAS 38 Intangible Assets. We account for cryptocurrencies at cost, instead of revaluing cryptocurrencies at their fair value on each accounting reference date, because the latter model is subject to inherent and substantial volatility in the value of cryptocurrencies from time to time. In addition, we believe that the cost model better reflects our business model, as we do not trade in cryptocurrencies, but earn cryptocurrencies from the sales of mining hardware, proprietary mining and operation of mining pool services.

Cost is calculated using the weighted average cost method. Gains or losses arising from the disposal of cryptocurrencies are determined as the difference between the net disposal proceeds and the carrying amount of the cryptocurrencies and are recognised in profit or loss on the date of disposal.

If circumstances indicate that the carrying amount of cryptocurrencies may not be recoverable, the assets may be considered “impaired”, and an impairment loss may be recognised in accordance with accounting policy for impairment of cryptocurrencies as described in the Accountant’s Report in Appendix I.

Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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Cryptocurrency mining hardware is recognized only when it is probable that economic benefits associated with the asset will flow to us and the cost of the asset can be measured reliably. Cryptocurrency mining hardware is recorded initially at actual cost on acquisition.

Subsequent expenditures incurred for cryptocurrency mining hardware are included in the cost of cryptocurrency mining hardware and if it is probable that economic benefits associated with the asset will flow to us and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognized. Other subsequent expenditures are recognized in profit or loss in the period in which they are incurred.

Depreciation is calculated to write off the cost of inventories, mainly the mining hardware which are held for proprietary mining, using the straight line method over their estimated useful lives no more than 6 months. The useful life, estimated residual value of Bitcoin mining hardware is as follows:

<u>Category</u>	<u>Useful life</u>	<u>Residual value</u>
Proprietary mining hardware	180 days	30%

Estimated net residual value of a proprietary mining hardware is the estimated amount that we would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

If a cryptocurrency mining hardware is upon disposal or no future economic benefits are expected to be generated from its use or disposal, the cryptocurrency mining hardware is derecognized. When a cryptocurrency mining hardware is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes is recognized in profit or loss for the period.

Share-based payments

The fair value of share incentive scheme granted to employees is recognized as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the awards were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the awards, the total estimated fair value of the awards is spread over the vesting period, taking into account the probability that the awards will vest.

During the vesting period, the number of share incentive scheme that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognized in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognized as an expense is adjusted to reflect the actual number of awards that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company’s shares. The equity amount is recognized in the capital reserve until either the award is exercised (when it is included in the amount recognized in share capital for the shares issued) or the award expires (when it is released directly to retained profits).

FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND NON-IFRS MEASURES

The following table sets forth a summary of our consolidated statements of profit or loss and non-IFRS measures with line items in absolute amounts and as percentages of our revenues for the periods indicated.

	Years ended December 31,						Six months ended June 30,			
	2015		2016		2017		2017		2018	
	<i>(US\$'000)</i>	%	<i>(US\$'000)</i>	%	<i>(US\$'000)</i>	%	<i>(US\$'000)</i>	%	<i>(US\$'000)</i>	%
Revenue	137,343	100	277,612	100	2,517,719	100	274,450	100	2,845,467	100
Cost of sales	(65,858)	(48.0)	(126,261)	(45.5)	(1,304,969)	(51.8)	(140,757)	(51.3)	(1,815,316)	(63.8)
Gross profit	71,485	52.0	151,351	54.5	1,212,750	48.2	133,693	48.7	1,030,151	36.2
Other income (expense)	1,738	1.3	25,740	9.3	109,519	4.3	(9,125)	(3.3)	302,292	10.6
Selling expenses	(598)	(0.4)	(2,217)	(0.8)	(7,971)	(0.3)	(966)	(0.4)	(12,420)	(0.4)
Administrative and other operating expenses	(7,541)	(5.5)	(14,205)	(5.1)	(58,910)	(2.3)	(11,153)	(4.1)	(43,839)	(1.5)
Research and development expenses	(5,702)	(4.2)	(16,608)	(6.0)	(72,563)	(2.9)	(11,087)	(4.0)	(86,966)	(3.1)
Other net loss	(1,608)	(1.2)	(6,379)	(2.3)	(39,453)	(1.6)	(2,382)	(0.9)	(120,305)	(4.2)
Profit from operations	57,774	42.1	137,682	49.6	1,143,372	45.4	98,980	36.1	1,068,913	37.6
Finance costs	(60)	(0.0)	(31)	(0.0)	(59)	(0.0)	(44)	(0.0)	(82)	(0.0)
Share of profits less losses of associates	78	0.1	99	0.0	4,696	0.2	2,275	0.8	5,363	0.2
Fair value changes of convertible redeemable preferred shares	—	—	—	—	(250,633)	(10.0)	—	—	(166,402)	(5.8)
Profit before taxation	57,792	42.1	137,750	49.6	897,376	35.6	101,211	36.9	907,792	31.9
Income tax	(9,189)	(6.7)	(24,154)	(8.7)	(195,975)	(7.8)	(18,246)	(6.6)	(165,076)	(5.8)
Profit for the year/period	48,603	35.4	113,596	40.9	701,401	27.9	82,965	30.2	742,716	26.1
Attributable to equity shareholders of the Company	44,036	32.1	110,582	39.8	701,401	27.9	82,965	30.2	742,716	26.1
Non-controlling interests	4,567	3.3	3,014	1.1	—	—	—	—	—	—
Profit for the year/period	48,603	35.4	113,596	40.9	701,401	27.9	82,965	30.2	742,716	26.1
Non-IFRS Measures:										
Adjusted EBITDA	57,916	42.2	138,125	49.8	1,152,147	45.8	101,828	37.1	1,122,910	39.5
Adjusted net profit	48,603	35.4	113,596	40.9	952,557	37.8	82,965	30.2	952,183	33.5

FINANCIAL INFORMATION

Notes:

- (1) We define “adjusted EBITDA” as profit before taxation for the year or period by adding back (i) fair value changes of convertible redeemable preferred shares, (ii) finance cost, (iii) share-based compensation expenses, (iv) depreciation and (v) amortization. Adjusted EBITDA is not a measure required by, or presented in accordance with IFRS. The use of adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRS. See “Financial Information – Non-IFRS Measures: Adjusted EBITDA and Adjusted Net Profit” for details.
- (2) We define “adjusted net profit” as profit for the year or period by adding back (i) fair value changes of convertible redeemable preferred shares, and (ii) share-based compensation expenses. Adjusted net profit is not a measure required by, or presented in accordance with IFRS. The use of adjusted net profit has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRS. See “Financial Information – Non-IFRS Measures: Adjusted EBITDA and Adjusted Net Profit” for details.

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenues

Revenue breakdown by products and services

During the Track Record Period, we generated revenues primarily through: (i) mining hardware sales, (ii) mining pool service, (iii) mining farm service, and (iv) proprietary mining. The following table sets forth our revenue breakdown by products and services, each expressed in absolute amount and as a percentage of our total revenue for the periods presented.

	Years ended December 31,						Six months ended June 30,			
	2015		2016		2017		2017		2018	
	(US\$'000)	%	(US\$'000)	%	(US\$'000)	%	(US\$'000)	%	(US\$'000)	%
Revenues										
Mining hardware										
sales	107,878	78.6	214,698	77.3	2,263,237	89.9	220,902	80.5	2,683,853	94.3
Mining pool service	295	0.2	3,644	1.3	32,906	1.3	7,330	2.7	43,217	1.5
Mining farm service	–	–	5,205	1.9	20,592	0.8	4,983	1.8	21,823	0.8
Proprietary mining	27,944	20.3	53,586	19.3	199,330	7.9	40,652	14.8	94,343	3.3
Others	1,226	0.9	479	0.2	1,654	0.1	583	0.2	2,231	0.1
Total	137,343	100	277,612	100	2,517,719	100	274,450	100	2,845,467	100

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Mining hardware sales

During the Track Record Period, most of our revenue was generated from the sales of our cryptocurrency mining hardware under the Antminer brand as well as some ancillary accessories such as compatible power supplies. The revenues derived from this segment witnessed a significant growth during the Track Record Period. During the year ended December 31, 2015, 2016 and 2017, we recorded revenue from mining hardware sales in the amount of US\$107.9 million, US\$214.7 million and US\$2,263.2 million, representing 78.6%, 77.3% and 89.9% of our total revenue, respectively. During the six months ended June 30, 2017 and 2018, our revenue from mining hardware sales increased from US\$220.9 million to US\$2,683.9 million, accounting for 80.5% and 94.3% of our total revenue, respectively. The increase in revenue from mining hardware sales during the Track Record Period was primarily driven by (i) the increase in sales volume of our mining hardware, and (ii) to a lesser extent, the increase in the average selling price of our mining hardware.

We calculate the average selling price of our cryptocurrency mining hardware by dividing the total revenue from sales by the volume of mining hardware sold over a period of time. The average selling price of our cryptocurrency mining hardware is mainly affected by product lifecycle, market price of cryptocurrencies, price of our competitors, product types, expected economic return of cryptocurrency mining and demand for mining hardware. The decrease in our average selling price of mining hardware in the first half of 2018 as compared to that of first half of 2017 was primarily due to the decreased expected economic return per unit cryptocurrency mining hardware as a result of the increased network mining difficulty.

The table below sets forth the sales volume, sales revenue and average selling price (“ASP”) of our different types of mining hardware, and the sales revenue of ancillary accessories for the periods presented:

	Year ended December 31,									Six months ended June 30,					
	2015			2016			2017			2017			2018		
	Volume	Revenue	ASP	Volume	Revenue	ASP	Volume	Revenue	ASP	Volume	Revenue	ASP	Volume	Revenue	ASP
	<i>thousand</i>	<i>sets (US\$'000)</i>	<i>(US\$)</i>	<i>thousand</i>	<i>sets (US\$'000)</i>	<i>(US\$)</i>	<i>thousand</i>	<i>sets (US\$'000)</i>	<i>(US\$)</i>	<i>thousand</i>	<i>sets (US\$'000)</i>	<i>(US\$)</i>	<i>thousand</i>	<i>sets (US\$'000)</i>	<i>(US\$)</i>
Bitcoin/Bitcoin Cash mining hardware	226.9	104,945	463	261.0	200,088	767	1,108.3	1,364,100	1,231	172.2	199,844	1,161	1,876.7	1,900,121	1,012
Other cryptocurrency mining hardware	-	-	-	0.7	917	1,310	513.2	797,044	1,553	6.3	9,093	1,443	686.9	643,114	936
Total mining hardware	226.9	104,945	463	261.7	201,005	768	1,621.5	2,161,144	1,333	178.5	208,937	1,171	2,563.6	2,543,235	992
Accessories	N/A	2,933	N/A	N/A	13,693	N/A	N/A	102,093	N/A	N/A	11,965	N/A	N/A	140,618	N/A
Total	N/A	107,878	N/A	N/A	214,698	N/A	N/A	2,263,237	N/A	N/A	220,902	N/A	N/A	2,683,853	N/A

Mining pool service

During the Track Record Period, our revenues from mining pool service were primarily derived from a portion of the mining rewards generated from mining activities of our mining pools. Subject to different distribution structures, we collect up to 5% of the total mining rewards from operating. During the Track Record Period, the revenues from the mining pool service increased significantly, primarily due to the increase in the computing power pooled at our mining pools, which in turn increased the total mining rewards.

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Mining farm service

During the Track Record Period, our revenues from mining farm service were generated primarily from the custodian service fees we charged from the customers who placed their mining hardware in our mining farms. Custodian service fees primarily consist of electricity fees and maintenance costs. Our revenues from the mining farm service increased significantly during the Track Record Period, primarily as a result of the increase in the number of mining farms we owned and operated and the corresponding increase of hardware hosting capacities.

Proprietary mining

During the Track Record Period, our revenues from proprietary mining were generated from the cryptocurrencies obtained from our proprietary mining activities. During the Track Record Period, the revenues derived from proprietary mining increased primarily due to (i) the increase in the market price of cryptocurrencies and (ii) the increase in the mining hardware we utilized for proprietary mining.

Others

During the Track Record Period, our other revenue primarily included revenue (i) from repair fees we charged to our customers for repair services for mining hardware out of warranty period (ii) from sales of our AI hardware.

Revenue breakdown by geographical market

During the Track Record Period, we generated revenues from both domestic and overseas markets. The following table sets forth our revenue breakdown by geographical location and as a percentage of our total revenues for the periods presented.

	Year ended December 31,						Six months ended June 30,			
	2015		2016		2017		2017		2018	
	(US\$'000)	%	(US\$'000)	%	(US\$'000)	%	(US\$'000)	%	(US\$'000)	%
Revenues⁽¹⁾										
Domestic	47,648	34.7	136,103	49.0	1,214,729	48.2	165,945	60.5	1,058,120	37.2
Overseas	89,695	65.3	141,509	51.0	1,302,990	51.8	108,505	39.5	1,787,347	62.8
Total	137,343	100	277,612	100	2,517,719	100	274,450	100	2,845,467	100

Note:

- (1) The geographical location of revenue breakdown is based on the location where the goods were delivered or the services were provided.

FINANCIAL INFORMATION

In 2015, 2016 and 2017, we generated approximately 65.3%, 51.0% and 51.8% of our revenue from overseas market, respectively. For the six months ended June 30, 2017 and 2018, our revenue from overseas market increased from US\$108.5 million to US\$1,787.3 million, primarily due to the increased demand for mining hardware and service around the globe.

Cost of Sales

During the Track Record Period, our cost of sales primarily consisted of (i) salaries and benefits expenses, (ii) overhead costs, (iii) cost of contract manufacturing and raw materials, (iv) depreciation and electricity costs and (v) provision for impairment of inventories and prepayment to suppliers. The following table sets forth our cost of sales in absolute amounts for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>
Cost of sales					
Salaries and benefits	103	341	2,337	355	3,855
Overhead costs	1,245	2,104	3,814	1,085	7,165
Cost of contract manufacturing and raw materials	43,526	93,715	972,800	117,106	1,476,086
Depreciation and electricity costs	20,092	29,140	81,644	20,934	64,488
Provision for impairment of inventories and prepayment to suppliers	-	-	240,398	-	252,656
Others	892	961	3,976	1,277	11,066
Total	65,858	126,261	1,304,969	140,757	1,815,316

During the Track Record Period, the significant increase in our cost of sales was primarily due to the increase in cost of contract manufacturing and raw materials, which represent our payment to our production partners for the fabrication and the packaging and testing of our ASIC chips, and its increase is in line with our business growth during the periods.

During the Track Record Period, we recorded provision for impairment of inventories and prepayment to suppliers of US\$240.4 million in 2017 and US\$252.7 million for the six months ended June 30, 2018 primarily because the fluctuation of certain cryptocurrencies caused the anticipated selling price of certain mining hardware below their cost.

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The following table sets forth a breakdown of our cost of sales by segment in absolute amount for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	(US\$'000)	(US\$'000)	(US\$'000)	(US\$'000)	(US\$'000)
Cost of sales					
Mining hardware sales	44,859	96,059	1,217,575	118,321	1,742,364
Mining pool service	32	736	4,606	1,099	6,914
Mining farm service	–	3,464	11,150	2,907	9,328
Proprietary mining	20,091	25,676	70,495	18,027	55,161
Others	876	326	1,143	403	1,549
Total	65,858	126,261	1,304,969	140,757	1,815,316

Gross Profit and Gross Profit Margin

Our gross profit and gross profit margin during the Track Record Period were primarily affected by the price and costs of our products and services. The following table sets forth our gross profit both in absolute amount and as a percentage of revenues, or gross margin, by segment for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2015		2016		2017		2017		2018	
	(US\$'000)	%	(US\$'000)	%	(US\$'000)	%	(US\$'000)	%	(US\$'000)	%
Gross profit and gross profit margin										
Mining hardware sales	63,019	58.4	118,639	55.3	1,045,662	46.2	102,581	46.4	941,489	35.1
Mining pool service	263	89.2	2,908	79.8	28,300	86.0	6,231	85.0	36,303	84.0
Mining farm service	–	–	1,741	33.4	9,442	45.9	2,076	41.7	12,495	57.3
Proprietary mining	7,853	28.1	27,910	52.1	128,835	64.6	22,625	55.7	39,182	41.5
Others	350	28.5	153	31.9	511	30.9	180	30.9	682	30.6
Total	71,485	52.0	151,351	54.5	1,212,750	48.2	133,693	48.7	1,030,151	36.2

In 2015, 2016 and 2017, we witnessed significant growth in our gross profit from US\$71.5 million to US\$151.4 million and to US\$1,212.8 million, representing a CAGR of 311.9%. For the six months ended June 30, 2017 and 2018, our gross profit increased by 670.5% from US\$133.7 million to US\$1,030.2 million. Our overall gross profit margin was 52.0%, 54.5%, 48.2%, 48.7% and 36.2%, respectively, in the same periods. The decrease in our gross profit margin in 2017 was primarily due to the decrease in the gross profit margin of our mining hardware sales as a result of provision for impairment of inventories and prepayment to suppliers we recorded in 2017. The significant decrease in our gross profit margin in the first half of 2018 was primarily due to the decrease in gross profit of mining hardware sales, which resulted from (i) the decrease in average selling price of our mining hardware as a result of fluctuations of the market price of cryptocurrencies and (ii) the inventory impairment provision of US\$252.7 million we recorded.

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Other Income/(Expenses)

During the Track Record Period, our other income consisted primarily of (i) net gain or loss on disposal of cryptocurrencies, (ii) change in fair value of other financial assets, (iii) value-added-tax (“VAT”) refund, (iv) interest income from financial institutions and (v) government grants. The following table sets forth a breakdown of our other income in absolute amounts and as a percentage of our total other income for the periods indicated:

	Year ended December 31,						Six months ended June 30,				
	2015		2016		2017		2017		2018		
	(US\$'000)	%	(US\$'000)	%	(US\$'000)	%	(US\$'000)	%	(US\$'000)	%	
Other income/(expenses)											
Net gain/(loss) on disposal of cryptocurrencies	1,571	90.4	21,016	81.6	55,475	50.7	(1,933)	21.2	181,340	60.0	
Change in fair value of other financial assets	-	-	2,736	10.6	(3,890)	(3.6)	(7,567)	82.8	48,753	16.1	
VAT refund	-	-	1,868	7.3	55,729	50.9	231	(2.5)	68,016	22.5	
Interest income from financial institutions	87	5.0	72	0.3	1,773	1.6	85	(0.9)	2,435	0.8	
Government grants	4	0.2	-	-	360	0.3	19	(0.2)	1,312	0.4	
Others	76	4.4	48	0.2	72	0.1	40	(0.4)	436	0.2	
Total	1,738	100	25,740	100	109,519	100	(9,125)	100	302,292	100	

Selling Expenses

During the Track Record Period, our selling expenses primarily included (i) salaries and benefits of our sales and marketing staff and (ii) advertisement expenses. The following table sets forth the breakdown of our selling expenses in absolute amounts for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Selling Expense					
Salaries & benefits	358	678	3,206	361	3,409
Advertisement expenses	48	332	1,273	252	2,807
Other expenses	192	1,207	3,492	353	6,204
Total	598	2,217	7,971	966	12,420

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Administrative and other Operating Expenses

During the Track Record Period, our administrative and other operating expenses primarily included (i) salaries and benefits of our administrative staff, (ii) expenses related to share incentive scheme, and (iii) professional service fee. The following table sets forth our administrative and other operating expenses in absolute amounts for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Administrative and other operating expenses					
Salaries & benefits	2,681	3,925	29,272	2,239	11,995
Share incentive scheme	–	–	–	–	5,304
Professional service fee	2,005	3,495	10,219	3,202	9,758
Impairment of trade receivables and other receivables	–	1,858	114	–	472
Utilities, maintenance fees and office expenses	186	597	2,681	485	3,806
Rental expenses	201	1,235	1,553	642	1,086
Other expenses	2,468	3,095	15,071	4,585	11,418
Total	7,541	14,205	58,910	11,153	43,839

During the Track Record Period, the increase in our administrative and other operating expenses was primarily due to (i) the increase in the number of our administrative staff and (ii) the growth of our business scale.

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Research and Development Expenses

During the Track Record Period, our research and development expenses primarily included (i) salaries and benefits of research and development staff, (ii) mask fee incurred in connection with our chips production (iii) technical service fee, and (iv) expenses related to share incentive scheme. The following table sets forth our research and development expenses in absolute amounts for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Research and development expenses					
Salaries & benefits	3,373	8,042	51,535	4,397	20,928
Mask fee	1,858	6,123	10,763	4,504	18,481
Technical service fee	274	429	4,817	235	6,389
Material fee	32	1,382	1,240	250	1,812
Share incentive scheme	–	–	523	–	34,900
Other expenses	165	632	3,685	1,701	4,456
Total	5,702	16,608	72,563	11,087	86,966

Other Net Loss

During the Track Record Period, our other net loss primarily consisted of (i) loss of cryptocurrencies incurred as a result of cyber-security incidents, (ii) net foreign exchange loss and (iii) impairment loss of cryptocurrencies due to the fluctuation of the market price of cryptocurrencies.

The following table sets forth our other net loss in absolute amounts and as a percentage of our all other net loss for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2015	2016		2017		2017	2018			
	<i>(US\$'000)</i>	%	<i>(US\$'000)</i>	%	<i>(US\$'000)</i>	%	<i>(US\$'000)</i>	%	<i>(US\$'000)</i>	%
Other net loss										
Loss of cryptocurrencies ⁽¹⁾	115	7.2	–	–	26,771	67.9	98	4.1	–	–
Net foreign exchange loss	497	30.9	3,401	53.3	8,379	21.2	1,303	54.7	9,091	7.6
Impairment loss of cryptocurrencies	–	–	–	–	–	–	–	–	102,662	85.3
Others	996	61.9	2,978	46.7	4,303	10.9	981	41.2	8,552	7.1
Total	1,608	100	6,379	100	39,453	100	2,382	100	120,305	100

Note:

- (1) In 2017, we suffered a loss of cryptocurrencies worth approximately US\$27 million, which we suspect was caused by a hacker attack. For more details, see the section headed “– Period-to-Period Comparison of Results of Operations – Year Ended December 31, 2017 Compared to Year Ended December 31, 2016 – Other net loss” and “Risk Factors – Risks Relating to Our Business and Industry – Cyber-security incidents, including data security breaches or computer viruses, could harm our business by disrupting our delivery of services, damaging our reputation or exposing us to liability.”

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Fair value changes of convertible redeemable preferred shares

Fair value changes of convertible redeemable preferred shares represents changes in fair value of the Preferred Shares issued by us, and is the difference between ending and beginning balances of our Preferred Shares on our consolidated statements of financial position. We used the discounted cash flow method to determine the underlying share value of our Group and adopted the equity allocation method to determine the fair value of our Preferred Shares as of the dates of issuance and at the end of each reporting period.

We recorded fair value loss of convertible redeemable preferred shares of US\$250.6 million and US\$166.4 million, in 2017 and the six months ended June 30, 2018 respectively.

Taxation

Income tax expense was US\$9.2 million, US\$24.2 million and US\$196.0 million for 2015, 2016 and 2017, respectively. Income tax expense was approximately US\$165.1 million for the six months ended June 30, 2018. The significant increase in our taxation during the Track Record Period was primarily due to the increase in our taxable income during the same periods. As of the Latest Practicable Date and during the Track Record Period, we had fulfilled all our tax obligations and did not have any unresolved tax disputes.

We are subject to various rates of income tax in different jurisdictions. The following list summarizes major factors affecting our applicable tax rates in the Cayman Islands, Hong Kong and China.

Cayman Islands

We are incorporated under the laws of the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law and are not subject to tax on income or capital gains under the current law of the Cayman Islands. Additionally, the Cayman Islands does not currently impose a withholding tax on payments of dividends to shareholders or tax on gains or disposition of our shares.

Hong Kong

Hong Kong profits tax rate was 16.5% in 2015, 2016 and 2017 and the six months ended June 30, 2018.

China

Under the EIT Law effective from January 1, 2008, our PRC subsidiaries, and controlled affiliated entities and their subsidiaries are subject to the statutory rate of 25%, subject to preferential tax treatments available to qualified enterprises in certain encouraged sectors of the economy. Enterprises that qualify as “High and New-Technology Enterprises” under the EIT Law are entitled to a preferential enterprise income tax rate of 15% for three years. Beijing

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Bitmain Technologies, one of our subsidiaries, was certified as a High-Tech Enterprise in Beijing, and has been entitled to a preferential income tax rate of 15% since 2015. Pursuant to the EIT Law and its implementing rules, a 10% withholding tax is levied on dividends declared to foreign investors from China effective from January 1, 2008. The withholding tax rate may be lowered to a minimum of 5% if there is a tax arrangement between China and the jurisdiction of the foreign investors. However, the 5% withholding tax rate does not automatically apply and certain requirements must be satisfied.

The following table sets forth a breakdown of taxation in absolute tax amount by jurisdiction for the periods presented:

	Years ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>
Current tax – PRC Enterprise					
Income Tax					
Provision for the year/period	4,405	4,034	170,465	11,704	165,889
Current tax – Hong Kong					
Profits Tax					
Provision for the year/period	8,281	19,808	69,565	8,534	65,285
Current tax – Overseas					
Provision for the year/period	2	61	93	87	81
Total provision for the year/period	12,688	23,903	240,123	20,325	231,255
Deferred tax					
Origination and reversal of temporary differences	(3,499)	251	(44,148)	(2,079)	(66,179)
	<u>9,189</u>	<u>24,154</u>	<u>195,975</u>	<u>18,246</u>	<u>165,076</u>

NON-IFRS MEASURES: ADJUSTED EBITDA AND ADJUSTED NET PROFIT

To supplement our consolidated results of operations which are prepared and presented in accordance with IFRS, we also use adjusted EBITDA and adjusted net profit as additional financial measures, which are not required by, or presented in accordance with IFRS. We believe that these non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance. The use of these non-IFRS measures have limitations as an analytical tool, and you should not consider them in

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isolation from, or as a substitute for analysis of, our results of operations or financial conditions as reported under IFRS. In addition, these non-IFRS financial measures may be defined differently from similar terms used by other companies. The following tables set forth the reconciliations of our non-IFRS financial measures for the years ended December 31, 2015, 2016 and 2017 and for the six months ended June 30, 2017 and 2018 to the nearest measures prepared in accordance with IFRS:

	Years ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Profit before taxation	57,792	137,750	897,376	101,211	907,792
Add:					
Fair value changes of convertible redeemable preferred shares	–	–	250,633	–	166,402
Finance cost	60	31	59	44	82
Depreciation	53	300	3,215	546	4,850
Amortisation	11	44	341	27	719
Share-based compensation expense	–	–	523	–	43,065
Adjusted EBITDA	<u>57,916</u>	<u>138,125</u>	<u>1,152,147</u>	<u>101,828</u>	<u>1,122,910</u>

	Years ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Profit for the year/period	48,603	113,596	701,401	82,965	742,716
Add:					
Fair value changes of convertible redeemable preferred shares	–	–	250,633	–	166,402
Share-based compensation expenses	–	–	523	–	43,065
Adjusted net profit	<u>48,603</u>	<u>113,596</u>	<u>952,557</u>	<u>82,965</u>	<u>952,183</u>

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PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Revenues

Our revenues increased by 936.6% from US\$274.5 million in the six months ended June 30, 2017 to US\$2,845.5 million in the six months ended June 30, 2018 primarily due to the significant growth of mining hardware sales.

Mining hardware sales. Our revenues from sales of mining hardware increased by 1,115.0% from US\$220.9 million in the six months ended June 30, 2017 to US\$2,683.9 million in the six months ended June 30, 2018, primarily due to a significant increase of 1,336.2% in the sales volume of our mining hardware products.

The sales volume of our mining hardware increased from approximately 179,000 in the six months ended June 30, 2017 to approximately 2,564,000 in the six months ended June 30, 2018, among which approximately 172,000 and 1,877,000 were Bitcoin/Bitcoin Cash mining hardware, respectively. The increase in sales volume was primarily due to the increase in the market price of cryptocurrencies.

The average selling price of our mining hardware decreased from US\$1,171 in the six months ended June 30, 2017 to US\$992 in the six months ended June 30, 2018. The decrease in our average selling price of mining hardware in the first half of 2018 was primarily due to the decreased expected economic return per unit cryptocurrency mining hardware as a result of the increased network mining difficulty.

Mining pool service. Our revenues from mining pool service increased by 491.8% from US\$7.3 million in the six months ended June 30, 2017 to US\$43.2 million in the six months ended June 30, 2018, primarily due to the increase in scale of our mining pools.

Mining farm service. Our mining farm service revenues increased by 336.0% from US\$5.0 million in the six months ended June 30, 2017 to US\$21.8 million in the six months ended June 30, 2018, primarily due to the increase in the number of mining farms we managed.

Proprietary mining. Our proprietary mining revenues increased by 131.7% from US\$40.7 million in the six months ended June 30, 2017 to US\$94.3 million in the six months ended June 30, 2018. The revenue increase was primarily due to (i) the increase in the market price of cryptocurrencies and (ii) the increase in the value of cryptocurrencies we received from mining activities, which in turn was due to an increase in the mining hardware we utilized for proprietary mining. Our revenues generated from proprietary mining as a percentage of our total revenues decreased from 14.8% in the six months ended June 30, 2017 to 3.3% in the six months ended June 30, 2018, primarily because of the rapid growth of our mining hardware sales business that contributed to most of our revenue increase.

Others. Our other revenues increased by 266.7% from US\$0.6 million in the six months ended June 30, 2017 to US\$2.2 million in the six months ended June 30, 2018.

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Cost of sales

Our cost of sales increased by 1,189.3% from US\$140.8 million in the six months ended June 30, 2017 to US\$1,815.3 million in the six months ended June 30, 2018. The increase was mainly caused by the increase in the sales volume of our mining hardware.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 670.5% from US\$133.7 million in the six months ended June 30, 2017 to US\$1,030.2 million in the six months ended June 30, 2018. Our gross profit margin decreased from 48.7% in the six months ended June 30, 2017 to 36.2% in the six months ended June 30, 2018, primarily due to (i) the inventory impairment loss we incurred in the first half of 2018, (ii) the decrease in average selling price of our mining hardware in the first half of 2018 and (iii) the decreased expected economic return per unit cryptocurrency mining hardware as a result of the increased network mining difficulty.

Other income

We recorded other income of US\$302.3 million in the six months ended June 30, 2018, as compared to other expense of US\$9.1 million in the six months ended June 30, 2017 primarily due to (i) the net gain on disposal of cryptocurrencies of US\$181.3 million and (ii) the VAT refund of self-developed software of US\$68.0 million.

Selling expenses

Our selling expenses increased by 1,140.0% from US\$1.0 million in the six months ended June 30, 2017 to US\$12.4 million in the six months ended June 30, 2018, primarily due to the increase in (i) salaries and benefits of our sales and marketing staff, and (ii) advertisement expenses.

Administrative and other operating expenses

Our administrative expenses increased by 291.1% from US\$11.2 million in the six months ended June 30, 2017 to US\$43.8 million in the six months ended June 30, 2018, primarily due to the increase in (i) salaries and benefits of our administrative staff, (ii) expenses related to share incentive scheme, and (iii) professional service fee.

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Research and development expenses

Our research and development expenses increased by 683.8% from US\$11.1 million in the six months ended June 30, 2017 to US\$87.0 million in the six months ended June 30, 2018. Our research and development expenses increased primarily due to (i) the increase in salaries and benefits of our research and development staff, (ii) the increase in mask fee and other research and development related expense, (iii) technical service fee and (iv) expenses related to share incentive scheme.

Other net loss

Other net loss increased by 4,912.5% from US\$2.4 million in the six months ended June 30, 2017 to US\$120.3 million in the six months ended June 30, 2018, primarily due to the impairment loss of cryptocurrencies of US\$102.7 million in the first half of 2018.

Profit from operations

As a result of the foregoing, our profit from operations increased by 979.7% from US\$99.0 million in the six months ended June 30, 2017 to US\$1,068.9 million in the six months ended June 30, 2018.

Finance costs

Our finance costs increased from US\$0.04 million in the six months ended June 30, 2017 to US\$0.08 million in the six months ended June 30, 2018.

Fair value changes of convertible redeemable preferred shares

We recorded a fair value loss of US\$166.4 million in convertible redeemable preferred shares in the six months ended June 30, 2018 as compared to nil in the six months ended June 30, 2017.

Profit before taxation

As a result of the foregoing, our profit before taxation increased by 797.0% from US\$101.2 million in the six months ended June 30, 2017 to US\$907.8 million in the six months ended June 30, 2018.

Income tax expense

Our income tax expense increased significantly by 807.1% from US\$18.2 million in the six months ended June 30, 2017 to US\$165.1 million in the six months ended June 30, 2018, primarily due to an increase in our taxable income. Our effective tax rate, which is calculated as our income tax expense divided by our profit before taxation, remained at approximately 18% and did not undergo significant changes during the relevant periods.

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Profit for the period

As a result of the foregoing, we recorded a profit of US\$83.0 million in the six months ended June 30, 2017, compared to a profit of US\$742.7 million in the six months ended June 30, 2018, representing an increase of 794.8%.

Adjusted EBITDA

Our adjusted EBITDA increased by 1,003.0% from US\$101.8 million in the first half of 2017 to US\$1,122.9 million in the first half of 2018.

Adjusted net profit

Our adjusted net profit increased by 1,047.2% from US\$83.0 million in the first half of 2017 to US\$952.2 million in the first half of 2018.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Revenues

Our revenues increased significantly by 807.0% from US\$277.6 million in 2016 to US\$2,517.7 million in 2017 primarily as a result of rapid growth of our mining hardware sales.

Mining hardware sales. Our revenues from sales of mining hardware increased by 954.1% from US\$214.7 million in 2016 to US\$2,263.2 million in 2017, primarily due to the increase of 519.6% in the sales volume of our mining hardware products, and to a lesser extent, the rise of 73.6% of average selling price of our mining hardware in 2017.

The sales volume of our mining hardware increased from approximately 262,000 in 2016 to approximately 1,622,000 in 2017, among which approximately 261,000 and 1,108,000 were Bitcoin/Bitcoin Cash mining hardware, respectively.

The average selling price of our mining hardware increased from US\$768 in 2016 to US\$1,333 in 2017. Specifically for Bitcoin/Bitcoin Cash mining hardware, the average selling price increased from US\$767 in 2016 to US\$1,231 in 2017.

Mining pool service. Our revenues from mining pool service increased by 813.9% from US\$3.6 million in 2016 to US\$32.9 million in 2017, primarily due to the increasing scale of our mining pools.

Mining farm service. Our revenues from mining farm service increased by 296.2% from US\$5.2 million in 2016 to US\$20.6 million in 2017, primarily due to the increase in mining farms we managed.

Proprietary mining. Our revenues from proprietary mining increased by 271.8% from US\$53.6 million in 2016 to US\$199.3 million in 2017, primarily due to (i) the increase in the market price of cryptocurrencies, and (ii) the increase in the value of cryptocurrencies we received from mining activities, which was due to the increase in the mining hardware we utilized for proprietary mining.

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Others. Our revenues from other segments increased by 240.0% from US\$0.5 million in 2016 to US\$1.7 million in 2017.

Cost of sales

Our cost of sales increased by 933.3% from US\$126.3 million in 2016 to US\$1,305.0 million in 2017. The increase was mainly caused by the increase in the sales volume of our mining hardware.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 701.1% from US\$151.4 million in 2016 to US\$1,212.8 million in 2017. Our gross profit margin decreased from 54.5% in 2016 to 48.2% in 2017, primarily because we made a provision for impairment of inventories and prepayment to suppliers of US\$240.4 million in 2017, which increased our cost of sales and adversely affected our gross profit margin.

Other income

Our other income increased by 326.1% from US\$25.7 million in 2016 to US\$109.5 million in 2017, primarily due to (i) the increase in net gain on disposal of cryptocurrencies from US\$21.0 million in 2016 to US\$55.5 million in 2017, and (ii) the increase in VAT refund of self-developed software sales from US\$1.9 million in 2016 to US\$55.7 million in 2017.

Selling expenses

Our selling expenses increased by 263.6% from US\$2.2 million in 2016 to US\$8.0 million in 2017, primarily due to the increase in (i) salaries and benefits of our sales and marketing staff, and (ii) advertisement expenses.

Administrative and other operating expenses

Our administrative expenses increased by 314.8% from US\$14.2 million in 2016 to US\$58.9 million in 2017, primarily due to the increase in (i) salaries and benefits of our administrative staff, and (ii) professional services fee.

Research and development expenses

Our research and development expenses increased by 337.3% from US\$16.6 million in 2016 to US\$72.6 million in 2017, primarily due to the increase in (i) salaries and benefits of our research and development staff, (ii) mask fee and other research and development related expenses, and (iii) technical service fee.

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Other net loss

Our other net loss increased by 517.2% from US\$6.4 million in 2016 to US\$39.5 million in 2017, primarily due to a loss of cryptocurrencies worth approximately US\$27 million we suffered, which we suspect was caused by a hacker attack. See the section titled “Risk Factors – Risks Relating To Our Business and Industry – Cyber-security incidents, including data security breaches or computer viruses, could harm our business by disrupting our delivery of services, damaging our reputation or exposing us to liability”.

Profit from operations

As a result of the foregoing, our profit from operations increased significantly by 730.4% from US\$137.7 million in 2016 to US\$1,143.4 million in 2017.

Finance costs

Our finance costs increased from US\$0.03 million in 2016 to US\$0.06 million in 2017 due to increase in other financial charge.

Fair value changes of convertible redeemable preferred shares

We recorded a fair value loss of US\$250.6 million in convertible redeemable preferred shares in 2017 as compared to nil in 2016.

Profit before taxation

As a result of the foregoing, our profit before taxation increased significantly by 551.2% from US\$137.8 million in 2016 to US\$897.4 million in 2017.

Income tax expense

Our income tax expense increased significantly by 709.9% from US\$24.2 million in 2016 to US\$196.0 million in 2017, primarily due to an increase in our taxable income.

Our effective tax rate increased from 17.5% in 2016 to 21.8% in 2017 primarily due to the significant fair value loss of convertible redeemable preferred shares we recorded in 2017, which is not tax deductible and in turn adversely affected our profit before taxation.

Profit for the year

As a result of the foregoing, we recorded a profit of US\$113.6 million in 2016, compared to a profit of US\$701.4 million in 2017, representing an increase of 517.4%.

Adjusted EBITDA

Our adjusted EBITDA increased by 734.3% from US\$138.1 million in 2016 to US\$1,152.1 million in 2017.

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Adjusted net profit

Our adjusted net profit increased by 738.6% from US\$113.6 million in 2016 to US\$952.6 million in 2017.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Revenues

Our revenue increased by 102.2% from US\$137.3 million in 2015 to US\$277.6 million in 2016 primarily due to the significant growth of our mining hardware sales.

Mining hardware sales. Our revenues from sales of mining hardware increased by 99.0% from US\$107.9 million in 2015 to US\$214.7 million in 2016, primarily due to the rise of 65.9% of average selling price of our mining hardware, and to a lesser extent, the increase of 15.3% in the sales volume of our mining hardware products in 2016.

The sales volume of our mining hardware increased from approximately 227,000 in 2015 to approximately 262,000 in 2016, among which approximately 227,000 and 261,000 were Bitcoin/Bitcoin Cash mining hardware, respectively.

The average selling price of our mining hardware increased from US\$463 in 2015 to US\$768 in 2016. Specifically for Bitcoin/Bitcoin Cash mining hardware, the average selling price increased from US\$463 in 2015 to US\$767 in 2016.

Mining pool service. Our revenues from mining pool service increased by 1,100.0% from US\$0.3 million in 2015 to US\$3.6 million in 2016, primarily due to the increasing scale of our mining pools.

Mining farm service. Our revenues from mining farm service increased from nil in 2015 to US\$5.2 million in 2016, primarily because we began to operate our own mining farms in 2016.

Proprietary mining. Our revenues from proprietary mining increased by 92.1% from US\$27.9 million in 2015 to US\$53.6 million in 2016, primarily due to (i) the increase in the market price of cryptocurrencies, and (ii) the increase in the value of cryptocurrencies we received from mining activities, which in turn was due to the increase in the mining hardware we utilized for proprietary mining.

Others. Our other revenues decreased by 58.3% from US\$1.2 million in 2015 to US\$0.5 million in 2016.

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Cost of sales

Our cost of sales increased by 91.7% from US\$65.9 million in 2015 to US\$126.3 million in 2016. The increase was caused by the increase in sales volume of our mining hardware.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 111.7% from US\$71.5 million in 2015 to US\$151.4 million in 2016. Our gross profit margin increased from 52.0% in 2015 to 54.5% in 2016, primarily due to the increase in the average selling price of our mining hardware.

Other income

Our other income increased by 1,411.8% from US\$1.7 million in 2015 to US\$25.7 million in 2016, primarily due to (i) the increase in net gain on disposal of cryptocurrencies from US\$1.6 million in 2015 to US\$21.0 million in 2016, and (ii) the VAT refund of self-developed software sales of US\$1.9 million in 2016.

Selling expenses

Our selling expenses increased by 266.7% from US\$0.6 million in 2015 to US\$2.2 million in 2016, primarily due to the increase in (i) salaries and benefits of our sales and marketing staff, and (ii) the increase of other selling related expenses, as a result of our business growth.

Administrative and other operating expenses

Our administrative expenses increased by 89.3% from US\$7.5 million in 2015 to US\$14.2 million in 2016, primarily due to the increase in salaries and benefits of our administrative staff.

Research and development expenses

Our research and development expenses increased by 191.2% from US\$5.7 million in 2015 to US\$16.6 million in 2016, primarily due to the increase in (i) salaries and benefits of our research and development staff, (ii) mask fee and other research and development related expenses, and (iii) technical service fee.

Other net loss

Our other net loss increased by 300.0% from US\$1.6 million in 2015 to US\$6.4 million in 2016, primarily due to the increase in net foreign exchange loss.

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Profit from operations

As a result of the foregoing, our profit from operations increased by 138.2% from US\$57.8 million in 2015 to US\$137.7 million in 2016.

Finance costs

We recorded finance cost of US\$0.06 million in 2015 and US\$0.03 million in 2016 due to decrease in other financial charge.

Profit before taxation

As a result of the foregoing, our profit before taxation increased by 138.4% from US\$57.8 million in 2015 to US\$137.8 million in 2016.

Income tax expense

Our income tax expense increased significantly by 163.0% from US\$9.2 million in 2015 to US\$24.2 million in 2016, primarily due to an increase in our taxable income. Our effective tax rate was 17.5% in 2016 as compared to 15.9% in 2015.

Profit for the year

As a result of the foregoing, we recorded a profit of US\$48.6 million in 2015, compared to a profit of US\$113.6 million in 2016, representing an increase of 133.7%.

Adjusted EBITDA

Our adjusted EBITDA increased by 138.5% from US\$57.9 million in 2015 to US\$138.1 million in 2016.

Adjusted net profit

Our adjusted net profit increased by 133.7% from US\$48.6 million in 2015 to US\$113.6 million in 2016.

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LIQUIDITY AND CAPITAL RESOURCES

Summary of consolidated cash flow statements

The following table sets forth our cash flows for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Net cash used in operating activities	(5,579)	(96,369)	(191,558)	(14,795)	(621,816)
Net cash generated from investing activities	31,908	94,418	483,725	76,456	381,511
Net cash generated from/(used in) financing activities	20,229	(21,092)	22,153	(145)	248,840
Net increase/(decrease) in cash and cash equivalents	46,558	(23,043)	314,320	61,516	8,535
Cash and cash equivalents at the beginning of the year/period	1,275	47,579	24,127	24,127	352,303
Effect of foreign exchange rate changes	(254)	(409)	13,856	560	(17,500)
	<u>47,579</u>	<u>24,127</u>	<u>352,303</u>	<u>86,203</u>	<u>343,338</u>
Cash and cash equivalents at the end of the year/period	<u>47,579</u>	<u>24,127</u>	<u>352,303</u>	<u>86,203</u>	<u>343,338</u>

Operating Activities

We derive our cash inflows from operations principally from sales of our mining hardware. Our cash outflows from operations are principally payments for purchases of products and raw materials, selling and marketing expenses, administrative expenses, research and development expenses and other operating expenses. During the Track Record Period, we have accepted payment in the form of cryptocurrencies for sales of our cryptocurrencies mining hardware, and we also received cryptocurrencies from our proprietary mining and operation of mining pools, however, we do not recognize receipt of cryptocurrencies as operating cash inflows.

Cash generated from operations reflects our profit before income taxation, adjusted for (i) the cash flow effects of non-cash items, including impairment loss of prepayments and other receivables, impairment loss of cryptocurrencies, impairment provision on inventory, depreciation and amortization, profits generated from revenue recognized on acceptance of cryptocurrencies and net loss/(gain) on disposal of cryptocurrencies and fair value changes of convertible redeemable preferred shares, capital reserve for share base compensation and (ii) the effects of changes in our working capital, including increase in inventories, increase or decrease in trade receivables, increase or decrease in prepayment and other assets, increase or decrease in advances received from customers and increase or decrease in trade payables and other payables.

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Net cash used in operating activities amounted to US\$621.8 million for six months ended June 30, 2018, consisting of cash used in operations of US\$399.8 million and income tax paid of US\$222.0 million. Our cash generated from operations before working capital changes was US\$950.1 million. Negative working capital adjustments reflected primarily (i) an increase in inventories of US\$1,039.0 million, (ii) an decrease in advances received from customers of US\$594.0 million, and (iii) an decrease in other payables of US\$104.1 million. Such negative adjustments were offset in part by a decrease in prepayments and other assets of US\$352.5 million.

Net cash used in operating activities amounted to US\$191.6 million in 2017, consisting of cash used in operations of US\$99.9 million and income tax paid of US\$91.7 million. Our cash generated from operations before working capital changes was US\$916.8 million. Negative working capital adjustments reflected primarily (i) an increase in prepayments and other assets of US\$1,019.1 million, and (ii) an increase in inventories of US\$1,067.9 million. Such negative adjustments were offset in part by an increase in advances received from customers of US\$528.8 million and increase in trade payables of US\$378.0 million.

Net cash used in operating activities amounted to US\$96.4 million in 2016, consisting of cash used in operations of US\$86.8 million and income tax paid of US\$9.6 million. Our cash generated from operations before working capital changes was US\$52.7 million. Negative working capital adjustments reflected primarily (i) an increase in prepayments and other assets of US\$67.2 million, (ii) a decrease in other payables of US\$3.8 million, (iii) a decrease in advances from customers of US\$7.9 million and (iv) an increase in inventories of US\$61.2 million.

Net cash used in operating activities amounted to US\$5.6 million in 2015, consisting of cash used in operations of US\$5.4 million and income tax paid of US\$0.1 million. Our cash generated from operations before working capital changes was US\$33.0 million. Negative working capital adjustments reflected primarily an increase in inventories of US\$43.0 million and a decrease in other payables of US\$24.1 million. Such negative adjustments were offset in part by an increase in advances received from customers of US\$21.7 million.

Investing Activities

Our cash inflows from investing activities primarily include proceeds from disposal of property, plant and equipment, lease prepayments and intangible assets, proceeds from disposal of cryptocurrencies, proceeds from sale of other financial assets and proceeds from sale of interest in associates.

FINANCIAL INFORMATION

Net cash flows generated from investing activities amounted to US\$381.5 million for the six months ended June 30, 2018, which was primarily attributable to (i) proceeds from disposal of cryptocurrencies of US\$516.5 million, (ii) proceeds from sale of other financial assets in an amount of US\$73.3 million, partially offset by (i) purchase of other financial assets in an amount of US\$123.9 million, and (ii) payment for the purchase of property, plant and equipment, lease prepayments and intangible assets in an amount of US\$86.1 million.

Net cash flows generated from investing activities amounted to US\$483.7 million in 2017, which was primarily attributable to proceeds from disposal of cryptocurrencies of US\$529.0 million, partially offset by (i) purchase of other financial assets in an amount of US\$21.9 million and (ii) payment for the purchase of property, plant and equipment, lease prepayments and intangible assets in an amount of US\$26.3 million.

Net cash flows generated from investing activities amounted to US\$94.4 million in 2016, which was primarily attributable to proceeds from disposal of cryptocurrencies of US\$103.3 million, partially offset by purchase of other financial assets in an amount of US\$12.8 million.

Net cash flows generated from investing activities amounted to US\$31.9 million in 2015, which was primarily attributable to proceeds from disposal of cryptocurrencies of US\$33.8 million.

Financing Activities

Our cash inflows from financing activities primarily include proceeds from issue of redeemable preferred shares and loans from related parties.

Net cash flows generated from financing activities for the six months ended June 30, 2018 was attributable to proceeds from the issue of convertible redeemable preferred shares in an amount of US\$248.8 million.

Net cash flows generated from financing activities amounted to US\$22.2 million for the year ended December 31, 2017, which was attributable to proceeds from the issue of convertible redeemable preferred shares in an amount of US\$50.0 million, partially offset by (i) payment of loans to related parties in reorganization in an amount of US\$27.7 million.

FINANCIAL INFORMATION

Net cash flows used in financing activities amounted to US\$21.1 million for the year ended December 31, 2016, which was attributable to repayment of loans from a related party in an amount of US\$21.2 million offset by proceeds from new bank loans in an amount of US\$0.1 million.

Net cash flows generated from financing activities amounted to US\$20.2 million for the year ended December 31, 2015, which was mainly attributable to proceeds from borrowings in an amount of US\$21.8 million from related parties.

INDEBTEDNESS

Borrowing

During the Track Record Period, we had one short-term loan of US\$144,000 in 2016, which was fully paid off in 2017. As of June 30, 2018, we did not have any outstanding borrowings.

As of July 31, 2018, being our indebtedness statement date, we had a secured mortgage borrowing of US\$49.0 million from Bank of Beijing in connection with our purchase of certain office buildings in Beijing.

Preferred Shares

We issued Preferred Shares to various investors during the Track Record Period. On the [REDACTED], all of our Preferred Shares will be automatically converted into our Shares. For a discussion of our issuances of Preferred Shares, see the section headed “History, Reorganization and Corporate Structure – [REDACTED] Investment.” As of December 31, 2015, 2016, and 2017 and June 30, 2018, our Preferred Shares had fair values of nil, nil, US\$300.6 million and US\$715.9 million, respectively, because the value of our Company increased in light of our results of operations. For further information regarding our Preferred Shares, see the section headed “Appendix I – Accountant’s Report – Notes to the Historical Financial Information.”

On July 3, 2018 and July 6, 2018, we repurchased certain Class A Shares and Class B Shares from our Co-Founders and Founding Parties as well as issued certain Series B Preferred Shares. On August 20, 2018, we completed issuance of certain Series B+ Preferred Shares. For further details, please see “History, Reorganization and Corporate Structure.” Except for this, we did not issue or repurchase any Preferred Shares.

FINANCIAL INFORMATION

Statement of Indebtedness

Our Directors confirm that as of the Latest Practicable Date, there was no material covenant on any of our outstanding debt and there was no breach of any covenants during the Track Record Period and up to the Latest Practicable Date. Our Directors further confirm that our Group did not experience any difficulty or default in payment of our borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

Except as disclosed above, as of July 31, 2018, being the latest practicable date for determining our indebtedness, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities. Our Directors confirm that there has not been any material change in our indebtedness and contingent liabilities since July 31, 2018.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

During the Track Record Period, we leased certain office properties under non-cancellable operating lease arrangements. Leases for properties are negotiated for terms within five years. The table below sets forth our future minimum lease payments under non-cancellable operating leases falling due as of the dates indicated:

	As of December 31,			As of June 30,
	2015	2016	2017	2018
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Within 1 year	579	643	5,547	9,194
After 1 year but within				
5 years	1,604	1,102	7,687	10,789
After 5 years	–	–	25	22
	2,183	1,745	13,259	20,005

Working Capital Confirmation

During the Track Record Period, we have accepted payment in the form of cryptocurrencies for sales of our cryptocurrency mining hardware, and we have also received cryptocurrencies from our proprietary mining and operation of mining pools. In accordance with the applicable accounting rules, we make reference to the accounting treatment of intangible assets with respect to our cryptocurrencies, pursuant to which the receipt of cryptocurrencies from our operation cannot be classified as operating cash inflow while the subsequent conversion of cryptocurrencies into standard currencies are classified as investing cash inflow. However, the cryptocurrencies we hold are highly liquid assets that can be sold in open market to satisfy our liquidity needs.

FINANCIAL INFORMATION

For the years ended December 31, 2015, 2016 and 2017, we recorded net cash used in operating activities of approximately US\$5.6 million, US\$96.4 million and US\$191.6 million, respectively, mainly because a portion of our revenue is recognized from receipt of cryptocurrencies, which amounted to US\$54.3 million, US\$118.3 million and US\$855.3 million, respectively, during the same periods. Taking the receipt of cryptocurrencies recognized as our revenue into consideration, our operating cash flow position in 2015, 2016 and 2017 was net operating cash inflows of US\$48.7 million, US\$21.9 million and US\$663.7 million. For the six months ended June 30, 2018, we recorded net cash used in operating activities of approximately US\$621.8 million despite of the profit before tax of US\$907.8 million mainly due to (i) our receipt of cryptocurrencies of US\$749.9 million, (ii) an increase in inventories of US\$1,039.0 million and (iii) a decrease in advances received from our customers of US\$594.0 million. In early 2018, we anticipated strong market growth for cryptocurrency mining hardware in 2018 due to the upward trend of cryptocurrencies price since the fourth quarter of 2017, and we placed a large amount of orders with our production partners in response to the anticipated significant sales growth. However, there had been significant market volatility in the market price of cryptocurrencies in the first half of 2018. As a result of such volatility, the expected economic return from cryptocurrency mining had been adversely affected and the sales of our mining hardware slowed down, which in turn caused an increase in our inventories level and a decrease in advances received from our customers in the first half of 2018. Going forward, We will actively balance our business growth strategy, inventories and cryptocurrencies assets levels to ensure a sustainable business growth and a healthy cash flow position, and we will adjust our procurement and production plan to maintain an appropriate liquidity level.

Taking into account the financial resources available to us, including our cash and cash equivalents on hand, cash generated from operations and our highly liquid cryptocurrencies assets, as well as estimated [REDACTED] from the [REDACTED], our Directors are of the opinion that we have sufficient working capital required for our operations at present and for at least the next 12 months from the date of this document.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The table below sets forth selected information from our consolidated statements of financial position as of the dates indicated, which have been extracted from our historical financial information included in the Accountants’ Report in Appendix I to this document.

	As of December 31,			As of
	2015	2016	2017	June 30,
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>2018</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
ASSETS				
Cash and cash equivalents	47,579	24,127	352,303	343,338
Cryptocurrencies	12,316	56,266	872,581	886,928
Restricted deposits	15	110	3,360	5,644
Trade receivables	4,439	2,473	1,384	20,490
Prepayments and other assets	23,680	89,055	1,005,462	652,948
Inventories	30,288	36,965	558,089	887,157
Other financial assets	1,594	9,385	28,603	135,447
Interest in associates	373	217	7,813	14,917
Intangible assets	119	71	3,619	11,466
Lease prepayments	–	340	354	346
Property, plant and equipment	224	3,117	22,773	92,489
Deferred tax assets	3,499	3,248	47,396	113,575
TOTAL ASSETS	124,126	225,374	2,903,737	3,164,745
LIABILITIES				
Bank loans	–	144	–	–
Trade payables	17,460	16,150	394,111	450,108
Advances received from customers	12,794	12,914	1,010,168	125,987
Other payables and accruals	32,367	37,143	175,158	71,087
Income tax payable	12,550	26,887	175,311	184,587
Convertible redeemable preferred shares	–	–	300,633	715,875
TOTAL LIABILITIES	75,171	93,238	2,055,381	1,547,644
NET ASSETS	48,955	132,136	848,356	1,617,101
EQUITY				
Share capital	–	–	–	–
Reserves	48,955	132,136	848,356	1,617,101
TOTAL EQUITY	48,955	132,136	848,356	1,617,101

FINANCIAL INFORMATION

ANALYSIS OF SELECTED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION ITEMS

Cryptocurrencies

Our cryptocurrencies, including, among others, Bitcoin, Bitcoin Cash, Ether, Litecoin and Dash, are generated mainly from (i) sales of mining hardware settled in cryptocurrencies, (ii) proprietary mining, and (iii) our share of mining rewards generated from our mining pools operation. During the Track Record Period, a majority of our cryptocurrencies were earned from the sales of mining hardware. The balance of our cryptocurrencies was US\$12.3 million, US\$56.3 million, US\$872.6 million and US\$886.9 million, accounting for 9.9%, 25.0%, 30.1% and 28.0% of our total assets as of December 31, 2015, 2016 and 2017 and June 30, 2018, respectively.

We account for cryptocurrencies at cost, instead of revaluing cryptocurrencies at their fair value on each accounting reference date, to avoid substantial volatility in the value of cryptocurrencies from time to time, which may distort our results of operation and financial condition. Gains or losses arising from the disposal of cryptocurrencies are determined as the difference between the net disposal proceeds and the carrying amount of the cryptocurrencies and are recognized in profit or loss on the date of disposal. In addition, if circumstances indicate that the carrying amount of cryptocurrencies may not be recoverable, an impairment loss may be recognized in accordance with accounting policy for impairment of cryptocurrencies. These assets are tested for impairment periodically or whenever the events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable.

Inventories

Our inventories primarily consist of finished goods, raw materials, work-in-progress and proprietary mining hardware. To minimize the risk of inventory build-up, we review our inventory levels on a regular basis. We believe that maintaining appropriate levels of inventories can help us better plan for the production and deliver our products to meet customer demand in a timely manner without straining our liquidity. The value of our inventories accounted for 24.4%, 16.4%, 19.2% and 28.0% of our total assets as of December 2015, 2016, 2017 and June 30, 2018, respectively. The following table sets forth a breakdown of our inventories as of the dates indicated:

	As of December 31,			As of June 30,
	2015	2016	2017	2018
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Raw materials	17,632	3,475	131,535	353,492
Work in progress	3,936	27,170	188,631	309,789
Finished goods	4,418	1,475	349,523	564,824
Proprietary mining hardware	4,302	5,669	27,036	50,344
	30,288	37,789	696,725	1,278,449
Less: provision for impairment of inventories	-	(824)	(138,636)	(391,292)
	<u>30,288</u>	<u>36,965</u>	<u>558,089</u>	<u>887,157</u>

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The increase in the balance of our raw materials, work in progress and finished goods throughout the Track Record Period was primarily a result of the growth of our business and the expansion of our mining hardware production capacity to meet the strong market demand for our mining hardware. As of December 31, 2015, 2016, 2017 and June 30, 2018, our work in progress mainly hardwares the ASIC chips being tested and packaged by our production partners and mining hardware being assembled by our contract manufacturers. Our proprietary mining hardware continued to increase during the Track Record Period, primarily due to (i) the increase in our mining hardware in stock that could be used for proprietary mining, and (ii) the increase in the number of mining farms we operated which allowed us to store more proprietary mining hardware.

Our management determines impairment of inventories on a regular basis and in accordance with applicable IFRS. This estimate is based on the current market condition. Our finance department reassesses the impairment of inventories at the end of each reporting period. We recorded provision for impairment loss of inventories of US\$138.6 million as of December 31, 2017 and US\$391.3 million as of June 30, 2018 primarily because the fluctuation of the market price of cryptocurrencies caused the anticipated selling price of certain mining hardware drop below their cost.

As of July 31, 2018, US\$183.5 million of our inventory of US\$887.2 million as of June 30, 2018 was subsequently utilized.

The following table sets forth our inventory turnover days for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2015	2016	2017	2017	2018
Inventory turnover days⁽¹⁾	135	97	83	144	72

Note:

- (1) Inventory turnover days for a period equals the average of the opening and closing balances of the carrying amount of the inventory of the indicated period divided by the cost of sales for such period and multiplied by the number of days in such period, being 365 days for a full-year period or 180 days for a six-month period.

FINANCIAL INFORMATION

Prepayments and Other Assets

Our prepayments and other current assets primarily consist of (i) purchase prepayments to suppliers, mainly representing our prepayment to TSMC, (ii) deductible VAT, (iii) VAT refund, (iv) other debtors due from third parties, and (v) rental and other deposits. The following table sets forth a breakdown of our prepayments other current assets as of the date indicated:

	As of December 31,			As of June 30,
	2015	2016	2017	2018
	US\$'000	US\$'000	US\$'000	US\$'000
Prepayments and other current assets				
Purchase prepayments to suppliers	8,529	42,593	922,477	280,671
Deductible input VAT	4,979	7,958	118,087	199,386
Refundable VAT	345	4,748	30,870	148,010
Rental and other deposits	2,389	2,184	2,773	7,167
Others	7,438	33,419	35,802	19,650
Less: impairment for prepayments and other assets	–	(1,847)	(104,547)	(1,936)
Total	23,680	89,055	1,005,462	652,948

Our prepayments to suppliers consist primarily of (i) prepayments made to our IC wafer fabrication partner, who typically requires us to make prepayment for the IC production to secure the production capacity and (ii) prepayments made to power plants that supplies electricity to our mining farms. The balance of our purchase prepayments to suppliers increased significantly from 2015 to 2017, in line with the growth of our business. The balance of our purchase prepayments to suppliers decreased from US\$922.5 million as of December 31, 2017 to US\$280.7 million as of June 30, 2018, primarily because (i) a significant amount of prepayments to suppliers was transferred to inventory as a result of receiving the wafers from our fabrication partner, and (ii) we reduced our new wafer purchase orders in the first half of 2018 as market demand for mining hardware was lower than our expectation.

During the Track Record Period, the increase in the balance of our deductible VAT was primarily due to the increase in our procurement of raw materials qualified for VAT deduction. Our VAT refund also increased significantly during the Track Record Period mainly as a result of the increase in overseas sales of our mining hardware that resulted in VAT refund for export sales.

Trade Payables

As of December 31, 2015, 2016, 2017 and June 30, 2018, our trade payables amounted to US\$17.5 million, US\$16.2 million, US\$394.1 million and US\$450.1 million, respectively.

Our trade payables mainly relate to payments due to our suppliers. The significant amount of our trade payables during the Track Record Period was in line with rapid growth of our business.

FINANCIAL INFORMATION

The following table sets forth our trade payables turnover days for the periods indicated:

	For the year ended December 31,			For the six months	
				June 30,	
	2015	2016	2017	2017	2018
Trade payables turnover days⁽¹⁾	83	49	57	51	42

Note:

- (1) Trade payables turnover days for a period equals the average of the opening and closing trade payables balance divided by cost of sales for such period and multiplied by the number of days in such period, being 365 days for a full-year period or 180 days for a six-month period.

Our trade payables turnover days for 2015, 2016, 2017 and the six months ended June 30, 2017 and 2018 was 83, 49, 57, 51 and 42, respectively, primarily because we usually adjusted our payment schedule to our suppliers in accordance with the market conditions.

As of July 31, 2018, US\$190.5 million of our trade payables of US\$450.1 million as of June 30, 2018 was subsequently paid.

Aging Analysis

The following table sets forth the aging analysis of our trade payables as of the dates indicated, based on the invoice date.

	As of December 31,			As of
				June 30,
	2015	2016	2017	2018
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Aging analysis				
Within 3 months	17,460	15,991	393,015	441,824
3 to 6 months	–	65	767	7,600
6 months to 1 year	–	–	318	648
Over 1 year	–	94	11	36
	17,460	16,150	394,111	450,108

During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that we did not have any material default in payment of any trade payables.

FINANCIAL INFORMATION

MATERIAL RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. It is the view of our Directors that each of the related party transactions set out in note 34 of our historical financial information in the Accountants’ Report in Appendix I to this document were conducted in the ordinary course of business on an arm’s length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as of the dates or for the periods indicated:

	As of or for the Year Ended December 31,			As of or for the Period Ended June 30,
	2015	2016	2017	2018 ⁽⁶⁾
Key Financial Ratios				
Gross margin ⁽¹⁾	52.0%	54.5%	48.2%	36.2%
Net margin ⁽²⁾	35.4%	40.9%	27.9%	26.1%
Gearing ratio ⁽³⁾	60.6%	41.4%	70.8%	48.9%
Return on assets ⁽⁴⁾	39.2%	65.0%	44.8%	24.5%
Return on equity ⁽⁵⁾	99.3%	86.0%	82.7%	45.9%
Adjusted return on assets ⁽⁷⁾	39.2%	65.0%	60.9%	31.4%
Adjusted return on equity ⁽⁸⁾	99.3%	86.0%	112.3%	58.9%

Notes:

- (1) Gross margin equals gross profit divided by revenues for the period and multiplied by 100%.
- (2) Net margin equals net profit divided by revenues for the period and multiplied by 100%.
- (3) Gearing ratio is calculated based on the total liabilities divided by total assets as at the respective period end and multiplied by 100%.
- (4) Return on assets equals net profit for the period divided by beginning and closing balance of the total asset for the period multiplied by 100%.
- (5) Return on equity equals net profit for the period divided by shareholders’ equity as at the respective period end and multiplied by 100%.
- (6) Annualized bases.
- (7) Adjusted return on assets equals adjusted net profit/(loss) for the period divided by beginning and closing balance of the total asset for the period and multiplied by 100%.
- (8) Adjusted return on equity equals adjusted net profit/(loss) for the period divided by shareholders’ equity as at the respective period end and multiplied by 100%.

CONTINGENT LIABILITIES

As of December 31, 2015, 2016 and 2017 and June 30, 2018, we did not have any significant contingent liabilities.

FINANCIAL INFORMATION

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we have not entered into any off-balance sheet arrangements.

FINANCIAL RISK DISCLOSURE

We are exposed to a variety of financial risks, including credit risk, liquidity risk, interest rate and currency risk arising in the normal course of the our business.

Credit risk

Our credit risk is primarily attributable to cash at bank and trade and other receivables. We have a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Our cash at bank is mainly held with well-known financial institutions. We do not foresee any significant credit risks from these deposits and do not expect that these financial institutions may default and cause losses to us. In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

In respect of trade receivables from customers of mining hardware, we are not exposed to significant credit risk arising from sales as advance payments are required from most of our customers. Normally, we do not contain collateral from customers.

Our exposure to credit risk is influenced mainly by the individual characteristics of each customers rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when we have significant exposure to individual customers.

We do not provide any other guarantees which would expose us to credit risk.

Liquidity risk

Our policy is to regularly monitor our liquidity requirements, to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet our liquidity requirements in the short and longer term.

For the analysis of our remaining contractual maturities at the end of each reporting period of our non-derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest date we can be required to pay.

Our Directors have reviewed our profitability, working capital and capital expenditure requirements and determined that we have no significant liquidity risk.

FINANCIAL INFORMATION

Interest rate risk

Our interest-bearing financial instruments at variable rates as at December 31, 2015, 2016, and 2017 and June 30, 2018 were cash at bank, and cash flow interest risk arising from the change of market interest rate on these balances is not considered significant. Our interest-bearing financial instruments at fixed interest rates as at December 31, 2016 were bank loans that were measured at amortized cost, and the change of market interest rate did not materially expose us to fair value interest risk. As such, our exposure to interest rate risk is not significant.

Currency risk

We are exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Chinese Yuan, Euros, Hong Kong dollars and Japanese Yen.

FUTURE DIVIDENDS

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will also depend on the availability of dividends received from our subsidiaries. A significant portion of our revenue and profit is generated from our subsidiaries in the PRC. PRC laws require that dividends be paid only out of the profit for the year calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including the IFRSs. PRC laws also require foreign-invested enterprises to set aside at least 10% of its after-tax profits, if any, to fund its statutory reserves, which are not available for distribution as cash dividends, unless the provisions of laws regarding foreign investment states otherwise.

Dividend distribution to our shareholders is recognized as a liability in the period in which the dividends are approved by our shareholders or Directors, where appropriate. During the Track Record Period, no dividends have been paid or declared by us. Any amount of dividends we pay will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board.

DISTRIBUTABLE RESERVES

As of June 30, 2018, our reserves available for distributions to shareholders amounted to US\$1,617.1 million, respectively.

FINANCIAL INFORMATION

[REDACTED] EXPENSES

Based on the mid-point [REDACTED] of HK\$[REDACTED], the total estimated [REDACTED] related expenses payable by us in relation to the [REDACTED] is approximately US\$[REDACTED] (or approximately US\$[REDACTED] after excluding [REDACTED]). For the six months ended June 30, 2018, we recognized and charged to our consolidated statements of profit or loss approximately US\$[REDACTED] of such expenses. We estimate that [REDACTED] expenses of approximately US\$[REDACTED] will be charged to our consolidated statements of profit or loss for the year ending December 31, 2018. The balance of approximately US\$[REDACTED], which includes [REDACTED], is expected to be capitalized. These [REDACTED] expenses mainly comprise professional fees paid and payable to professional parties, and [REDACTED], for their services rendered in relation to the [REDACTED] and the [REDACTED].

[REDACTED]

FINANCIAL INFORMATION

[REDACTED]

RECENT DEVELOPMENTS

In September 2018, we successfully launched our first generation of 7nm ASIC chips, currently the most advanced IC fabrication technology. Compared to our previous ASIC chips, our latest 7nm ASIC chips have significantly improved in computing performance and power efficiency. In addition, we are developing the next generation of 7nm ASIC chips.

FINANCIAL INFORMATION

Following June 30, 2018, there has been significant volatility of the market price of cryptocurrencies. As a result of such volatility, the expected economic return from cryptocurrency mining has been adversely affected, which in turn may require us to make significant provisions with respect to our inventories and the cryptocurrencies we held and lower the selling prices of our mining hardware, and our profitability, business, results of operations and financial condition may be materially adversely affected. Please also see "Risk Factors – There is no assurance that a cryptocurrency will maintain its long-term value and volatility in the market price of cryptocurrencies may adversely affect our business and results of operations."

Save as disclosed herein, our Directors confirm that, up to the date of this document, there has been no other material adverse change in our financial or trading position or prospects since June 30, 2018, which is the end date of the periods reported on in the Accountants' Report included in Appendix I to this document.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this document, as at the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

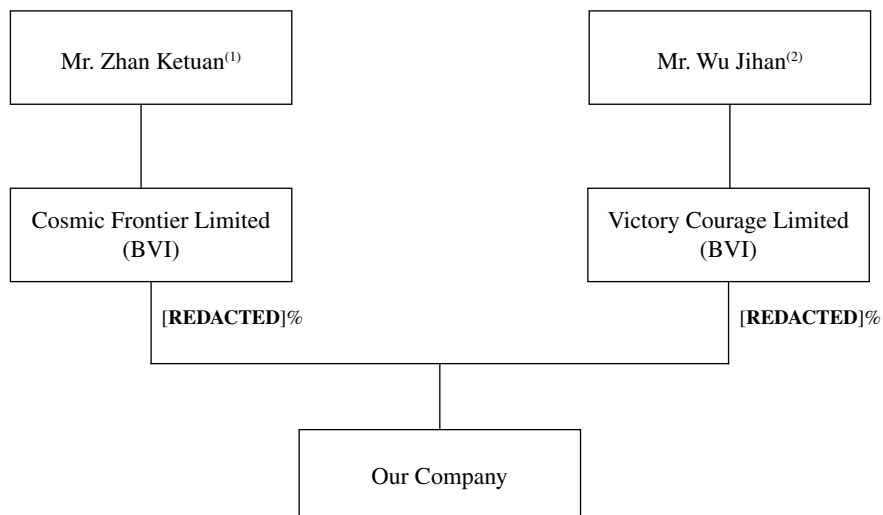
RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Upon the completion of the [REDACTED], Mr. Zhan Ketuan will be interested in and will control 3,988,768,187 Class B Shares through Cosmic Frontier Limited, a limited liability company incorporated in the BVI and wholly-owned by Great Savvy Limited, a limited liability company incorporated in the BVI, which is in turn wholly-owned by Vistra Trust (Hong Kong) Limited (“Vistra Trust”) as trustee for a trust established by Mr. Zhan Ketuan (as settlor) for the benefit of Mr. Zhan Ketuan and his family members. Mr. Wu Jihan will be interested in and will control 2,243,331,244 Class B Shares through Victory Courage Limited, a limited liability company incorporated in the BVI and wholly-owned by Cosmic Gains Global Limited, a limited liability company incorporated in the BVI, which is in turn wholly-owned by Vistra Trust as trustee for a trust established by Mr. Wu Jihan (as settlor) for the benefit of Mr. Wu Jihan and his family members. Each Class A Share has one vote per share and each Class B Share has ten votes per share, capable of being exercised on resolutions in general meetings of our Company (other than with respect to the Reserved Matters).

Accordingly, upon the completion of the [REDACTED], assuming the [REDACTED] is not exercised, the indirect shareholding of Mr. Zhan Ketuan and Mr. Wu Jihan will be approximately [REDACTED]% and [REDACTED]% of our issued share capital, respectively; and Mr. Zhan Ketuan and Mr. Wu Jihan will control approximately [REDACTED]% and [REDACTED]% of the voting rights in our Company through Class B Shares beneficially owned by each of them, respectively, capable of being exercised on resolutions in general meetings of our Company (other than with respect to the Reserved Matters). Therefore, Mr. Zhan Ketuan and Mr. Wu Jihan will be controlling shareholders of our Company after [REDACTED]. For the Reserved Matters, the Class B Shares beneficially owned by Mr. Zhan Ketuan and Mr. Wu Jihan carry one vote per share, and the percentage of voting rights Mr. Zhan Ketuan and Mr. Wu Jihan may exercise is approximately [REDACTED]% and [REDACTED]%, respectively.

The following diagram illustrates the ultimate beneficial interest of our controlling shareholders’ voting rights for resolutions in general meetings of our Company with respect to matters other than the Reserved Matters, immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised):



RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Notes:

- (1) Immediately after the completion of the [REDACTED] (assuming the [REDACTED] is not exercised), Mr. Zhan Ketuan will be interested in and will control 3,988,768,187 Class B Shares, representing approximately [REDACTED]% of the voting rights in our Company capable of being exercised on resolutions in general meetings of our Company in relation to matters other than the Reserved Matters, and approximately [REDACTED]% of the voting rights in our Company in relation to Reserved Matters, through Cosmic Frontier Limited, a limited liability company incorporated in the BVI and wholly-owned by Great Savvy Limited, a limited liability company incorporated in the BVI, which is in turn wholly-owned by Vistra Trust as trustee for a trust established by Mr. Zhan Ketuan (as settlor) for the benefit of Mr. Zhan Ketuan and his family members.
- (2) Immediately after the completion of the [REDACTED] (assuming the [REDACTED] is not exercised), Mr. Wu Jihan will be interested in and will control 2,243,331,244 Class B Shares, representing approximately [REDACTED]% of the voting rights in our Company capable of being exercised on resolutions in general meetings of our Company in relation to matters other than the Reserved Matters, and approximately [REDACTED]% of the voting rights in our Company in relation to Reserved Matters, through Victory Courage Limited, a limited liability company incorporated in the BVI and wholly-owned by Cosmic Gains Global Limited, a limited liability company incorporated in the BVI, which is in turn wholly-owned by Vistra Trust as trustee for a trust established by Mr. Wu Jihan (as settlor) for the benefit of Mr. Wu Jihan and his family members.

For further information about the weighted voting rights attached to the Class B Shares, please refer to the section headed “Share Capital.”

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independently from our controlling shareholders and its close associates after [REDACTED].

Management Independence

Our business is managed and conducted by our Board and senior management. Upon [REDACTED], our Board will consist of seven Directors comprising four executive Directors and three independent non-executive Directors. For more information, please see the section headed “Directors and Senior Management.”

Our Directors consider that our Board and senior management will function independently of our controlling shareholders because:

- (a) each Director is aware of his fiduciary duties as a director which require, among other things, that he acts for the benefit and in the interest of our Company and does not allow any conflict between his duties as a Director and his personal interests;
- (b) our daily management and operations are carried out by a senior management team, all of whom have substantial experience in the industry in which our Company is engaged, and will therefore be able to make business decisions that are in the best interests of our Group;
- (c) we have three independent non-executive Directors and certain matters of our Company must always be referred to the independent non-executive Directors for review;

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

- (d) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) is required to declare the nature of such interest before voting at the relevant Board meetings of our Company in respect of such transactions; and
- (e) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our controlling shareholders which would support our independent management. Please see “– Corporate Governance Measures” in this section for further information.

Based on the above, our Directors believe that our Board as a whole and together with our senior management team are able to perform the managerial role independently from our controlling shareholders.

Operational Independence

Our Group is not operationally dependent on the controlling shareholders. Save as disclosed in the sections headed “Business – Intellectual Property” and “Business – Legal Proceedings and Compliance – Compliance,” our Group (through our subsidiaries) holds all material licenses and owns all relevant intellectual properties and research and development facilities necessary to carry on our business. We have sufficient capital, facilities, equipment and employees to operate our business independently from our controlling shareholders. We also have independent access to our customers and an independent management team to operate our business.

Based on the above, our Directors believe that we are able to operate independently of our controlling shareholders.

Financial Independence

We have independent internal control and accounting systems. We also have an independent finance department responsible for discharging the treasury function. We are capable of obtaining financing from third parties, if necessary, without reliance on our controlling shareholders.

No loans or guarantees has been or will be provided by, or granted to, our controlling shareholders or their respective associates during the Track Record Period and as of the [REDACTED].

Based on the above, our Directors are of the view that they and our senior management are capable of carrying on our business independently of, and do not place undue reliance, on our controlling shareholders and their respective associates after [REDACTED].

DISCLOSURE UNDER RULE 8.10 OF THE LISTING RULES

Our controlling shareholders confirm that as of the Latest Practicable Date, they did not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business that would require disclosure under Rule 8.10 of the Listing Rules.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

Our Directors recognize the importance of good corporate governance in protecting our Shareholders’ interests. We have adopted the following measures to ensure good corporate governance standards and to avoid potential conflicts of interest between our Group and our controlling shareholders:

- (1) under the Articles, where a Shareholders’ meeting is to be held for considering proposed transactions in which our controlling shareholders or any of their respective associates has a material interest, the relevant controlling shareholders or associate will not vote on the relevant resolutions;
- (2) our Company has established internal control mechanisms to identify connected transactions. Upon the [REDACTED], if our Company enters into connected transactions with our controlling shareholders or any of its associates, our Company will comply with the applicable Listing Rules;
- (3) the independent non-executive Directors will review, on an annual basis, whether there are any conflicts of interests between our Group and our controlling shareholders and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (4) our controlling shareholders will undertake to provide all information necessary, including all relevant financial, operational and market information and any other necessary information as required by the independent non-executive Directors for the purpose of their annual review;
- (5) our Company will disclose decisions on matters reviewed by the independent non-executive Directors either in its annual reports or by way of announcements as required by the Listing Rules;
- (6) where our Directors reasonably request the advice of independent professionals, such as financial advisors, the appointment of such independent professionals will be made at our Company’s expense;
- (7) we have appointed Anglo Chinese Corporate Finance, Limited as our compliance advisor on a permanent basis to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the Listing Rules, including various requirements relating to corporate governance; and
- (8) we [have] established our Audit Committee, Remuneration Committee, Nomination Committee and Corporate Governance Committee with written terms of reference in compliance with the Listing Rules and the Corporate Governance Code in Appendix 14 to the Listing Rules and Chapter 8A of the Listing Rules. All of the members of our Audit Committee and Corporate Governance Committee, including the chairman, are independent non-executive Directors.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest that may arise between our Group and our controlling shareholders, and to protect our minority Shareholders’ interests after [REDACTED].

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company immediately prior to and immediately following the completion of the [REDACTED], assuming that (i) the [REDACTED] becomes unconditional and the [REDACTED] are issued pursuant to the [REDACTED], (ii) the [REDACTED] is not exercised, (iii) each Preferred Share is converted into one Class A Share and (iv) no Class B Share is converted into Class A Share.

1. Authorized share capital immediately prior to and immediately following the completion of the [REDACTED]

<u>Number</u>	<u>Description of Shares</u>	<u>Approximate aggregate nominal value of shares</u>	<u>Approximate percentage of authorized share capital</u> (%)
410,000,000,000	Class A Shares	US\$41,000.00	82.00
90,000,000,000	Class B Shares	US\$9,000.00	18.00
<u>500,000,000,000</u>	Total authorized share capital	<u>US\$50,000.00</u>	<u>100.00</u>

2. Share capital issued and to be issued

(i) Immediately prior to the completion of the [REDACTED]

<u>Number</u>	<u>Description of Shares</u>	<u>Approximate aggregate nominal value of shares</u>	<u>Approximate percentage of issued share capital</u> (%)
4,846,585,056	Class A Shares in issue	US\$484.66	43.75
6,232,099,431	Class B Shares in issue	US\$623.21	56.25
<u>11,078,684,487</u>	Shares in total	<u>US\$1,107.87</u>	<u>100.00</u>

SHARE CAPITAL

(ii) *Immediately following the completion of the [REDACTED]*

<u>Number</u>	<u>Description of Shares</u>	<u>Approximate aggregate nominal value of shares</u>	<u>Approximate percentage of issued share capital</u> (%)
4,846,585,056	Class A Shares in issue	US\$484.66	[REDACTED]
[REDACTED]	Class A Shares to be issued pursuant to the [REDACTED]	US\$[REDACTED]	[REDACTED]
<u>6,232,099,431</u>	Class B Shares in issue	<u>US\$623.21</u>	<u>[REDACTED]</u>
<u>[REDACTED]</u>	Shares in total	<u>US\$[REDACTED]</u>	<u>100.00</u>

The tables above do not take into account any Shares that may be issued or repurchased by our Company under the general mandates granted to our Directors referred to below.

WEIGHTED VOTING RIGHTS STRUCTURE

Our Company has adopted a WVR structure. Under this structure our Company’s share capital comprises Class A Shares and Class B Shares. Each Class A Share entitles the holder to exercise one vote, and each Class B Share entitles the holder to exercise ten votes, respectively, on any resolution tabled at our Company’s general meetings, except for resolutions with respect to a limited number of Reserved Matters, in relation to which each Share is entitled to one vote.

The Reserved Matters are:

- (i) any amendment to the Memorandum or the Articles, including the variation of the rights attached to any class of shares;
- (ii) the appointment, election or removal of any independent non-executive Director;
- (iii) the appointment or removal of our Company’s auditors; and
- (iv) the voluntary liquidation or winding-up, of our Company.

In addition, Shareholders, including holders of Class A Shares, holding not less than one-tenth of the paid up capital of our Company that carries the right of voting at general meetings are entitled to requisition an extraordinary general meeting of our Company and add resolutions to the meeting agenda.

SHARE CAPITAL

For further details, see the summary of the Articles of Association in Appendix III to this document.

The table below sets out the ownership and voting rights to be held by the WVR Beneficiaries upon the completion of the [REDACTED]:

	<u>Number of Shares</u>	<u>Approximate percentage of issued share capital⁽¹⁾</u>	<u>Approximate percentage of voting rights⁽¹⁾⁽²⁾</u>
Class B Shares held by the WVR Beneficiaries	6,232,099,431	[REDACTED]	[REDACTED]

Notes:

- (1) The table above assumes the [REDACTED] is not exercised.
- (2) On the basis that Class B Shares entitle their holders to ten votes per share and Class A Shares entitle their holders to one vote per share.

Class B Shares may be converted into Class A Shares on a one to one ratio. Upon the conversion of all the issued and outstanding Class B Shares into Class A Shares, our Company will issue [REDACTED] Class A Shares, representing approximately [REDACTED]% of the enlarged issued share capital of our Company upon completion of the [REDACTED] (assuming the [REDACTED] is not exercised and no other share issuance).

The weighted voting rights attached to our Class B Shares will cease when none of the WVR Beneficiaries have beneficial ownership of any of our Class B Shares, in accordance with Rule 8A.22 of the Listing Rules. This may occur:

- (i) upon the occurrence of any of the circumstances set out in Rule 8A.17 of the Listing Rules, in particular where each WVR Beneficiary is: (1) deceased; (2) no longer a member of our Board; (3) deemed by the Stock Exchange to be incapacitated for the purpose of performing his duties as a director; or (4) deemed by the Stock Exchange to no longer meet the requirements of a director set out in the Listing Rules;
- (ii) when the holders of Class B Shares have transferred to other person(s) the beneficial ownership of, or economic interest in, all of the Class B Shares or the voting rights attached to them, other than in the circumstances permitted by Rule 8A.18 of the Listing Rules;
- (iii) where the vehicles holding Class B Shares on behalf of the WVR Beneficiaries no longer comply with Rule 8A.18(2) of the Listing Rules; or
- (iv) when all of the Class B Shares have been converted to Class A Shares.

SHARE CAPITAL

Save for the weighted voting rights attached to Class B Shares, the rights attached to all classes of Shares are identical. For further information about the rights, preferences, privileges and restrictions of the Class A Shares and Class B Shares, please see the section headed "Summary of the Constitution of our Company and Cayman Companies Law – Articles of Association" in Appendix III to this document for further details.

WVR Beneficiaries

Immediately upon the completion of [REDACTED], the WVR Beneficiaries will be Mr. Zhan Ketuan and Mr. Wu Jihan.

Mr. Zhan Ketuan will beneficially own 3,988,768,187 Class B Shares, representing approximately [REDACTED]% of the voting rights in our Company (assuming the [REDACTED] is not exercised) with respect to shareholder resolutions relating to matters other than the Reserved Matters. These Class B Shares will be held by Cosmic Frontier Limited, a company indirectly wholly-owned by a trust established by Mr. Zhan Ketuan (as settlor) for the benefit of Mr. Zhan Ketuan and his family members.

Mr. Wu Jihan will beneficially own 2,243,331,244 Class B Shares, representing approximately [REDACTED]% of the voting rights in our Company (assuming the [REDACTED] is not exercised) with respect to shareholder resolutions relating to matters other than the Reserved Matters. These Class B Shares will be held by Victory Courage Limited, a company indirectly wholly-owned by a trust established by Mr. Wu Jihan (as settlor) for the benefit of Mr. Wu Jihan and his family members.

Our Company is adopting the WVR structure to enable the WVR Beneficiaries to exercise voting control over our Company. This will enable our Company to benefit from the continuing vision and leadership of the WVR Beneficiaries who will control our Company with a view to its long-term prospects and strategy.

Prospective investors are advised to be aware of the potential risks of investing in companies with WVR structure, in particular that interests of the WVR Beneficiaries may not necessarily always be aligned with those of our Shareholders as a whole, and that the WVR Beneficiaries will be in a position to exert significant influence over the affairs of our Company and the outcome of shareholders' resolutions, irrespective of how other Shareholders vote. Prospective investors should make the decision to invest in our Company only after due and careful consideration. For further information about the risks associated with the WVR structure adopted by our Company, please refer to paragraphs headed "Risk Factors – Risks Relating to the WVR Structure – Our controlling shareholders may exert substantial influence over us and may not act in the best interests of our independent Shareholders."

Save for the weighted voting rights attached to Class B Shares, the rights attached to Class A Shares and Class B Shares are identical. For further information about the rights, preferences, privileges and restrictions of the Class A Shares and Class B Shares, please see the section headed "Summary of the Constitution of our Company and Cayman Companies Law – Articles of Association" in Appendix III to this document.

SHARE CAPITAL

Undertakings by the WVR Beneficiaries

Pursuant to Rule 8A.43 of the Listing Rules, each WVR Beneficiary is required to give a legally enforceable undertaking to our Company that he will comply with the relevant requirements as set out in Rule 8A.43, which is intended to be for the benefit of and enforceable by the Shareholders. On [●], 2018, each of Mr. Zhan Ketuan and Mr. Wu Jihan made an undertaking to our Company (the “**Undertaking**”), that for so long as he is a WVR Beneficiary:

- (1) he shall comply with (and, if the shares to which the weighted voting rights that he is beneficially interested in are attached are held through a limited partnership, trust, private company or other vehicle, use his best endeavors to procure that that limited partnership, trust, private company or other vehicle complies with) all applicable requirements under Rules 8A.09, 8A.14, 8A.15, 8A.17, 8A.18, and 8A.24 of the Listing Rules from time to time in force (the “**Requirements**”); and
- (2) he shall use his best endeavors to procure that our Company complies with all applicable Requirements.

For the avoidance of doubt, the Requirements are subject to Rule 2.04 of the Listing Rules. Each WVR Beneficiary acknowledged and agreed that the Shareholders rely on the Undertaking in acquiring and holding their Shares. Each WVR Beneficiary acknowledged and agreed that the Undertaking is intended to confer a benefit on our Company and all Shareholders and may be enforced by our Company and/or any Shareholder against the WVR Beneficiary.

The Undertaking shall automatically terminate upon the earlier of (i) the date of delisting of our Company from the Stock Exchange; and (ii) the date on which the relevant WVR Beneficiary ceases to be a beneficiary of weighted voting rights in our Company. For the avoidance of doubt, the termination of the Undertaking shall not affect any rights, remedies, obligations or liabilities of our Company and/or any Shareholder and/or the relevant WVR Beneficiary himself that have accrued up to the date of termination, including the right to claim damages and/or apply for any injunction in respect of any breach of the Undertaking which existed at or before the date of termination.

The Undertaking shall be governed by the laws of Hong Kong and all matters, claims or disputes arising out of the Undertaking shall be subject to the exclusive jurisdiction of the courts of Hong Kong.

RANKING

The [REDACTED] will rank *pari passu* in all respects with all Class A Shares currently in issue or to be issued as mentioned in this document, and will qualify and rank equally for all dividends or other distributions declared, made or paid on the Shares on a record date which falls after the date of this document.

SHARE CAPITAL

ALTERATIONS OF CAPITAL

Pursuant to the Cayman Companies Law and the terms of the Memorandum and the Articles, our Company may from time to time by ordinary resolution of Shareholders (i) increase its capital; (ii) consolidate and divide its capital into shares of larger amount; (iii) subdivide its shares into shares of smaller amount; and (iv) cancel any shares which have not been taken. In addition, our Company may, subject to the provisions of the Cayman Companies Law, by special resolution of Shareholders (i) divide its shares into several classes; (ii) reduce its share capital or capital redemption reserve fund. See the section headed “Summary of the Constitution of our Company and Cayman Companies Law – Articles of Association – Alteration of capital” in Appendix III to this document for further details.

SHARE INCENTIVE SCHEME

Our Company has adopted a Share Incentive Scheme. See the section headed “Statutory and General Information – Share Incentive Scheme” in Appendix IV to this document for further details.

GENERAL MANDATE TO ISSUE SHARES

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general unconditional mandate, exercisable on their behalf by Mr. Zhan Ketuan and Mr. Wu Jihan, to allot, issue and deal with Class A Shares with a total nominal value of not more than the sum of:

1. 20% of the aggregate nominal value of the Shares in issue immediately following completion of the [REDACTED] (excluding any Class A Shares to be issued pursuant to the exercise of the [REDACTED] and Class A Shares to be issued upon conversion of Class B Shares into Class A Shares on a one to one basis); and
2. the aggregate nominal value of Shares repurchased by our Company under the authority referred to in the paragraph headed “– General Mandate to Repurchase Shares” in this section.

This general mandate to issue Class A Shares will expire at the earliest of:

1. the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or
2. the expiration of the period within which our Company’s next annual general meeting is required by the Articles of Association or any other applicable laws to be held; or
3. the date on which it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

SHARE CAPITAL

See the section headed “Statutory and General Information – Further Information about our Company and our Subsidiaries – Resolutions of the Shareholders of our Company dated [●], 2018” in Appendix IV to this document for further details of this general mandate.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general unconditional mandate, exercisable on their behalf by Mr. Zhan Ketuan and Mr. Wu Jihan, to exercise all the powers of our Company to repurchase our own securities with nominal value of up to 10% of the aggregate nominal value of our Shares in issue immediately following the completion of the [REDACTED] (excluding any Class A Shares to be issued pursuant to the exercise of the [REDACTED] and Class A Shares to be issued upon conversion of Class B Shares into Class A Shares on a one to one basis).

The repurchase mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which our Shares are listed (and which are recognized by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “Statutory and General Information – Further Information about our Company and our Subsidiaries – Repurchase of our own securities” in Appendix IV to this document.

This general mandate to repurchase Shares will expire at the earliest of:

1. the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or
2. the expiration of the period within which our Company’s next annual general meeting is required by the Articles of Association or any other applicable laws to be held; or
3. the date on which it is varied or revoked by an ordinary resolution of our Shareholders passed in a general meeting.

See the section headed “Statutory and General Information – Further Information about our Company and our Subsidiaries – Repurchase of our own securities” in Appendix IV for further details of the repurchase mandate.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the [REDACTED] assuming that the [REDACTED] is not exercised, each Preferred Share will automatically convert into one Class A Share and no Class B Share will be converted into Class A Share, the following parties will have interests and/or short positions in our Shares or our underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group:

<u>Substantial shareholder</u>	<u>Capacity/Nature of interest</u>	<u>Number of Shares/ underlying shares</u>	<u>Approximate percentage of shareholding of each class of shares in our Company⁽¹⁾</u>
<i>Class A Shares</i>			
Vistra Trust (Hong Kong) Limited ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾	Trustee	3,665,750,181	[REDACTED]%
Oceanic Summit Holdings Limited ⁽²⁾	Beneficial Interest	2,046,404,000	[REDACTED]%
Prestige Oasis Enterprises Limited ⁽²⁾	Interest in controlled corporation	2,046,404,000	[REDACTED]%
Soaring Summit Limited ⁽³⁾	Beneficial Interest	694,031,077	[REDACTED]%
Harvest Elite Ventures Limited ⁽³⁾	Interest in controlled corporations	694,031,077	[REDACTED]%
Mr. Zhao Zhaofeng ⁽³⁾	Beneficiary and founder of a trust	694,031,077	[REDACTED]%
Flourishing Well Limited ⁽⁴⁾	Beneficial Interest	462,657,552	[REDACTED]%
Ample Profit Group Limited ⁽⁴⁾	Interest in controlled corporation	462,657,552	[REDACTED]%
Mr. Ge Yuesheng ⁽⁴⁾	Beneficiary and founder of a trust	462,657,552	[REDACTED]%
Golden Navigate Investments Limited ⁽⁵⁾	Beneficial Interest	462,657,552	[REDACTED]%
Blessing Surplus Limited ⁽⁵⁾	Interest in controlled corporation	462,657,552	[REDACTED]%
Mr. Hu Yishuo ⁽⁵⁾	Beneficiary and founder of a trust	462,657,552	[REDACTED]%
<i>Class B Shares</i>			
Vistra Trust (Hong Kong) Limited ⁽⁶⁾⁽⁷⁾	Trustee	6,232,099,431	[REDACTED]%
Cosmic Frontier Limited ⁽⁶⁾	Beneficial Interest	3,988,768,187	[REDACTED]%
Great Savvy Limited ⁽⁶⁾	Interest in controlled corporation	3,988,768,187	[REDACTED]%

SUBSTANTIAL SHAREHOLDERS

Substantial shareholder	Capacity/Nature of interest	Number of Shares/ underlying shares	Approximate percentage of shareholding of each class of shares in our Company ⁽¹⁾
Mr. Zhan Ketuan ⁽⁶⁾	Beneficiary and founder of a trust	3,988,768,187	[REDACTED]%
Victory Courage Limited ⁽⁷⁾	Beneficial Interest	2,243,331,244	[REDACTED]%
Cosmic Gains Global Limited ⁽⁷⁾	Interest in controlled corporation	2,243,331,244	[REDACTED]%
Mr. Wu Jihan ⁽⁷⁾	Beneficiary and founder of a trust	2,243,331,244	[REDACTED]%

Notes:

- (1) The table above assumes that the [REDACTED] is not exercised and each Preferred Share will be automatically converted into one Class A Share upon the completion of the [REDACTED].
- (2) Oceanic Summit Holdings Limited is a limited liability company incorporated in the BVI and is wholly-owned by Prestige Oasis Enterprises Limited, a limited liability company incorporated in the BVI, which is in turn wholly-owned by Vistra Trust (Hong Kong) Limited as trustee for a trust established by our Company (as settlor) for the benefit of the participants of the Share Incentive Scheme, which may include, among others, the Directors, employees and consultants of our Company and its subsidiaries.
- (3) Soaring Summit Limited is a limited liability company incorporated in the BVI and is wholly-owned by Harvest Elite Ventures Limited, a limited liability company incorporated in the BVI, which is in turn wholly-owned by Vistra Trust (Hong Kong) Limited as trustee for a trust established by Mr. Zhao Zhaofeng (as settlor) for the benefit of Mr. Zhao Zhaofeng and his family members. Mr. Zhao Zhaofeng is deemed to be interested in 694,031,077 Class A Shares held by Soaring Summit Limited under the SFO.
- (4) Flourishing Well Limited is a limited liability company incorporated in the BVI and is wholly-owned by Ample Profit Group Limited, a limited liability company incorporated in the BVI, which is in turn wholly-owned by Vistra Trust (Hong Kong) Limited as trustee for a trust established by Mr. Ge Yuesheng (as settlor) for the benefit of Mr. Ge Yuesheng and his family members. Mr. Ge Yuesheng is deemed to be interested in 462,657,552 Class A Shares held by Flourishing Well Limited under the SFO.
- (5) Golden Navigate Investments Limited is a limited liability company incorporated in the BVI and is wholly-owned by Blessing Surplus Limited, a limited liability company incorporated in the BVI, which is in turn wholly-owned by Vistra Trust (Hong Kong) Limited as trustee for a trust established by Mr. Hu Yishuo (as settlor) for the benefit of Mr. Hu Yishuo and his family members. Mr. Hu Yishuo is deemed to be interested in 462,657,552 Class A Shares held by Golden Navigate Investments Limited under the SFO.
- (6) Cosmic Frontier Limited is a limited liability company incorporated in the BVI and is wholly-owned by Great Savvy Limited, a limited liability company incorporated in the BVI, which is in turn wholly-owned by Vistra Trust (Hong Kong) Limited as trustee for a trust established by Mr. Zhan Ketuan (as settlor) for the benefit of Mr. Zhan Ketuan and his family members. Mr. Zhan Ketuan is deemed to be interested in 3,988,768,187 Class B Shares held by Cosmic Frontier Limited under the SFO.
- (7) Victory Courage Limited is a limited liability company incorporated in the BVI and is wholly-owned by Cosmic Gains Global Limited, a limited liability company incorporated in the BVI, which is in turn wholly-owned by Vistra Trust (Hong Kong) Limited as trustee for a trust established by Mr. Wu Jihan (as settlor) for the benefit of Mr. Wu Jihan and his family members. Mr. Wu Jihan is deemed to be interested in the 2,243,331,244 Class B Shares held by Victory Courage Limited under the SFO.

SUBSTANTIAL SHAREHOLDERS

Other than as disclosed herein, the Directors are not aware of any person who will, immediately following the completion of the [REDACTED] (assuming that the [REDACTED] is not exercised), have any interest and/or short position in the Shares or underlying shares of our Company which would fall to be disclosed to our Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company or any other member of our Group.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS AND SENIOR MANAGEMENT

Upon [REDACTED], our Board will consist of seven Directors, including four executive Directors and three independent non-executive Directors. The following table provides certain information about our Directors:

Name	Age	Position	Roles and Responsibilities	Date of joining our Group	Date of appointment as Director
Mr. Zhan Ketuan (詹克團)	39	Co-founder, executive Director, Co-Chairman and Co-Chief Executive Officer	Responsible for our overall strategic planning and business direction	October 2013	September 13, 2018
Mr. Wu Jihan (吳忌寒)	32	Co-founder, executive Director, Co-Chairman and Co-Chief Executive Officer	Responsible for our overall strategic planning and business direction	October 2013	November 18, 2013
Mr. Ge Yuesheng (葛越晟)	26	Executive Director and principal of investment	Responsible for our investment activities	December 2014	September 13, 2018
Mr. Liu Luyao (劉路遙)	31	Executive Director and Chief Financial Officer	Responsible for our financing activities and investor relations	July 2018	September 13, 2018
Mr. Wang Xiaochuan (王小川)	39	Independent non-executive Director	Providing independent opinion and judgment to our Board	[●]	[●]
Mr. Sun Hanhui (孫含暉)	46	Independent non-executive Director	Providing independent opinion and judgment to our Board	[●]	[●]
Mr. Deng Feng (鄧鋒)	55	Independent non-executive Director	Providing independent opinion and judgment to our Board	[●]	[●]

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Zhan Ketuan (詹克團), aged 39, is our Co-founder, executive Director, Co-Chairman of the Board and Co-Chief Executive Officer. Mr. Zhan is responsible for our overall strategic planning and business direction.

Together with Mr. Wu Jihan, Mr. Zhan co-founded our Group in October 2013. Mr. Zhan has nearly 15 years of managerial and operational experience in the IC industry. Prior to co-founding our Group in October 2013, Mr. Zhan served as the department director of the research and development department and the manager of IC department in Unitend Technologies Inc. (北京數字太和科技有限責任公司) from August 2007 to September 2013, and was responsible for the design and marketing of various IC products, which have achieved sales volumes of more than a million pieces. Prior to that, Mr. Zhan served as a research and development engineer at Research Institute of Information Technology of Tsinghua University (清華大學信息技術研究院) from August 2004 to July 2007.

Mr. Zhan received his bachelor’s degree, major in electronic information science and technology, from Shandong University (山東大學) in the PRC in July 2001 and his master’s degree, major in microelectronics and solid-state electronics, from Institute of Microelectronics of Chinese Academy of Sciences (中國科學院微電子研究所) in August 2004.

Mr. Zhan is also a director or legal representative of a number of subsidiaries of our Company, including but not limited to Beijing Bitmain Technologies, Shenzhen Century Cloud Core Technology and Fujian Zhanhua Intelligence Technologies.

Mr. Wu Jihan (吳忌寒), aged 32, is our Co-founder, executive Director, Co-Chairman of the Board and Co-Chief Executive Officer. Mr. Wu is responsible for our overall strategic planning and business direction.

Together with Mr. Zhan Ketuan, Mr. Wu co-founded our Group in October 2013. Mr. Wu has accumulated years of experience in the cryptocurrency industry with an in-depth understanding of the market. Prior to co-founding our Group in October 2013, Mr. Wu served as an analyst at Beijing Zunsheng Investment Consultancy Co., Ltd. (北京尊盛投資諮詢有限公司) from June 2009 to August 2010 and then served as an investment manager at China Grand Prosperity Investment Co., Ltd. (北京盛世宏明投資基金管理有限公司) from October 2010 to April 2013.

Mr. Wu received his bachelor’s degrees, major in finance and psychology, from Peking University (北京大學) in the PRC in July 2009.

Mr. Wu is also a director or legal representative of a number of subsidiaries of our Company, including but not limited to Bitmain Hong Kong, Tospring Technology and Bitmain US.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Ge Yuesheng (葛越晟), aged 26, is our executive Director and principal of investment. Mr. Ge joined our Group in December 2014 and is responsible for our investment activities. Prior to joining our Group, Mr. Ge served as an analyst at China Materialia LLC (上海遨問創業投資管理有限公司) from August 2013 to August 2014.

Mr. Ge received his bachelor’s degree, major in business administration, from Hangzhou Dianzi University (杭州電子科技大學) in the PRC in June 2013.

Mr. Ge is also a director or legal representative of a number of subsidiaries of our Company, including but not limited to Bitmaintech Pte. Ltd. and Bitmain Israel Ltd.

Mr. Liu Luyao (劉路遙), aged 31, is our executive Director and Chief Financial Officer. Mr. Liu joined our Group in July 2018 and is responsible for our financing activities and investor relations. Prior to joining our Group, Mr. Liu served at China International Capital Corporation Limited (中國國際金融股份有限公司) from July 2012 to June 2018, with his last position being vice president in the investment banking department.

Mr. Liu received his bachelor’s degree, major in finance, from Peking University (北京大學) in the PRC in July 2009, and his master’s degree, major in accounting, from Tsinghua University (清華大學) in the PRC in June 2012. Mr. Liu was admitted as a Certified Public Accountant by the Chinese Institute of Certified Public Accountants in May 2012, and was admitted as a Chartered Financial Analyst by the CFA Institute in August 2015.

Independent Non-executive Directors

Mr. Wang Xiaochuan (王小川), aged 39, was appointed as our independent non-executive Director in [●] 2018, effective upon [REDACTED]. Since 2010, Mr. Wang has served as the chief executive officer and a director of Sogou Inc., a company whose shares are listed on the New York Stock Exchange (stock symbol: SOGO). From November 2009 to February 2013, Mr. Wang served as the chief technology officer of Sohu.com Inc., which was succeeded in 2018 by Sohu.com Limited, a company whose shares are listed on NASDAQ (stock symbol: SOHU).

Since May 2012, Mr. Wang has served as an independent director of Jiayuan.com International Ltd., a company whose shares were listed on NASDAQ (stock symbol: DATE) and delisted in 2016 after being acquired. From January 2014 to May 2017, Mr. Wang served as an independent director of NavInfo Co., Ltd. (北京四維圖新科技股份有限公司), a company whose shares are listed on the Shenzhen Stock Exchange (stock code: 002405). From March 2016 to October 2017, Mr. Wang served as an independent director of Hangzhou Shunwang Technology Co., Ltd. (杭州順網科技股份有限公司), a company whose shares are listed on the Shenzhen Stock Exchange (stock code: 300113). Mr. Wang currently serves as an independent director of Sunlands Online Education Group, a company whose shares are listed on the New York Stock Exchange (stock symbol: STG).

DIRECTORS AND SENIOR MANAGEMENT

Mr. Wang is also a member of the 13th Chinese People’s Political Consultative Conference National Committee, a member of the 14th Central Committee of Jiusan Society, co-chairman of the Tiangong Institute for Intelligent Computing at Tsinghua University, a member of the Second Communications Science and Technology Committee of the Ministry of Industry and Information Technology of the PRC, a standing director of the Internet Society of China, and vice president of the Beijing Internet Association.

Mr. Wang received both of his master’s degree, major in computer system architecture, and an executive master’s degree in business administration, from Tsinghua University (清華大學) in the PRC in July 2003 and June 2012, respectively.

Mr. Sun Hanhui (孫含暉), aged 46, was appointed as our independent non-executive Director in [●] 2018, effective upon [REDACTED]. From January 2010 to September 2015, Mr. Sun served at Qunar Cayman Islands Limited, a company whose shares were listed on NASDAQ (stock symbol: QUNR) and delisted in 2017 due to merger with another company, with his last positions being president and chief financial officer. From February 2007 to April 2009, Mr. Sun served as the chief financial officer of KongZhong Corporation, a company whose shares were listed on NASDAQ (stock symbol: KZ) and voluntarily privatized in April 2017.

Mr. Sun is currently serving as an independent director of iQIYI, Inc., a company whose shares are listed on NASDAQ (stock symbol: IQ), an independent director of Yirendai Ltd., a company whose shares are listed on the New York Stock Exchange (stock symbol: YRD), an independent non-executive director of Car Inc. (神州租車有限公司), a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 0699), an independent director of Fang Holdings Limited, a company whose shares are listed on the New York Stock Exchange (stock symbol: SFUN), and an independent director of Sunlands Online Education Group, a company whose shares are listed on the New York Stock Exchange (stock symbol: STG).

Mr. Sun received his bachelor’s degree, major in industrial foreign trade, from Beijing Institute of Technology (北京理工大學) in the PRC in July 1993. Mr. Sun was admitted as a Certified Public Accountant by the Chinese Institute of Certified Public Accountants in October 1998.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Deng Feng (鄧鋒), aged 55, was appointed as our independent non-executive Director in [●] 2018, effective upon [REDACTED]. Mr. Deng is the founder and has been a managing director of Northern Light Venture Capital since January 2006. From September 1999 to February 2004, Mr. Deng was a co-founder and served as a director of Netscreen Technologies, Inc., a company whose shares were listed on NASDAQ (stock symbol: NSCN) and delisted in 2004 after it was acquired by another company.

Mr. Deng also serves as a director of Thunder Software Technology Co., Ltd. (中科創達軟件股份有限公司), a company whose shares are listed on the Shenzhen Stock Exchange (stock code: 300496), an independent director of Neusoft Corporation (東軟集團股份有限公司), a company whose shares are listed on the Shanghai Stock Exchange (stock code: 600718) and an independent director of New Hope Group (新希望集團有限公司), a company whose shares are listed on the Shenzhen Stock Exchange (stock code: 000876).

Mr. Deng received his master’s degree, major in communication and electronic systems, from Tsinghua University (清華大學) in the PRC, in December 1988. He also received a master’s degree in computer engineering from the University of Southern California in the United States in August 1993 and a master’s degree in business administration from the Wharton School at the University of Pennsylvania in the United States.

SENIOR MANAGEMENT

The following table provides information about members of the senior management of our Company:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Roles and Responsibilities</u>	<u>Date of joining our Group</u>
Mr. Zhan Ketuan (詹克團)	39	Co-Chief Executive Officer	Responsible for our overall strategic planning and business direction	October 2013
Mr. Wu Jihan (吳忌寒)	32	Co-Chief Executive Officer	Responsible for our overall strategic planning and business direction	October 2013
Mr. Ge Yuesheng (葛越晟)	26	Principal of investment	Responsible for our investment activities	December 2014
Mr. Liu Luyao (劉路遙)	31	Chief Financial Officer	Responsible for our financing activities and investor relations	July 2018

DIRECTORS AND SENIOR MANAGEMENT

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Roles and Responsibilities</u>	<u>Date of joining our Group</u>
Mr. Li Yingfei (李盈斐)	34	Principal of sales	Responsible for our sales activities	October 2013
Mr. Fan Jing (范靖)	42	Principal of research and development	Responsible for our research and development activities	January 2016
Mr. Liu Jianchun (劉建春)	40	Principal of finance	Responsible for our financial management	February 2016

Mr. Zhan Ketuan (詹克團), aged 39, is our Co-founder, executive Director and Co-Chief Executive Officer. For further details about his biography, please see the sub-section headed “– Executive Directors” in this section.

Mr. Wu Jihan (吳忌寒), aged 32, is our Co-founder, executive Director and Co-Chief Executive Officer. For further details about his biography, please see the sub-section headed “– Executive Directors” in this section.

Mr. Ge Yuesheng (葛越晟), aged 26, is our executive Director and principal of investment. For further details about his biography, please see the sub-section headed “– Executive Directors” in this section.

Mr. Liu Luyao (劉路遙), aged 31, is our executive Director and Chief Financial Officer. For further details about his biography, please see the sub-section headed “– Executive Directors” in this section.

Mr. Li Yingfei (李盈斐), aged 34, is our principal of sales. Mr. Li joined our Group in October 2013 and is responsible for our sales activities.

Mr. Li received his bachelor’s degree, major in computer science and technology, from Beihua University (北華大學) in the PRC in July 2007.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Fan Jing (范靖), aged 42, is our principal of research and development. Mr. Fan joined our Group in January 2016 and is responsible for our research and development activities. Prior to joining our Group, Mr. Fan served in AMD Products (China) Co., Ltd. (超威半導體產品(中國)有限公司) from May 2012 to December 2015. Prior to that, Mr. Fan worked at VIA Technologies (China) Co., Ltd. (威盛電子(中國)有限公司).

Mr. Fan received his master’s degree, major in computer system architecture, from Northwestern Polytechnical University (西北工業大學) in the PRC in April 2001.

Mr. Liu Jianchun (劉建春), aged 40, is our principal of finance. Mr. Liu joined our Group in February 2016 and is responsible for our financial management. Prior to joining our Group, Mr. Liu consecutively served as a reporting officer, financial manager and senior tax officer at China National Offshore Oil Corporation Limited (中國海洋石油有限公司) and its subsidiaries from April 2005 to January 2016. Mr. Liu was also qualified as a senior accountant by the qualification committee of China National Offshore Oil Corporation Limited in October 2015. From July 2000 to April 2005, Mr. Liu consecutively served as a reporting officer, financial manager and finance director at China CYTS Tours Holding Co., Ltd. (中青旅控股股份有限公司) and its subsidiaries.

Mr. Liu received his bachelor’s degree, major in international accounting, from Renmin University of China (中國人民大學) in the PRC in July 2000 and his master’s degree in business administration from University of Chinese Academy of Sciences (中國科學院大學) in the PRC in July 2017.

Interests of our Directors and Senior Management

Save as disclosed above, none of our Directors holds any other directorships in public companies, the securities of which are listed on any securities market in Hong Kong or overseas during the three years immediately preceding the date of this document. See section headed “Appendix IV – Statutory and General Information” in this document for further information about the Directors, including the particulars of their service contracts and remuneration, and details of the interests of the Directors in the Shares (within the meaning of Part XV of the SFO).

Save as disclosed in this document, to the best knowledge, information and belief of our Directors after having made all reasonable enquiries, as of the Latest Practicable Date, there were no other matters in respect of each of our Directors which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules, and there were no other material matters relating to our Directors that need to be brought to the attention of our Shareholders. None of our Directors and senior management is related to other Directors and senior management.

JOINT COMPANY SECRETARIES

Mr. Liu Luyao (劉路遙) has been appointed as our joint company secretary with effect from September 2018. For further details about his biography, please see the sub-section headed “– Executive Directors” in this section.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Sit Man Pan (薛文彬) has been appointed as our joint company secretary with effect from September 2018. Mr. Sit is a manager of corporate services of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services. Mr. Sit has around six years of experience in the corporate secretarial field. He has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Mr. Sit is a chartered secretary and an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Mr. Sit holds a bachelor’s degree in business administration from Hong Kong Shue Yan University and a master’s degree in corporate governance from The Hong Kong Polytechnic University.

MANAGEMENT AND CORPORATE GOVERNANCE

Board Committees

Audit Committee

We [have] established an Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls system (including risk management) of our Company, review and approve connected transactions and provide advice and comments to the Board. The Audit Committee consists of three members, namely Mr. Sun Hanhui, Mr. Wang Xiaochuan and Mr. Deng Feng, all of whom are our independent non-executive Directors. Mr. Sun Hanhui, who has the appropriate professional qualifications or accounting or related financial management expertise, is the chairman of the Audit Committee.

Remuneration Committee

We [have] established a Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are to review and make recommendations to the Board the terms of remuneration packages, bonuses and other compensation payable to our Directors and other senior management. The Remuneration Committee consists of three members, namely Mr. Deng Feng, Mr. Wu Jihan and Mr. Wang Xiaochuan. Mr. Deng Feng is the chairman of the Remuneration Committee, and both Mr. Deng Feng and Mr. Wang Xiaochuan are our independent non-executive Directors.

Nomination Committee

We [have] established a Nomination Committee with written terms of reference in compliance with the Corporate Governance Code in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee are to make recommendations to our Board on the appointment of Directors and management of Board succession. The Nomination Committee consists of three members, namely Mr. Deng Feng, Mr. Zhan Ketuan and Mr. Sun Hanhui. Mr. Deng Feng is the chairman of the Nomination Committee, and both Mr. Deng Feng and Mr. Sun Hanhui are our independent non-executive Directors.

DIRECTORS AND SENIOR MANAGEMENT

Corporate Governance Committee

We [have] established a Corporate Governance Committee in compliance with Chapter 8A of the Listing Rules. The primary duties of the Corporate Governance Committee are to ensure that our Company is operated and managed for the benefit of all Shareholders and to ensure our Company’s compliance with the Listing Rules and safeguards relating to the WVR structure of our Company.

The Corporate Governance Committee comprises three independent non-executive Directors, namely Mr. Wang Xiaochuan, Mr. Sun Hanhui and Mr. Deng Feng. Mr. Wang Xiaochuan is the chairman of the Corporate Governance Committee. For details of their experience in corporate governance related matters, please refer to their biographies in the sub-section headed “– Independent Non-Executive Directors” above.

In accordance with Rule 8A.30 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 of the Listing Rules, the work of our Corporate Governance Committee as set out in its terms of reference includes:

- (a) to develop and review our Company’s policies and practices on corporate governance and make recommendations to the Board;
- (b) to review and monitor the training and continuous professional development of Directors and senior management;
- (c) to review and monitor our Company’s policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;
- (e) to review our Company’s compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report;
- (f) to review and monitor whether our Company is operated and managed for the benefit of all of its Shareholders;
- (g) to confirm, on an annual basis, that the WVR Beneficiaries have been members of the Board throughout the year and that no matters under Rule 8A.17 of the Listing Rules have occurred during the relevant financial year;
- (h) to confirm, on an annual basis, whether or not the WVR Beneficiaries have complied with Rules 8A.14, 8A.15, 8A.18 and 8A.24 of the Listing Rules throughout the year;
- (i) to review and monitor the management of conflicts of interests and make a recommendation to the Board on any matter where there is a potential conflict of interest between our Company, subsidiary and/or Shareholder on one hand and any WVR Beneficiary on the other;

DIRECTORS AND SENIOR MANAGEMENT

- (j) to review and monitor all risks related to our Company's WVR structure, including connected transactions between our Company and/or subsidiary on one hand and any WVR Beneficiary on the other and make a recommendation to the Board on any such transaction;
- (k) to make a recommendation to the Board as to the appointment or removal of the compliance advisor;
- (l) to seek to ensure effective and on-going communication between our Company and its Shareholders, particularly with regards to the requirements of Rule 8A.35 of the Listing Rules; and
- (m) to report on the work of the Corporate Governance Committee on at least a half-yearly and annual basis covering all areas of its terms of reference, including disclosing, on a comply or explain basis, its recommendations to the Board in respect of the matters in items (i) to (k) above.

Pursuant to Rule 8A.32 of the Listing Rules, the Corporate Governance Report prepared by our Company for inclusion in our interim and annual reports after [REDACTED] will include a summary of the work of the Corporate Governance Committee for the relevant period.

Role of our Independent Non-executive Directors

Pursuant to Rule 8A.26 of the Listing Rules, the role of the independent non-executive directors of a listed company with WVR structure must include, but is not limited to, the functions described in code provisions A.6.2, A.6.7 and A.6.8 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The functions of our independent non-executive Directors include:

- (a) participating in board meetings to bring an independent judgment to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct;
- (b) taking the lead where potential conflicts of interests arise;
- (c) serving on the audit, remuneration, nomination and other governance committees, if invited;
- (d) scrutinizing our Company's performance in achieving agreed corporate goals and objectives, and monitoring performance reporting;
- (e) giving the Board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation;

DIRECTORS AND SENIOR MANAGEMENT

- (f) making a positive contribution to the development of our Company’s strategy and policies through independent, constructive and informed comments; and
- (g) attending general meetings and developing a balanced understanding of the views of our Shareholders.

Corporate Governance Code

We aim to achieve high standards of corporate governance which are crucial to our development and to safeguard the interests of our Shareholders. In order to accomplish this, save as disclosed below, we expect to comply with the Corporate Governance Code set out in Appendix 14 of the Listing Rules after the [REDACTED]. Pursuant to code provision A.2.1 of the Corporate Governance Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. We do not have a separate Chairman and Chief Executive Officer. Currently, Mr. Zhan Ketuan and Mr. Wu Jihan jointly perform these two roles. Our Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same persons has the benefit of ensuring consistent leadership within our Group and enables more effective and efficient overall strategic planning for our Group. Our Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable our Company to make and implement decisions promptly and effectively. Our Board will continue to review and consider splitting the roles of Chairman of our Board and the Chief Executive Officer of our Company at a time when it is appropriate by taking into account the circumstances of our Group as a whole.

Our Company’s Articles of Association will provide that, where both Co-Chairmen attend any Board or Shareholders’ meeting, the chairman to that meeting will be agreed between the Co-Chairmen. If only one of the Co-Chairmen attends the Board or Shareholders’ meeting, the attending Co-Chairman shall act as the chairman to that meeting. The relevant duties and powers of a chairman will be vested on the chairman to that meeting.

Management presence

According to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong.

Since the principal business operations of our Company are conducted outside of Hong Kong, members of our senior management are, and are expected to continue to be, based outside of Hong Kong. Further, as our executive Directors have a vital role in our Company’s operations, it is crucial for them to remain in close proximity to our Company’s central management located outside of Hong Kong. Our Company does not and, for the foreseeable future, will not have a sufficient management presence in Hong Kong. We have applied for[, and the Stock Exchange has granted,] a waiver from compliance with Rule 8.12 of the Listing Rules. For further details, please see the section headed “Waivers from Compliance with the Listing Rules – Management Presence in Hong Kong.”

DIRECTORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISOR

We have appointed Anglo Chinese Corporate Finance, Limited as our compliance advisor pursuant to Rule 8A.33 of the Listing Rules. The compliance advisor will provide us with guidance and advice as to compliance with the requirements under the Listing Rules and applicable Hong Kong laws. Pursuant to Rules 3A.23 and 8A.34 of the Listing Rules, the compliance advisor will advise our Company, among others, in the following circumstances:

- (a) before the publication of any regulatory announcement, circular, or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (c) where we propose to use the [REDACTED] of the [REDACTED] in a manner different from that detailed in this document or where the business activities, development or results of our Company deviate from any forecast, estimate or other information in this document;
- (d) where the Stock Exchange makes an inquiry to our Company regarding unusual movements in the price or trading volume of our listed securities or any other matters in accordance with Rule 13.10 of the Listing Rules;
- (e) the WVR structure;
- (f) transactions in which any WVR Beneficiary has an interest; and
- (g) where there is a potential conflict of interest between our Company, our subsidiary and/or Shareholders (considered as a group) on one hand and any WVR Beneficiary on the other.

The term of appointment of the compliance advisor shall commence on the [REDACTED]. Pursuant to Rule 8A.33 of the Listing Rules, our Company is required to engage a compliance advisor on a permanent basis.

DIRECTORS' REMUNERATION

Our Directors and senior management receive remuneration, including salaries, allowances and benefits in kind, including our contribution to the pension plan on their behalf.

The aggregate amount of remuneration (including wages, salaries, bonuses, pension costs and other employee benefits) for our Directors for the years ended December 31, 2015, 2016, 2017 and the six months ended June 30, 2018 was approximately US\$0.16 million, US\$0.84 million, US\$43.31 million and US\$0.11 million, respectively.

DIRECTORS AND SENIOR MANAGEMENT

The aggregate amount of remuneration (including wages, salaries, bonuses, pension costs, other employee benefits, and share-based compensation expenses) for the five highest paid individuals (including Directors) for the years ended December 31, 2015, 2016, 2017 and the six months ended June 30, 2018 was approximately US\$0.45 million, US\$7.02 million, US\$44.97 million and US\$28.72 million, respectively.

Save as disclosed above, no other payments have been paid or are payable by our Company to our Directors or senior management for the Track Record Period.

No remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Company. No compensation was paid to, or receivable by, our Directors or past directors for the Track Record Period for the loss of office as director of any member of our Company or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the same period.

Share Incentive Scheme

In order to assist us in attracting, retaining and motivating, among others, our Directors, employees and consultants who will contribute to the success of our Company, we have adopted the Share Incentive Scheme, pursuant to which we may grant awards to eligible participants. The principal terms of the Share Incentive Scheme are summarized in the section headed “Appendix IV – Statutory and General Information – Share Incentive Scheme” in this document.

COMPETITION

Each of our Directors confirms that as of the Latest Practicable Date, he did not have any interest in a business which competes or is likely to compete, directly or indirectly, with our business, and which requires disclosure under Rule 8.10 of the Listing Rules.

FUTURE PLANS AND USE OF [REDACTED]

FUTURE PLANS

See the section headed “Business – Our Strategies” for a detailed description of our future plans.

USE OF [REDACTED]

We estimate that we will receive [REDACTED] from the [REDACTED] of approximately HK\$[REDACTED] after deducting the [REDACTED] and other estimated expenses paid and payable by us in relation to the [REDACTED], assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the indicative [REDACTED] of HK\$[REDACTED] to HK\$[REDACTED] per Share, and that the [REDACTED] is not exercised. We intend to use the [REDACTED] we will receive from this [REDACTED] for the following purposes:

- approximately [REDACTED]% (approximately HK\$[REDACTED]) of the [REDACTED] from the [REDACTED] is expected to be used to enhance our research and development capabilities and expand the production output for cryptocurrency mining ASIC chips and blockchain applications;
- approximately [REDACTED]% (approximately HK\$[REDACTED]) of the [REDACTED] from the [REDACTED] is expected to be used to enhance our research and development capabilities and expand the production output for AI ASIC chips and AI applications;
- approximately [REDACTED]% (approximately HK\$[REDACTED]) of the [REDACTED] from the [REDACTED] is expected to be used for the construction and development of our research and development center and the purchase of research and development equipment;
- approximately [REDACTED]% (approximately HK\$[REDACTED]) of the [REDACTED] from the [REDACTED] is expected to be used for our global expansion, including but not limited to hiring local teams and investing in localization efforts in overseas markets;
- approximately [REDACTED]% (approximately HK\$[REDACTED]) of the [REDACTED] from the [REDACTED] is expected to be used to fund marketing and promotional campaigns through online and offline marketing activities;
- approximately [REDACTED]% (approximately HK\$[REDACTED]) of the [REDACTED] from the [REDACTED] is expected to be used to fund potential acquisition, investment, joint venture and partnership opportunities that we believe are in line with our overall business strategies; and
- approximately [REDACTED]% (approximately HK\$[REDACTED]) of the [REDACTED] from the [REDACTED] is expected to be used for working capital and general corporate purposes.

FUTURE PLANS AND USE OF [REDACTED]

In the event that the [REDACTED] is set at the high point or the low point of the indicative [REDACTED], the [REDACTED] of the [REDACTED] will increase or decrease by approximately HK\$[REDACTED], respectively. Under such circumstances, we will increase or decrease the allocation of the [REDACTED] to the above purposes on a pro rata basis.

If the [REDACTED] is exercised in full, the additional [REDACTED] that we will receive will be approximately HK\$[REDACTED], assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the indicative [REDACTED]. We may be required to issue up to an aggregate of [REDACTED] additional Shares pursuant to the [REDACTED].

To the extent that the [REDACTED] of the [REDACTED] are not immediately required for the above purposes or if we are unable to put into effect any part of our plan as intended, we may hold such funds in short-term deposits so long as it is deemed to be in the best interests of the Company. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

Since we are an offshore holding company, we will need to make capital contributions and loans to our PRC subsidiaries such that the [REDACTED] of the [REDACTED] can be used in the manner described above. Such capital contributions and loans are subject to a number of limitations and approval processes under PRC laws and regulations. Under PRC laws and regulations, the PRC governmental authorities are required to process such approvals or registrations or deny our application within a prescribed period, which are usually less than 90 days. The actual time taken, however, may be longer due to administrative delay. We cannot assure you that we can obtain the approvals from the relevant governmental authorities, or complete the registration and filing procedures required to use our [REDACTED] as described above, in each case on a timely basis, or at all. This is because PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the [REDACTED] of the [REDACTED] to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] *Sole Sponsor’s Fee*

[REDACTED]

An aggregate amount of US\$1.00 million is payable by the Company as sponsor fees to the Sole Sponsor.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

STRUCTURE OF THE [REDACTED]

[REDACTED]

STRUCTURE OF THE [REDACTED]

[REDACTED]

STRUCTURE OF THE [REDACTED]

[REDACTED]

STRUCTURE OF THE [REDACTED]

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STRUCTURE OF THE [REDACTED]

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STRUCTURE OF THE [REDACTED]

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STRUCTURE OF THE [REDACTED]

[REDACTED]

STRUCTURE OF THE [REDACTED]

[REDACTED]

STRUCTURE OF THE [REDACTED]

[REDACTED]

STRUCTURE OF THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR [REDACTED]

[REDACTED]

HOW TO APPLY FOR [REDACTED]

[REDACTED]

HOW TO APPLY FOR [REDACTED]

[REDACTED]

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HOW TO APPLY FOR [REDACTED]

[REDACTED]

HOW TO APPLY FOR [REDACTED]

[REDACTED]

HOW TO APPLY FOR [REDACTED]

[REDACTED]

APPENDIX I

ACCOUNTANTS’ REPORT

The following is the text of a report set out on pages I-1 to I-73, received from the Company’s reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.



ACCOUNTANTS’ REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF BITMAIN TECHNOLOGIES HOLDING COMPANY AND CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED

Introduction

We report on the historical financial information of BitMain Technologies Holding Company (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-4 to I-73, which comprises the consolidated statements of financial position of the Group and the statements of financial position of the Company as at December 31, 2015, 2016 and 2017 and June 30, 2018 and the consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements, for each of the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018 (the “Relevant Periods”), and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-4 to I-73 forms an integral part of this report, which has been prepared for inclusion in the [REDACTED] of the Company dated [date] (the “[REDACTED]”) in connection with the [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors’ responsibility for Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants’ responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 “Accountants’ Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

APPENDIX I

ACCOUNTANTS’ REPORT

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants’ judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity’s preparation of Historical Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants’ report, a true and fair view of the Company’s and the Group’s financial position as at December 31, 2015, 2016 and 2017 and June 30, 2018 and of the Group’s financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Review of stub period corresponding financial information

We have reviewed the stub period corresponding financial information of the Group which comprises the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statements for the six months ended June 30, 2017 and other explanatory information (the “Stub Period Corresponding Financial Information”). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the accountants’ report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

APPENDIX I

ACCOUNTANTS' REPORT

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 31 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its incorporation.

[KPMG]

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

[Date]

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants’ report.

The consolidated financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA (“Underlying Financial Statements”).

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

(Expressed in thousands of US dollars, unless otherwise stated)

	<i>Note</i>	Years ended December 31,			Six months ended	
		2015	2016	2017	June 30,	
		<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	2017	2018
				<i>US\$’000</i>	<i>US\$’000</i>	
				<i>(unaudited)</i>		
Revenue	4	137,343	277,612	2,517,719	274,450	2,845,467
Cost of sales		(65,858)	(126,261)	(1,304,969)	(140,757)	(1,815,316)
Gross profit	4(b)	71,485	151,351	1,212,750	133,693	1,030,151
Other income/(expense)	5	1,738	25,740	109,519	(9,125)	302,292
Selling expenses		(598)	(2,217)	(7,971)	(966)	(12,420)
Administrative and other operating expenses		(7,541)	(14,205)	(58,910)	(11,153)	(43,839)
Research and development expenses		(5,702)	(16,608)	(72,563)	(11,087)	(86,966)
Other net loss	6	(1,608)	(6,379)	(39,453)	(2,382)	(120,305)
Profit from operations		57,774	137,682	1,143,372	98,980	1,068,913
Finance costs	7(a)	(60)	(31)	(59)	(44)	(82)
Share of profits less losses of associates		78	99	4,696	2,275	5,363
Fair value changes of convertible redeemable preferred shares	29	–	–	(250,633)	–	(166,402)
Profit before taxation	7	57,792	137,750	897,376	101,211	907,792
Income tax	8	(9,189)	(24,154)	(195,975)	(18,246)	(165,076)
Profit for the year/period		<u>48,603</u>	<u>113,596</u>	<u>701,401</u>	<u>82,965</u>	<u>742,716</u>
Attributable to						
Equity shareholders of the Company		44,036	110,582	701,401	82,965	742,716
Non-controlling interests		4,567	3,014	–	–	–
Profit for the year/period		<u>48,603</u>	<u>113,596</u>	<u>701,401</u>	<u>82,965</u>	<u>742,716</u>
Earnings per share						
Basic (US\$)	12(a)	0.01	0.01	0.09	0.01	0.09
Diluted (US\$)	12(b)	0.01	0.01	0.08	0.01	0.08

The accompanying notes form part of the Historical Financial Information.

APPENDIX I

ACCOUNTANTS' REPORT

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Expressed in thousands of US dollars, unless otherwise stated)

	<i>Note</i>	Years ended December 31,			Six months ended June 30,	
		2015	2016	2017	2017	2018
		<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Profit for the year/period		48,603	113,596	701,401	82,965	742,716
Other comprehensive income for the year/period (after tax)						
Items that may be reclassified subsequently to profit or loss:						
– Exchange differences on translation of financial statements of subsidiaries into presentation currency	<i>11</i>	327	(582)	14,296	2,060	(17,036)
Other comprehensive income for the year/period		327	(582)	14,296	2,060	(17,036)
Total comprehensive income for the year/period		48,930	113,014	715,697	85,025	725,680
Attributable to						
Equity shareholders of the Company		44,363	110,000	715,697	85,025	725,680
Non-controlling interests		4,567	3,014	–	–	–
Total comprehensive income for the year/period		48,930	113,014	715,697	85,025	725,680

The accompanying notes form part of the Historical Financial Information.

APPENDIX I

ACCOUNTANTS' REPORT

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in thousands of US dollars, unless otherwise stated)

	<i>Note</i>	At December 31,			At
		2015	2016	2017	June 30,
		<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	2018
				<i>US\$'000</i>	
ASSETS					
Cash and cash equivalents	13(a)	47,579	24,127	352,303	343,338
Cryptocurrencies	14	12,316	56,266	872,581	886,928
Restricted deposits		15	110	3,360	5,644
Trade receivables	15	4,439	2,473	1,384	20,490
Prepayments and other assets	16	23,680	89,055	1,005,462	652,948
Inventories	17	30,288	36,965	558,089	887,157
Other financial assets	18	1,594	9,385	28,603	135,447
Interest in associates	19	373	217	7,813	14,917
Intangible assets	21	119	71	3,619	11,466
Lease prepayments	22	–	340	354	346
Property, plant and equipment	23	224	3,117	22,773	92,489
Deferred tax assets	28(b)	3,499	3,248	47,396	113,575
TOTAL ASSETS		124,126	225,374	2,903,737	3,164,745
LIABILITIES					
Bank loans	24	–	144	–	–
Trade payables	25	17,460	16,150	394,111	450,108
Advances received from customers	26	12,794	12,914	1,010,168	125,987
Other payables and accruals	27	32,367	37,143	175,158	71,087
Income tax payable	28(a)	12,550	26,887	175,311	184,587
Convertible redeemable preferred shares	29	–	–	300,633	715,875
TOTAL LIABILITIES		75,171	93,238	2,055,381	1,547,644
NET ASSETS		48,955	132,136	848,356	1,617,101
EQUITY					
Share capital	31(b)	–	–	–	–
Reserves		48,955	132,136	848,356	1,617,101
Total equity attributable to the equity shareholders of the Company		44,089	132,136	848,356	1,617,101
Non-controlling interests		4,866	–	–	–
TOTAL EQUITY		48,955	132,136	848,356	1,617,101

The accompanying notes form part of the Historical Financial Information.

APPENDIX I

ACCOUNTANTS' REPORT

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

(Expressed in thousands of US dollars, unless otherwise stated)

		At December 31,			At
	<i>Note</i>	2015	2016	2017	June 30,
		<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	2018
					<i>US\$'000</i>
ASSETS					
Cash and cash equivalents	<i>13(c)</i>	–	–	16,464	103,874
Prepayments and other assets	<i>16(b)</i>	–	–	33,043	192,882
Investments in subsidiaries	<i>20</i>	–	–	77	1,153
TOTAL ASSETS		–	–	49,584	297,909
LIABILITIES					
Other payables and accruals		19	156	–	–
Convertible redeemable preferred shares	<i>29</i>	–	–	300,633	715,875
TOTAL LIABILITIES		19	156	300,633	715,875
NET LIABILITIES		(19)	(156)	(251,049)	(417,966)
EQUITY					
Share capital	<i>31(b)</i>	–	–	–	–
Reserves		(19)	(156)	(251,049)	(417,966)
TOTAL EQUITY		(19)	(156)	(251,049)	(417,966)

The accompanying notes form part of the Historical Financial Information.

APPENDIX I

ACCOUNTANTS' REPORT

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in thousands of US dollars, unless otherwise stated)

	Note	Attributable to equity shareholders of the Company				Subtotal	Non-controlling interests	Total equity
		Share capital	Other reserve	Exchange reserve	Retained profits			
		(Note 31 (b))	(Note 31 (d)(ii) and (iii))	(Note 31 (d)(iv))				
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at January 1, 2015		–	198	(1,208)	736	(274)	299	25
Changes in equity for 2015:								
Profit for the year		–	–	–	44,036	44,036	4,567	48,603
Other comprehensive income	II	–	–	327	–	327	–	327
Total comprehensive income		–	–	327	44,036	44,363	4,567	48,930
Balance at December 31, 2015 and January 1, 2016		–	198	(881)	44,772	44,089	4,866	48,955
Changes in equity for 2016:								
Profit for the year		–	–	–	110,582	110,582	3,014	113,596
Other comprehensive income	II	–	–	(582)	–	(582)	–	(582)
Total comprehensive income		–	–	(582)	110,582	110,000	3,014	113,014
Effect on equity arising from the Reorganisation	I	–	(198)	–	(21,755)	(21,953)	(7,880)	(29,833)
Balance at December 31, 2016 and January 1, 2017		–	–	(1,463)	133,599	132,136	–	132,136
Changes in equity for 2017:								
Profit for the year		–	–	–	701,401	701,401	–	701,401
Other comprehensive income	II	–	–	14,296	–	14,296	–	14,296
Total comprehensive income		–	–	14,296	701,401	715,697	–	715,697
Employees share-based compensation scheme		–	523	–	–	523	–	523
Balance at December 31, 2017		–	523	12,833	835,000	848,356	–	848,356

The accompanying notes form part of the Historical Financial Information.

APPENDIX I

ACCOUNTANTS’ REPORT

Attributable to equity shareholders of the Company							
<i>Note</i>	Share capital	Other reserve	Exchange reserve	Retained profits	Subtotal	Non-controlling interests	Total equity
	(Note 31 (b))	(Note 31 (d)(ii) and (iii))	(Note 31 (d)(iv))				
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at January 1, 2018	–	523	12,833	835,000	848,356	–	848,356
Changes in equity for the six months ended June 30, 2018:							
Profit for the period	–	–	–	742,716	742,716	–	742,716
Other comprehensive income	<i>II</i>	–	(17,036)	–	(17,036)	–	(17,036)
Total comprehensive income		–	(17,036)	742,716	725,680	–	725,680
Employees share-based compensation scheme		–	43,065	–	43,065	–	43,065
Balance at June 30, 2018	–	43,588	(4,203)	1,577,716	1,617,101	–	1,617,101
Balance at January 1, 2017	–	–	(1,463)	133,599	132,136	–	132,136
Changes in equity for the six months ended June 30, 2017 (unaudited):							
Profit for the period (unaudited)		–	–	82,965	82,965	–	82,965
Other comprehensive income (unaudited)	<i>II</i>	–	2,060	–	2,060	–	2,060
Total comprehensive income (unaudited)		–	2,060	82,965	85,025	–	85,025
Balance at June 30, 2017 (unaudited)	–	–	597	216,564	217,161	–	217,161

The accompanying notes form part of the Historical Financial Information.

APPENDIX I

ACCOUNTANTS' REPORT

CONSOLIDATED CASH FLOW STATEMENTS

(Expressed in thousands of US dollars, unless otherwise stated)

	Note	Years ended December 31,			Six months ended	
		2015	2016	2017	2017	2018
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
						(unaudited)
Cash flows from operating activities						
Profit before taxation		57,792	137,750	897,376	101,211	907,792
Adjustments for:						
Impairment loss of prepayments and other receivables	16(a)	–	1,847	102,700	–	–
Impairment loss of cryptocurrencies	6	–	–	–	–	102,662
Loss of cryptocurrencies	6	115	–	26,771	98	–
Impairment provision on inventory	17	–	824	137,812	(124)	252,656
Impairment loss of interests in associates		–	349	–	–	–
Change in fair value of other financial assets	32(e)	–	(2,736)	3,890	7,567	(48,753)
Depreciation and amortization	7(c)	64	344	3,556	573	5,569
Profits generated from revenue recognized on acceptance of cryptocurrencies		(23,310)	(64,560)	(446,304)	(57,972)	(292,628)
Net loss/(gain) on disposal of cryptocurrencies	5	(1,571)	(21,016)	(55,475)	1,933	(181,340)
Share of profits less losses of associates		(78)	(99)	(4,696)	(2,275)	(5,363)
Loss on sale of property, plant and equipment		–	9	4	–	–
Fair value changes of convertible redeemable preferred shares	29(d)	–	–	250,633	–	166,402
Share-based compensation expenses		–	–	523	–	43,065
<i>Changes in working capital:</i>						
Increase in inventories		(42,977)	(61,217)	(1,067,895)	(190,580)	(1,038,982)
Decrease/(increase) in trade receivables		2,123	1,966	1,089	(31,393)	(19,106)
Decrease/(increase) in prepayments and other assets		(226)	(67,222)	(1,019,108)	(93,769)	352,514
Increase in restricted deposits		(15)	(95)	(3,250)	(1)	(2,284)
Increase/(decrease) in trade payables		5,014	(1,310)	377,961	47,733	55,997
Increase/(decrease) in advances received from customers		21,718	(7,862)	528,837	182,917	(593,969)
(Decrease)/increase in other payables		(24,090)	(3,775)	165,717	41,912	(104,070)
Cash used in operating activities		(5,441)	(86,803)	(99,859)	7,830	(399,838)
Income tax paid	28(a)	(138)	(9,566)	(91,699)	(22,625)	(221,978)
Net cash used in operating activities		(5,579)	(96,369)	(191,558)	(14,795)	(621,816)

The accompanying notes form part of the Historical Financial Information.

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	<i>Note</i>	Years ended December 31,			Six months ended June 30,	
		2015	2016	2017	2017	2018
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
					<i>(unaudited)</i>	
Cash flows from investing activities						
Payment for the purchase of interest in associates		(307)	(193)	(2,900)	(1,395)	(1,738)
Payment for the purchase of property, plant and equipment, lease prepayments and intangible assets		(304)	(3,768)	(26,337)	(2,819)	(86,144)
Purchase of other financial assets		(1,594)	(12,767)	(21,877)	(20,709)	(123,883)
Proceeds from disposal of property, plant and equipment, lease prepayments and intangible assets		3	10	1	–	3,481
Proceeds from disposal of cryptocurrencies		33,795	103,325	528,999	95,947	516,534
Proceeds from sale of interests in associates		315	99	–	–	–
Proceeds from sale of other financial assets		–	7,712	5,839	5,432	73,261
Net cash generated from investing activities		<u>31,908</u>	<u>94,418</u>	<u>483,725</u>	<u>76,456</u>	<u>381,511</u>
Cash flows from financing activities						
Proceeds from new bank loans		–	144	–	–	–
Repayment of bank loans		–	–	(144)	(144)	–
Loans from a related party		21,849	–	–	–	–
Repayment of loans from a related party		–	(21,236)	–	–	–
Payment to shareholders for reorganization		(1,620)	–	(27,702)	–	–
Proceeds from the issue of convertible redeemable preferred shares		–	–	50,000	–	248,840
Interest paid	²⁹ 7(a)	–	–	(1)	(1)	–
Net cash generated from/(used in) financing activities		<u>20,229</u>	<u>(21,092)</u>	<u>22,153</u>	<u>(145)</u>	<u>248,840</u>
Net increase/(decrease) in cash and cash equivalents		46,558	(23,043)	314,320	61,516	8,535
Cash and cash equivalents at the beginning of the year/period	13(a)	1,275	47,579	24,127	24,127	352,303
Effect of foreign exchange rate changes		(254)	(409)	13,856	560	(17,500)
Cash and cash equivalents at the end of the year/period	13(a)	<u>47,579</u>	<u>24,127</u>	<u>352,303</u>	<u>86,203</u>	<u>343,338</u>

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<i>Note</i>	Years ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i> <i>(unaudited)</i>	<i>US\$'000</i>
Supplemental disclosure of non-cash investing activities:					
Investments with the consideration paid in Cryptocurrencies generated from revenue transaction	–	–	7,071	6,474	7,468
Inventory sold on acceptance of cryptocurrencies	54,339	118,275	855,263	110,593	749,886
Changes of advances received from customers in cryptocurrencies	31,029	53,716	408,959	52,621	457,258
	(9,684)	7,982	468,417	39,773	(290,212)

Cryptocurrencies are collected by the Group as the consideration in some of the Group’s revenue generating activities, which are accounted for as non-cash transactions in the Group’s consolidated cash flow statements. The profits generated in such non-cash transactions are presented as an adjustment to the cash flow used in the operating activities. The inventory consumed in such revenue generating activities is presented as a non-cash transaction in the supplemental cash flow information. Changes in advances from customers in cryptocurrencies are also presented as non-cash transactions in the supplemental cash flow information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

BitMain Technologies Holding Company (the “Company”) was incorporated in Cayman Islands on November 18, 2013 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the “Group”) are principally engaged in application-specific integrated circuit (“ASIC”) chip design, sale of cryptocurrency mining hardware, operation of cryptocurrency mining pools, proprietary mining and mining farm service (the “[REDACTED] Business”).

Prior to the completion of the reorganisation completed in November 2016 (the “Reorganisation”), the [REDACTED] Business was carried out by Beijing Bitmain Technologies Co., Ltd. (“Beijing Bitmain”) and its subsidiaries, and Bitmain Technologies Limited (“Bitmain HK”), a subsidiary of the Company. The Company and Beijing Bitmain were ultimately controlled by Mr Zhan Ketuan and Mr Wu Jihan (the “Controlling Shareholders”) throughout the Relevant Periods. To rationalise the corporate structure in preparation of the [REDACTED] of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Group underwent the Reorganisation, as detailed in the section headed “History, Reorganisation and Corporate Structure” in the [REDACTED].

Pursuant to the Reorganization, the entire equity interest of Beijing Bitmain was transferred to Bitmain HK. Upon completion of the Reorganisation, the Company became the holding company of the Group. The companies that took part in the Reorganisation were under the common control of the Controlling Shareholders before and after the Reorganisation. Accordingly, the Reorganization is considered as business combination under common control. For the purpose of this report, the Historical Financial Information has been prepared using the merger basis of accounting as if the Reorganisation had been completed at the beginning of the Relevant Periods. The net assets of Beijing Bitmain and its subsidiaries are consolidated using the book values from the Controlling Shareholders’ perspective.

The consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group for the Relevant Periods as set out in this report include the financial performance and cash flows of the companies now comprising the Group as if the current group structure had been in existence and remained unchanged throughout the Relevant Periods (or where the companies were incorporated or under common control of the Controlling Shareholders at a date later than January 1, 2015, for the period from the date of incorporation or the date under common control to June 30, 2018).

The consolidated statements of financial position of the Group as at December 31, 2015, 2016 and 2017 and June 30, 2018 as set out in this report have been prepared to present the financial position of the companies now comprising the Group as at those dates as if the current group structure had been in existence as at the respective dates.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Historical Financial Information.

As at the date of this report, no audited financial statements have been prepared for the Company, as it is an investment holding company which is not subject to statutory audit requirements under the relevant rules and regulations in the jurisdictions of incorporation. The financial statements of the subsidiaries of the Group for which there are statutory requirements were prepared in accordance with the relevant accounting rules and regulations applicable to entities in the jurisdictions in which they were incorporated or established.

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Upon completion of the Reorganisation and as at the date of this report, the Company has direct or indirect interests in the following major subsidiaries, all of which are private companies:

Company name	Place and date of incorporation/ establishment	Particulars of issued and paid-up capital	Held by the Company	Held by the subsidiary	Principal activities	Name of statutory auditor
Bitmain Technologies Limited	Hong Kong January 10, 2014	HKD10,000	100%	–	Offshore sale and offshore procurement center for cryptocurrency mining hardware	2015 & 2016 & 2017: Richful CPA Limited (瑞豐會計師事務所有限公司) ⁱ
Tospring Technology Limited ⁱⁱ	Seychelles September 16, 2015	US\$500,000	100%	–	Investment holding	N/A
Bitmain Inc. ⁱⁱ	United States January 7, 2015	US\$1	100%	–	Research and development	N/A
Bitmaintech Israel Ltd ⁱⁱ	Israel January 20, 2016	ILS10,000	100%	–	Operation of mining pool	N/A
Bitmaintech Pte. Ltd. ⁱⁱ	Singapore April 19, 2016	SGD100,000	100%	–	Research and development	N/A
Beijing Bitmain Technology Co., Ltd. (北京比特大陸科技有限公司) ⁱ	PRC October 28, 2013	RMB11,111,111	–	100%	Research and development, sales for cryptocurrency mining hardware	2015 & 2016: Shenzhen Minghua Certified Public Accountants (深圳明華會計師事務所) ⁱ 2017: Shenzhen Zhengsheng Accounting Firm (深圳正聲會計師事務所) ⁱ
Tianjin Diwei Digital Visual Technology Co., Ltd. (天津迪未數視科技有限公司) ⁱ	PRC May 23, 2014	RMB10,000,000	–	100%	Research and development	2015 & 2016: Shenzhen Minghua Certified Public Accountants (深圳明華會計師事務所) ⁱ 2017: Shenzhen Zhengsheng Accounting Firm (深圳正聲會計師事務所) ⁱ
Shenzhen Century Cloud Core Technology Co., Ltd. (深圳市世紀雲芯科技有限公司) ⁱ	PRC December 13, 2013	RMB10,000,000	–	100%	Manufacturing cryptocurrency mining hardware	2015 & 2016: Shenzhen Minghua Certified Public Accountants (深圳明華會計師事務所) ⁱ 2017: Shenzhen Zhengsheng Accounting Firm (深圳正聲會計師事務所) ⁱ
Fujian Chuangke Technology Co., Ltd. (福建創客科技有限公司) ⁱ	PRC May 14, 2015	RMB50,000,000	–	100%	Operation of cryptocurrency mining farms	2015 & 2016: Shenzhen Minghua Certified Public Accountants (深圳明華會計師事務所) ⁱ
Suanfeng Technology (Beijing) Co., Ltd. (算豐科技(北京)有限公司) ⁱ	PRC September 22, 2016	RMB1,000,000	–	100%	Research and development	2016: Shenzhen Certified Public Accountants (深圳明華會計師事務所) ⁱ 2017: Shenzhen Zhengsheng Accounting Firm (深圳正聲會計師事務所) ⁱ
Tianjin Shunhua Technology Co., Ltd. (天津舜華科技有限公司) ⁱ	PRC June 20, 2016	RMB5,000,000	–	100%	Research and development	N/A

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Company name	Place and date of incorporation/ establishment	Particulars of issued and paid-up capital	Held by the Company	Held by the subsidiary	Principal activities	Name of statutory auditor
Shenzhen Intelligence Cloud Core Technology Co., Ltd. (深圳市智能雲芯科技有限公司) ⁱ	PRC December 11, 2017	RMB10,000,000	-	100%	Research and development	N/A
Hebukesaier Mongolian Autonomous County Chuangke Cloud Technology Co., Ltd. (和布克賽爾蒙古自治縣創客雲技術有限公司) ⁱ	PRC October 12, 2016	RMB1,000,000	-	100%	Operation of mining pool	2016: Shenzhen Minghua Certified Public Accountants (深圳明華會計師事務所); 2017: NA
Fujian Zhanhua Intelligence Technologies Co., Ltd. (福建湛華智能科技有限公司) ⁱ	PRC July 5, 2017	RMB10,000,000	-	100%	PRC sales center for cryptocurrency mining hardware	2017: Shenzhen Zhengsheng Accounting Firm (深圳正聲會計師事務所) ⁱ
Inner Mongolia Chuangke Cloud Computing Co., Ltd. (內蒙古創客雲計算有限公司) ⁱ	PRC March 23, 2017	RMB10,000,000	-	100%	Operation of mining pool	2017: Shenzhen Zhengsheng Accounting Firm (深圳正聲會計師事務所) ⁱ
Bayannaer Chuangke Cloud Technology Co., Ltd. (巴彥淖爾市創客雲技術有限公司) ⁱ	PRC August 3, 2017	RMB1,000,000	-	100%	Operation of mining pool	2017: Shenzhen Zhengsheng Accounting Firm (深圳正聲會計師事務所) ⁱ
Ningxia Bitcloud Technology Co., Ltd. (寧夏比特雲基地科技有限公司) ⁱ	PRC January 8, 2015	RMB10,000,000	-	100%	Operation of mining pool	2015: NA 2016: Shenzhen Minghua Certified Public Accountants (深圳明華會計師事務所) ⁱ 2017: Shenzhen Zhengsheng Accounting Firm (深圳正聲會計師事務所) ⁱ
Jiulong Haxi Cloud Technology Co., Ltd. (九龍縣哈希雲技術有限公司) ⁱ	PRC November 10, 2017	RMB1,000,000	-	100%	Operation of mining pool	2017: Shenzhen Zhengsheng Accounting Firm (深圳正聲會計師事務所) ⁱ

Notes:

- (i) The official names of the entities in the PRC are in Chinese. The English names are for identification purpose only.
- (ii) No statutory financial statements have been prepared for these entities.

All companies now comprising the Group have adopted December 31 as their financial year end date.

The Historical Financial Information has been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”) which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board (“IASB”). Further details of the significant accounting policies adopted are set out in Note 2.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Historical Financial Information, the Group has adopted all applicable new and revised IFRSs, except for any new standards or interpretations that are not yet effective for the accounting period beginning on January 1, 2018. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning on January 1, 2018 are set out in Note 36.

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The Historical Financial Information of the Company has been prepared under the going concern basis notwithstanding the fact that during the Relevant Periods, total liabilities exceeds the total assets by approximately US\$0.02 million, US\$0.16 million, US\$251.05 million and US\$417.97 million, respectively. As of December 31, 2015, 2016 and 2017 and June 30, 2018, the Group recorded a financial liability with fair value of convertible redeemable preferred shares amounting to nil, nil, US\$300.63 million and US\$715.88 million.

The Directors and management of the Company have considered the preferred rights of these financial instruments would be terminated upon [REDACTED] and are of the opinion that it is appropriate for the Historical Financial Information to prepare on a going concern basis.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

The Stub Period Corresponding Financial Information has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of measurement

The Historical Financial Information is presented in US dollar (“US\$”), rounded to the nearest thousand.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- Other financial assets measured at fair value (see Note 2(i)); and
- Convertible redeemable preferred shares (see Note 2(o)).

(b) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses (“ECL”) in accordance with the policy set out in Note 2(m)(i).

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(d) Cryptocurrencies

Cryptocurrencies are, by their nature, identifiable non-monetary assets that lack physical substance. Future economic benefits attributable to cryptocurrencies are expected to flow to the Group because cryptocurrencies can be exchanged to standard currencies on public trading platforms. Furthermore, the cost of the Group’s cryptocurrency assets can be measured reliably because (a) a majority of the Group’s cryptocurrencies are earned from the sales of the mining hardware (see Note 2(t)). The fair value of the hardware, which are mostly sold for cash, and the “exchange rates” for cryptocurrencies on public trading platforms provide evidence of the fair value and the cost of the cryptocurrencies; and (b) cryptocurrencies earned from proprietary mining activities and the mining pool services of the Group can also be measured with reference to the spot price to standard currencies on the date when they are earned.

The Group accounts for the cryptocurrencies received from the sales of mining hardware, proprietary mining and operation of mining pools as intangible assets with indefinite useful life in its consolidated statements of financial position because, at the time of assessment, there is no foreseeable limit to the period over which such assets are expected to generate cash flows. The Group also recognises cryptocurrencies received from the provision of such goods and services as income from principal activities in its consolidated statements of profit or loss and other comprehensive income.

The Group further chooses the cost model to account for its cryptocurrencies and reviews their useful life and impairment at each reporting date in accordance with IAS 38 Intangible Assets. The Group accounts for cryptocurrencies at cost, instead of revaluing cryptocurrencies at their fair value on each accounting reference date, because the latter model is subject to inherent and substantial volatility in the value of cryptocurrencies from time to time. In addition, the Group believes that the cost model better reflects the Group’s business model, as the Group does not trade in cryptocurrencies, but earns cryptocurrencies from the sales of mining hardware, proprietary mining and operation of mining pool services.

Cost is calculated using the weighted average cost method. Gains or losses arising from the disposal of cryptocurrencies are determined as the difference between the net disposal proceeds and the carrying amount of the cryptocurrencies and are recognised in profit or loss on the date of disposal.

(e) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(m)(i)).

(f) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value as follows:

- Inventories other than proprietary mining hardware for own use

Cost is calculated using the standard cost method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as cost in the period in which the related revenue is recognised.

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The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

- Proprietary mining hardware for own use

Proprietary mining hardware for own use is a cryptocurrency machine which is produced and used by the Group to perform the mining activities on the blockchain network to earn the cryptocurrencies. The cost is recorded initially at the actual cost of the cryptocurrency machine. The Group may also sell these cryptocurrency mining hardware to the customers.

Depreciation is calculated to write off the initial cost, using the straight-line method over their estimated useful lives of no more than 6 months. The useful life, estimated residual value of cryptocurrency mining hardware is as follows:

<u>Category</u>	<u>Useful life</u>	<u>Residual value</u>
Proprietary mining hardware	180 days	30%

Estimated net residual value of a cryptocurrency mining hardware for own use is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal.

If a cryptocurrency mining hardware for own use is upon disposal or no future economic benefits are expected to be generated from its use or disposal, the cryptocurrency mining hardware is derecognised. When a cryptocurrency mining hardware for own use is sold, the amount of any proceeds is recognized as revenue and the carrying amount of the asset is recognized as cost of sales in profit or loss for the period.

(g) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights held by the Group and other parties are considered.

An investment in a subsidiary is consolidated into the Historical Financial Information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Historical Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests’ proportionate share of the subsidiary’s net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Notes 2(n), (o), or (p) depending on the nature of the liability.

Changes in the Group’s interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

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When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(i)) or, when appropriate, the cost on initial recognition of an investment in an associate (see Note 2(h)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(m)(ii)).

(h) Associates

An associate is an entity in which the Group or a Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the Historical Financial Information under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Notes 2(m)(ii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(i)).

In the Company's statement of financial position, investments in associates are stated at cost less impairment losses (see Note 2(m)(ii)).

(i) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries and associates, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss ("FVPL") for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 32(e). These investments are subsequently accounted for as follows, depending on their classification.

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Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 2(t)).
- fair value through other comprehensive income (FVOCI) – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer’s perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in Note 2(t).

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and
- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

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(ii) *Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property or is held for development for sale.

(k) **Intangible assets other than goodwill**

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see Note 2(v)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(m)(ii)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(m)(ii)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets’ estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Software	3 years
– Software copyright	10 years
– Patents and trademarks	10 years
– Domain name	3 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(l) **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(m)(ii)):

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(v)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

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Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

– Electronic equipment	3 years
– Machinery	10 years
– Motor vehicles and others	4 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(m) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognises a loss allowance for ECL on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables);

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

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Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(t) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

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Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- lease prepayments;
- intangible assets and cryptocurrencies;
- goodwill; and
- investments in subsidiaries and associate in the Company’s statement of financial position.

If any such indication exists, the asset’s recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use, intangible assets that have indefinite useful lives and cryptocurrencies, the recoverable amount is estimated at each reporting date whether or not there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

- Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset’s carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities, trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Preferred share capital

Preferred share capital is classified as equity if it is non-redeemable, or redeemable only at the Company’s option, and any dividends are discretionary. Dividends on preferred share capital classified as equity are recognised as distributions within equity.

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Preferred share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary as detailed in Note 29. The Group designated these as financial liabilities at fair value through profit or loss. The financial liabilities are initially recognised at fair value. Any directly attributable transaction costs are recognized in profit or loss as incurred.

(p) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2(v)).

(q) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary

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differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Provisions and contingent liabilities

(i) *Provisions and contingent liabilities*

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

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(ii) *Onerous contracts*

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

(t) **Revenue and other income**

Income is classified by the Group as revenue when it arises from the sale of goods and the provision of services in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

Sales of the Group are recognised by categories as follows:

– *Sales of mining hardware*

Revenue is recognised when customers obtain control over the mining hardware. This usually occurs when the logistic company (as selected by customers) picks up the mining hardware from the Group's premises and the customer obtains control of the promised products in the contract. Sales of mining hardware are typically settled in advance and, if they are settled in cryptocurrencies, then the related revenue are measured at fair value of the relevant cryptocurrencies on the date of receipt.

– *Mining pool services*

A mining pool is a platform where miners contribute their computing power to jointly mine cryptocurrencies and share mining rewards. The Group operate a few mining pools and generate revenue from a portion of the mining rewards generated from the mining activities of our mining pools. Subject to different distribution structures, the Group generally are awarded up to 5% of the total mining rewards generated from operating the mining pools. The amount of revenue recognized is measured with reference to the spot price to standard currencies on the date when it is earned.

– *Mining farm services*

The Group offers custodian services at its mining farms. A mining farm functions as a storage facility, where mining hardware is placed on shelves which are technologically equipped to mine cryptocurrencies.

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The Group’s mining farms charge their customers custodian fees based on electricity and maintenance costs occurred. The income is recognised in profit or loss when the related services have been rendered.

– ***Proprietary mining***

The Group performs mining activities with its own mining hardware to earn cryptocurrency reward. The Group recognises revenue when it earns the cryptocurrency as a result of its mining activity. The amount of revenue recognized is measured with reference to the spot price to standard currencies on the date when it is earned.

– ***Dividends***

- Dividend income from unlisted investments is recognised when the shareholder’s right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

– ***Interest income***

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(m)(i)).

– ***Government grants***

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognized as deferred income and are consequently recognized in profit or loss over the useful life of the asset as other income.

(u) Translation of foreign currencies

(i) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group’s subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the “functional currency”). The Group’s primary subsidiaries were incorporated in Hong Kong, Singapore and other overseas areas, and these subsidiaries considered USD as their functional currency. For other subsidiaries incorporated in mainland China and these subsidiaries considered RMB as their functional currency. The Company determined to present our consolidated historical financial information in US dollar, which is the Group’s presentation currency for the consolidated financial statements.

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(ii) *Transactions and balances*

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(v) **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(w) **Related parties**

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group’s most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group’s various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

(i) *Recognition of share-based compensation expenses*

As mentioned in Note 30, the Group has granted share options to its employees. The Group uses equity allocation model to determine the fair value of ordinary share, one of the key inputs to determine the fair value of the share option, and uses binomial lattice model to determine total fair value of the options granted to employees, which is to be expensed over the vesting period. Significant estimate on assumptions, such as the underlying equity value, risk-free interest rate, expected volatility, dividend yield and [REDACTED], are required to be made by the Group in applying the equity allocation model.

(ii) *Valuation of redeemable preferred shares*

The Group adopts an equity allocation to estimate the fair value of convertible redeemable preferred shares as at December 31, 2017 and June 30, 2018. Significant estimate on assumptions, such as discount rate, risk-free interest rate, Discount for Lack of Marketability (“DLOM”), expected volatility and [REDACTED], is required to be made by the Group in applying the equity allocation model.

(iii) *Provision for diminution in value of inventories*

When making estimates of net realisable value of inventories, the Group takes into consideration the use of inventories held on hand and other information available to form the underlying assumptions, including the inventories’ market prices and the Group’s historical operating costs. The actual selling price, the costs of completion and the costs necessary to make the sale and relevant taxes may vary based on the changes in market conditions and product saleability, manufacturing technology and the actual use of the inventories, resulting in the changes in provision for diminution in value of inventories. The net profit or loss may then be affected in the period when the provision for diminution in value of inventories is adjusted.

(iv) *Impairment of intangible assets and cryptocurrencies*

If circumstances indicate that the carrying amount of intangible asset and cryptocurrencies may not be recoverable, the assets may be considered “impaired”, and an impairment loss may be recognised in accordance with accounting policy for impairment of intangible assets and cryptocurrencies as described in Note 2(m)(ii). These assets are tested for impairment periodically or whenever the events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable.

When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and value in use. The fair value of the cryptocurrencies is determined by using the quoted price in the active exchange market which the directors in the opinion that this fair value to be a Level 1 input under IFRS 13 Fair Value Measurement fair value hierarchy. In determining the value in use, expected future cash flows generated by the asset are discounted

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to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the recoverable amount of the assets and could result in additional impairment charge or reversal of impairment in future periods.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the design, manufacturing and sale of cryptocurrency mining hardware and accessories, proprietary mining, operation of mining pools and providing mining farm services.

The amount of each significant category of revenue is as follows:

	Years ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
				<i>(Unaudited)</i>	
Mining hardware sales	107,878	214,698	2,263,237	220,902	2,683,853
Mining pool service	295	3,644	32,906	7,330	43,217
Mining farm service	–	5,205	20,592	4,983	21,823
Proprietary mining	27,944	53,586	199,330	40,652	94,343
Others	1,226	479	1,654	583	2,231
	<u>137,343</u>	<u>277,612</u>	<u>2,517,719</u>	<u>274,450</u>	<u>2,845,467</u>

The Group’s customer base is diversified and includes no customer with whom transactions have exceeded 10% of the Group’s revenues during the Relevant Periods.

Further details regarding the Group’s principal activities are disclosed below:

Geographical information

Further details regarding the geographical locations of the Group’s revenue from external customers are disclosed below. The geographical location of revenue generated is based on the location at which the goods delivered or the services were provided.

	Years ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
				<i>(Unaudited)</i>	
Domestic	47,648	136,103	1,214,729	165,945	1,058,120
Overseas	89,695	141,509	1,302,990	108,505	1,787,347
	<u>137,343</u>	<u>277,612</u>	<u>2,517,719</u>	<u>274,450</u>	<u>2,845,467</u>

As of December 31, 2015, 2016 and 2017 and June 30, 2018, a significant portion of the intangible assets, lease prepayments, property, plant and equipment of the Group were located in the PRC.

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(b) Segment reporting

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group’s most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following five reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Mining hardware sales
- Mining pool service
- Mining farm service
- Proprietary mining
- Others

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group’s senior executive management monitors the revenue and gross profit attributable to each reportable segment. Other items in profit or loss are not allocated to reportable segments.

Revenue and costs are allocated to the reportable segments with reference to sales generated by those segments and the costs incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. The measure used for reporting segment profit is gross profit. No inter-segment sales have occurred during the Relevant Periods. The Group’s other income and expense items, such as other income, selling expenses, administrative and other operating expenses, research and development expenses and other net loss, and assets and liabilities are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, operating expenses, interest income and interest expenses is presented.

Information regarding the Group’s reportable segments as provided to the Group’s most senior executive management for the purposes of resource allocation and assessment of segment performance for the Relevant Periods is set out below.

	Year ended December 31, 2015					
	Mining hardware sales	Mining pool service	Mining farm service	Proprietary mining	Others	Total
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
Revenue from external customers and reportable segment revenue	107,878	295	–	27,944	1,226	137,343
Reportable segment gross profit	63,019	263	–	7,853	350	71,485

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Year ended December 31, 2016

	Mining hardware sales	Mining pool service	Mining farm service	Proprietary mining	Others	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Revenue from external customers and reportable segment revenue	<u>214,698</u>	<u>3,644</u>	<u>5,205</u>	<u>53,586</u>	<u>479</u>	<u>277,612</u>
Reportable segment gross profit	<u>118,639</u>	<u>2,908</u>	<u>1,741</u>	<u>27,910</u>	<u>153</u>	<u>151,351</u>

Year ended December 31, 2017

	Mining hardware sales	Mining pool service	Mining farm service	Proprietary mining	Others	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Revenue from external customers and reportable segment revenue	<u>2,263,237</u>	<u>32,906</u>	<u>20,592</u>	<u>199,330</u>	<u>1,654</u>	<u>2,517,719</u>
Reportable segment gross profit	<u>1,045,662</u>	<u>28,300</u>	<u>9,442</u>	<u>128,835</u>	<u>511</u>	<u>1,212,750</u>

Six months ended June 30, 2017 (unaudited)

	Mining hardware sales	Mining pool service	Mining farm service	Proprietary mining	Others	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Revenue from external customers and reportable segment revenue	<u>220,902</u>	<u>7,330</u>	<u>4,983</u>	<u>40,652</u>	<u>583</u>	<u>274,450</u>
Reportable segment gross profit	<u>102,581</u>	<u>6,231</u>	<u>2,076</u>	<u>22,625</u>	<u>180</u>	<u>133,693</u>

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	Six months ended June 30, 2018					Total US\$'000
	Mining hardware sales	Mining pool service	Mining farm service	Proprietary mining	Others	
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	
Revenue from external customers and reportable segment revenue	2,683,853	43,217	21,823	94,343	2,231	2,845,467
Reportable segment gross profit	941,489	36,303	12,495	39,182	682	1,030,151

5 OTHER INCOME/(EXPENSE)

Note	Years ended December 31,			Six months ended June 30,		
	2015	2016	2017	2017	2018	
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	
Net gain/(loss) on disposal of cryptocurrencies	(i)	1,571	21,016	55,475	(1,933)	181,340
Change in fair value of other financial assets		–	2,736	(3,890)	(7,567)	48,753
Value-added-tax (“VAT”) refund	(ii)	–	1,868	55,729	231	68,016
Interest income from financial institutions		87	72	1,773	85	2,435
Government grants		4	–	360	19	1,312
Others		76	48	72	40	436
Total		1,738	25,740	109,519	(9,125)	302,292

Notes:

- (i) The net gain / (loss) on disposal of cryptocurrencies arising from the difference between the net disposal proceeds and the carrying amount of the cryptocurrencies are recognised in other income on the date of disposal during the Relevant Periods.
- (ii) Pursuant to the tax rules and regulations in the PRC, entities that engage in the sale of self-developed software in the PRC and pay VAT at a rate of 17% prior to May 1, 2018 and 16% from May 1, 2018 are entitled to a VAT refund to the extent of the VAT payable in excess of 3% of the self-developed software sold.

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6 OTHER NET LOSS

	<i>Note</i>	Years ended December 31,			Six months ended June 30,	
		2015	2016	2017	2017	2018
		<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
						<i>(Unaudited)</i>
Loss of cryptocurrencies	(i)	115	–	26,771	98	–
Net foreign exchange loss		497	3,401	8,379	1,303	9,091
Impairment loss of cryptocurrencies		–	–	–	–	102,662
Others		996	2,978	4,303	981	8,552
		<u>1,608</u>	<u>6,379</u>	<u>39,453</u>	<u>2,382</u>	<u>120,305</u>

Note:

(i) In 2017, the Group experienced the hack attack which caused the losses of the cryptocurrencies approximately US\$27 million.

7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Years ended December 31,			Six months ended June 30,		
	2015	2016	2017	2017	2018	
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	
						<i>(Unaudited)</i>
(a) Finance costs						
Other financial charge	60	31	58	43	82	
Interest on unsecured bank loans	–	–	1	1	–	
	<u>60</u>	<u>31</u>	<u>59</u>	<u>44</u>	<u>82</u>	

	Years ended December 31,			Six months ended June 30,		
	2015	2016	2017	2017	2018	
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	
						<i>(Unaudited)</i>
(b) Staff costs						
Salaries, wages and other benefits	6,290	11,992	87,268	6,433	78,351	
Contributions to defined contribution retirement scheme	358	1,407	3,941	1,138	5,639	
	<u>6,648</u>	<u>13,399</u>	<u>91,209</u>	<u>7,571</u>	<u>83,990</u>	

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Employees of the Group’s subsidiaries in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group’s subsidiaries in the PRC contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group also participated in social security schemes for its employees of the subsidiaries in Hong Kong, Switzerland, United States, Singapore, Israel, Great Britain, Netherlands and Seychelles according to the relevant regulations. Under such social security schemes, the Group is required to make contributions to the social security scheme at 10% to 27% of the employees’ relevant income respectively. Contributions to the scheme vest immediately.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

	Note	Years ended December 31,			Six months ended June 30,	
		2015	2016	2017	2017	2018
		US\$’000	US\$’000	US\$’000	US\$’000	US\$’000
					(Unaudited)	
(c) Other items						
Amortisation						
– intangible assets	21	11	42	334	24	716
– lease prepayments		–	2	7	3	3
Depreciation	23	53	300	3,215	546	4,850
Impairment losses recognised						
– prepayment and other assets	16	–	1,847	102,700	–	–
Operating lease charges		201	1,235	1,688	642	1,434
Auditors’ remuneration						
– statutory audit services		146	214	468	162	166
– service in connection with the proposed [REDACTED] of the Company’s share		–	–	–	–	46
Cost of inventories sold (Note (i))	17(b)	45,192	95,980	1,202,287	117,661	1,727,183

Note:

- (i) Cost of inventories sold includes US\$103,000, US\$341,000, US\$2,237,000, US\$355,000 and US\$3,855,000 of staff costs, US\$7,000, US\$4,000, US\$187,000, US\$96,000 and US\$112,000 of depreciation and amortisation for the years ended December 31, 2015, 2016 and 2017 and six months ended June 30, 2017 (unaudited) and 2018 respectively, which amounts are also included in the respective total amount disclosed separately above or in Notes 7(b) and 7(c) for each of these types of expenses.

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8 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

(a) Taxation in the consolidated statements of profit or loss represents:

	Years ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
Current tax – PRC Enterprise Income Tax					
Provision for the year/period	4,405	4,034	170,465	11,704	165,889
Current tax – Hong Kong Profits Tax					
Provision for the year/period	8,281	19,808	69,565	8,534	65,285
Current tax – Overseas					
Provision for the year/period	2	61	93	87	81
Total provision for the year/period	12,688	23,903	240,123	20,325	231,255
Deferred tax					
Origination and reversal of temporary differences	(3,499)	251	(44,148)	(2,079)	(66,179)
	9,189	24,154	195,975	18,246	165,076

(b) Reconciliation between income tax expense and accounting profit at applicable tax rates:

	Note	Years ended December 31,			Six months ended June 30,	
		2015	2016	2017	2017	2018
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)		
Profit before taxation		57,792	137,750	897,376	101,211	907,792
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	(i)	10,999	25,633	260,810	23,004	231,354
Tax effect of non-deductible expenses		19	386	1,257	1,267	705
Tax effect of utilisation of previously unrecognised tax losses		(149)	(27)	(76)	(1,505)	(1,332)
Statutory tax concession		(1,609)	(1,488)	(64,183)	(4,075)	(63,241)
Research and development cost bonus deduction	(ii)	(71)	(350)	(1,833)	(445)	(2,410)
Actual tax expense		9,189	24,154	195,975	18,246	165,076

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Notes:

- (i) Income tax rates applicable to the Company and its subsidiaries

Pursuant to the tax rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

The subsidiaries of the Group incorporated in countries other than the PRC (including Hong Kong) are subject to income tax pursuant to the rules and regulations of their respective countries of incorporation.

The subsidiaries of the Group incorporated in the Hong Kong is subject to Hong Kong Profits Tax rate of 16.5% for the Relevant Periods.

The subsidiaries of the Group established in the PRC (excluding Hong Kong) is subject to PRC Corporate Income Tax rate of 25% for the Relevant Periods except one subsidiary as below.

Pursuant to the High-tech Enterprise Certificate jointly issued by Beijing Science and Technology Department, Beijing Ministry of Finance and Beijing Provincial Office of State Administration of Taxation on November 24, 2015, Beijing Bitmain was recognised as a high-tech enterprise in 2015. Accordingly, the preferential PRC enterprise income tax rate applicable to Beijing Bitmain from the calendar years from 2015 to 2017 was 15%. Beijing Bitmain will reapply for the High-Tech Enterprise status in 2018. The director of the Company are of the opinion that Beijing Bitmain meets all the criteria for the reapplication of High-Tech Enterprise status.

- (ii) Under the Enterprise Income Tax Law of the PRC and its relevant regulations, Beijing Bitmain is allowed for 50% additional tax deduction for qualified research and development expenses.

9 DIRECTOR’S EMOLUMENTS

Details of the emoluments of the director during the Relevant Periods are as follows:

Year ended December 31, 2015					
Directors’ fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total	
<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	
Executive directors					
Mr Zhan Ketuan	–	21	21	17	59
Mr Wu Jihan	–	21	64	10	94
Mr Ge Yuesheng	–	8	–	–	8
	–	50	85	27	161

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Year ended December 31, 2016

	Directors’ fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
Executive directors					
Mr Zhan Ketuan	–	26	7	12	45
Mr Wu Jihan	–	26	732	12	770
Mr Ge Yuesheng	–	18	8	–	26
	–	70	747	24	841

Year ended December 31, 2017

	Directors’ fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
Executive directors					
Mr Zhan Ketuan	–	27	22,704	14	22,745
Mr Wu Jihan	–	27	20,479	14	20,520
Mr Ge Yuesheng	–	19	27	–	46
	–	73	43,210	28	43,311

Six months ended June 30, 2017 (unaudited)

	Directors’ fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
Executive directors					
Mr Zhan Ketuan	–	13	–	8	21
Mr Wu Jihan	–	13	–	8	21
Mr Ge Yuesheng	–	9	13	–	22
	–	35	13	16	64

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Six months ended June 30, 2018

	Directors’ fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
Executive directors					
Mr Zhan Ketuan	–	14	–	6	20
Mr Wu Jihan	–	71	–	6	77
Mr Ge Yuesheng	–	6	6	3	15
	–	91	6	15	112

Notes:

- (i) Mr. Zhan Ketuan, Mr. Wu Jihan and Mr. Ge Yuesheng were appointed as executive directors of the Company on September 13, 2018, November 18, 2013 and September 13, 2018, respectively. All the executive directors are key management personnel of the Group during the Relevant Periods and their remuneration disclosed above include those for services rendered by them as key management personnel.
- (ii) Mr. Liu Luyao joined the Group in July 2018 and was appointed as executive director of the Company on September 13, 2018.
- (iii) During the Relevant Periods, no emoluments were paid by the Group to the director as an inducement to join or upon joining the Group or as compensation for loss of office. No remuneration was paid to independent non-executive director during the Relevant Periods as the independent non-executive director were appointed subsequent to the Relevant Periods.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

During the Relevant Periods, of the five individuals with the highest emoluments, two directors whose emoluments are disclosed in Note 9. The aggregate of the emoluments in respect of the remaining highest paid individuals, are as follows:

	Years ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
Salaries and other emoluments	98	104	82	195	145
Discretionary bonuses	224	6,101	1,575	321	157
Share-based payments	–	–	–	–	28,377
Retirement scheme contributions	38	47	52	38	44
	360	6,252	1,709	554	28,723

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The emoluments of the individuals who are not director and who are amongst the five highest paid individuals of the Group are within the following bands:

	Years ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
				<i>(unaudited)</i>	
HK\$Nil – HK\$1,000,000	4	–	–	5	–
HK\$1,000,001 – HK\$1,500,000	–	1	–	–	–
HK\$1,500,001 – HK\$2,000,000	–	–	1	–	–
HK\$2,000,001 – HK\$2,500,000	–	–	1	–	–
HK\$5,000,001 – HK\$5,500,000	–	–	1	–	–
HK\$11,000,001 – HK\$11,500,000	–	2	–	–	–
HK\$11,500,001 – HK\$12,000,000	–	1	–	–	–
HK\$21,500,001 – HK\$22,000,000	–	–	–	–	2
HK\$22,000,001 – HK\$22,500,000	–	–	–	–	1
HK\$27,500,001 – HK\$28,000,000	–	–	–	–	1
HK\$59,000,001 – HK\$59,500,000	–	–	–	–	1

11 OTHER COMPREHENSIVE INCOME

(a) Tax effects relating to each component of other comprehensive income

	Year ended December 31, 2015		
	Before-tax amount	Tax expense	Net-of-tax amount
	<i>US\$'000</i>		
Exchange differences on translation of financial statements of subsidiaries into presentation currency	327	–	327
Other comprehensive income	327	–	327
	Year ended December 31, 2016		
	Before-tax amount	Tax expense	Net-of-tax amount
	<i>US\$'000</i>		
Exchange differences on translation of financial statements of subsidiaries into presentation currency	(582)	–	(582)
Other comprehensive income	(582)	–	(582)
	Year ended December 31, 2017		
	Before-tax amount	Tax expense	Net-of-tax amount
	<i>US\$'000</i>		
Exchange differences on translation of financial statements of subsidiaries into presentation currency	14,296	–	14,296
Other comprehensive income	14,296	–	14,296

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	Six months ended June 30, 2017 (unaudited)		
	Before-tax amount	Tax expense	Net-of-tax amount
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Exchange differences on translation of financial statements of subsidiaries into presentation currency	2,060	–	2,060
Other comprehensive income	<u>2,060</u>	<u>–</u>	<u>2,060</u>
	Six months ended June 30, 2018		
	Before-tax amount	Tax expense	Net-of-tax amount
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Exchange differences on translation of financial statements of subsidiaries into presentation currency	(17,036)	–	(17,036)
Other comprehensive income	<u>(17,036)</u>	<u>–</u>	<u>(17,036)</u>

12 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company and the weighted average number of ordinary shares in issue during the Relevant Periods. In determining the weighted average number of ordinary shares in issue for the purpose of earnings per share computation, 7,953,596,000 ordinary shares in issue upon the completion of Reorganization were deemed to have been in issue since January 1, 2015 and adjusted for the effect of share split on June 28, 2017.

A table showing the profit attributable to ordinary equity shareholders of the Company, weighted average number of ordinary shares in issue and EPS for each year/period:

	Year ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Profit attributable to equity shareholders of the Company	44,036	110,582	701,401	82,965	742,716
Weighted average number of ordinary shares in issue for the year/period (thousand shares)	<u>7,953,596</u>	<u>7,953,596</u>	<u>7,953,596</u>	<u>7,953,596</u>	<u>7,953,596</u>
Basic earnings per share (US\$)	<u>0.01</u>	<u>0.01</u>	<u>0.09</u>	<u>0.01</u>	<u>0.09</u>

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(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The convertible redeemable preferred shares issued by the Company were excluded from the diluted weighted average number of ordinary shares calculation, as their effect would have been anti-dilutive. The diluted earnings per share for the Relevant Periods calculated as follows:

	Years ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				<i>(unaudited)</i>	
Profit attributable to equity shareholders of the Company	44,036	110,582	701,401	82,965	742,716
Weighted average number of ordinary shares for the year/period (thousand shares)	7,953,596	7,953,596	7,953,596	7,953,596	7,953,596
Adjustments of service-based share options granted to employees (thousand shares)	–	–	829,306	–	880,328
Weighted average number of ordinary shares for calculation of diluted earnings per share (thousand shares)	7,953,596	7,953,596	8,782,902	7,953,596	8,833,924
Diluted earnings per share (US\$)	0.01	0.01	0.08	0.01	0.08

13 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	At December 31,			At June 30,
	2015	2016	2017	2018
	US\$'000	US\$'000	US\$'000	US\$'000
Cash at bank and on hand	47,579	24,127	352,303	343,338

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(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group’s liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group’s consolidated cash flow statement as cash flows from financing activities.

	Bank loans	Convertible redeemable preferred shares	Amount due to related parties	Total
	<i>US\$’000</i> <i>(Note 24)</i>	<i>US\$’000</i> <i>(Note 29(d))</i>	<i>US\$’000</i> <i>(Note 27)</i>	<i>US\$’000</i>
At January 1, 2015	–	–	1,007	1,007
Changes from financing cash flows:				
Proceeds of loans from a related party	–	–	21,849	21,849
Payments to shareholders for reorganization	–	–	(1,620)	(1,620)
Total changes from financing cash flows	–	–	20,229	20,229
Other changes:				
Others	–	–	187	187
Total other changes	–	–	187	187
At December 31, 2015	–	–	21,423	21,423

	Bank loans	Convertible redeemable preferred shares	Amount due to related parties	Total
	<i>US\$’000</i> <i>(Note 24)</i>	<i>US\$’000</i> <i>(Note 29(d))</i>	<i>US\$’000</i> <i>(Note 27)</i>	<i>US\$’000</i>
At January 1, 2016	–	–	21,423	21,423
Changes from financing cash flows:				
Distribution payable to shareholders under reorganization	–	–	27,702	27,702
Proceeds from new bank loans	144	–	–	144
Repayment of loan from a related party	–	–	(21,236)	(21,236)
Total changes from financing cash flows	144	–	6,466	6,610
Other changes:				
Others	–	–	(187)	(187)
Total other changes	–	–	(187)	(187)
At December 31, 2016	144	–	27,702	27,846

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	Bank loans	Convertible redeemable preferred shares	Amount due to related parties	Total
	<i>US\$’000</i> <i>(Note 24)</i>	<i>US\$’000</i> <i>(Note 29(d))</i>	<i>US\$’000</i> <i>(Note 27)</i>	<i>US\$’000</i>
At January 1, 2017	144	–	27,702	27,846
Changes from financing cash flows:				
Repayment of bank loans	(144)	–	–	(144)
Payments to shareholders for reorganization	–	–	(27,702)	(27,702)
Other borrowing costs paid	(1)	–	–	(1)
Proceeds from the issue of redeemable preferred shares <i>(note 29)</i>	–	50,000	–	50,000
Total changes from financing cash flows	(145)	50,000	(27,702)	22,153
Changes in fair value	–	250,633	–	250,633
Other changes:				
Interest expenses <i>(note 7(a))</i>	1	–	–	1
Total other changes	1	250,633	–	250,634
At December 31, 2017	–	300,633	–	300,633

	Bank loans	Convertible redeemable preferred shares	Amount due to related parties	Total
	<i>US\$’000</i> <i>(Note 24)</i>	<i>US\$’000</i> <i>(Note 29(d))</i>	<i>US\$’000</i> <i>(Note 27)</i>	<i>US\$’000</i>
At January 1, 2017	144	–	27,702	27,846
Changes from financing cash flows:				
Repayment of bank loans	(144)	–	–	(144)
Other borrowing costs paid	(1)	–	–	(1)
Total changes from financing cash flows	(145)	–	–	(145)
Other changes:				
Interest expenses <i>(note 7(a))</i>	1	–	–	1
Total other changes	1	–	–	1
At June 30, 2017 (unaudited)	–	–	27,702	27,702

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	<u>Bank loans</u>	<u>Convertible redeemable preferred shares</u>	<u>Amount due to related parties</u>	<u>Total</u>
	<i>US\$'000</i> <i>(Note 24)</i>	<i>US\$'000</i> <i>(Note 29(d))</i>	<i>US\$'000</i> <i>(Note 27)</i>	<i>US\$'000</i>
At January 1, 2018	–	300,633	–	300,633
Changes from financing cash flows:				
Proceeds from the issue of redeemable preferred shares <i>(note 29)</i>	–	248,840	–	248,840
Total changes from financing cash flows	–	248,840	–	248,840
Changes in fair value	–	166,402	–	166,402
At June 30, 2018	–	715,875	–	715,875

(c) **Cash and cash equivalents of the Company comprise:**

	<u>At December 31,</u>			<u>At June 30,</u>
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Cash at bank and on hand	–	–	16,464	103,874

14 CRYPTOCURRENCIES

The amounts represented the cryptocurrencies held by the Group at December 31, 2015, 2016 and 2017 and June 30, 2018. Summary of cryptocurrencies is as follows:

	<u>At December 31,</u>			<u>At June 30,</u>
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Cryptocurrencies	12,316	56,266	872,581	989,590
Less: Provision for impairment of cryptocurrencies	–	–	–	102,662
Net Value	12,316	56,266	872,581	886,928

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15 TRADE RECEIVABLES

	At December 31,			At June 30,
	2015	2016	2017	2018
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Amounts due from a related party	4,073	–	–	–
Amounts due from third parties	366	2,473	1,384	20,490
Less: allowance for doubtful debts	–	–	–	–
	<u>4,439</u>	<u>2,473</u>	<u>1,384</u>	<u>20,490</u>

All of the trade receivables are expected to be recovered within one year.

(a) Aging analysis

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date and net of loss allowance for debt, is as follows:

	At December 31,			At June 30,
	2015	2016	2017	2018
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Within 3 months	4,439	2,473	1,020	20,490
3 to 6 months	–	–	364	–
	<u>4,439</u>	<u>2,473</u>	<u>1,384</u>	<u>20,490</u>

Trade receivables are mainly due within 90 days from the date of billing. Further details on the Group’s credit policy and credit risk arising from trade receivables are set out in Note 32(a).

(b) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	At December 31,			At June 30,
	2015	2016	2017	2018
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Current	4,439	2,473	1,384	20,490
Past due	–	–	–	–
Less: allowance for doubtful debts	–	–	–	–
	<u>4,439</u>	<u>2,473</u>	<u>1,384</u>	<u>20,490</u>

Trade receivables that were neither past due nor impaired mainly represented the receivables of mining hardware sales from certain major customers for whom there was no recent history of default.

All trade debtors and bills receivable are expected to be recovered within one year.

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16 PREPAYMENTS AND OTHER ASSETS

(a) Prepayments and other assets of the Group

	<i>Note</i>	At December 31,			At June 30,
		2015	2016	2017	2018
		<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
Purchase prepayments to suppliers		8,529	42,593	922,477	280,671
Deductible input VAT		4,979	7,958	118,087	199,386
Refundable VAT		345	4,748	30,870	148,010
Rental and other deposits		2,389	2,184	2,773	7,167
Others		7,438	33,419	35,802	19,650
Less: Impairment for prepayments and other assets	(i)	–	(1,847)	(104,547)	(1,936)
		<u>23,680</u>	<u>89,055</u>	<u>1,005,462</u>	<u>652,948</u>

Notes:

- (i) The movements of impairment for prepayments and other assets are as follows:

	At December 31,			At June 30,
	2015	2016	2017	2018
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
At beginning of the year/period	–	–	1,847	104,547
Impairment loss recognised	–	1,847	102,700	–
Impairment provision write-off	–	–	–	(25)
Impairment provision balance transferred to inventory	–	–	–	(102,586)
At the end of the year/period	<u>–</u>	<u>1,847</u>	<u>104,547</u>	<u>1,936</u>

During the Relevant Periods, due to the market volatility of certain cryptocurrencies, the Group has recognised the impairment provision for the irrevocable prepayment of raw materials against the suppliers based on the estimated selling price for the specific mining hardware. The net balance of prepayment will be transferred to the carrying amount of inventory upon receipt of the inventory.

(b) Prepayments and other assets of the Company

	At December 31,			At June 30,
	2015	2016	2017	2018
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
Amount due from subsidiaries	–	–	33,003	192,624
Others	–	–	40	258
Less: Impairment for prepayments and other assets	–	–	–	–
	<u>–</u>	<u>–</u>	<u>33,043</u>	<u>192,882</u>

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17 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	At December 31,			At June 30,
	2015	2016	2017	2018
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
Raw materials	17,632	3,475	131,535	353,492
Work in progress	3,936	27,170	188,631	309,789
Finished goods	4,418	1,475	349,523	564,824
Proprietary mining hardware	4,302	5,669	27,036	50,344
	<u>30,288</u>	<u>37,789</u>	<u>696,725</u>	<u>1,278,449</u>
Less: provision for impairment of inventories	<u>–</u>	<u>(824)</u>	<u>(138,636)</u>	<u>(391,292)</u>
	<u><u>30,288</u></u>	<u><u>36,965</u></u>	<u><u>558,089</u></u>	<u><u>887,157</u></u>

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	At December 31,			At June 30,
	2015	2016	2017	2018
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
Carrying amount of inventories sold	45,192	95,156	1,064,475	1,474,527
Write down of inventories	–	824	137,956	253,347
Reversal of write-down of inventories	–	–	(144)	(691)
	<u>45,192</u>	<u>95,980</u>	<u>1,202,287</u>	<u>1,727,183</u>

18 OTHER FINANCIAL ASSETS

	At December 31,			At June 30,
	2015	2016	2017	2018
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
Other financial assets	<u>1,594</u>	<u>9,385</u>	<u>28,603</u>	<u>135,447</u>

As of December 31, 2015, 2016 and 2017 and June 30, 2018, other financial assets mainly include equity investments in unlisted companies, private investments funds and certain cryptocurrency tokens. The other financial assets are measured at fair value and the changes in the fair value of the investments are recognised in profit or loss.

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19 INTEREST IN ASSOCIATES

	At December 31,			At June 30,	
	2015	2016	2017	2017	2018
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	295	118	3,117	3,117	9,555
Aggregate amounts of the Group’s share of those associates’ Profit from continuing operations	78	99	4,696	2,275	5,363

The following list contains only the particulars of associates, all of which are unlisted corporate entities whose quoted market price are not available:

Name of associates	Place of establishment	Particulars of issued capital	Proportion of ownership interest		Principal activities
			Group’s effective interest	Held by the Company	
Company A (note (i))	the PRC	RMB10,000,000	31.25%	–	Services of data processing, storage and computer system
Company B (note (ii))	Hong Kong	US\$50,000	34.62%	34.62%	Services of transaction and computational force
Company C (note (iii))	the Cayman Islands	US\$50,000	24.29%	24.29%	Services of information and quotation software of block chain

Notes:

- (i) Company A was established in 2014. Company A’s main business are services of data processing, storage and computer system, etc. The Company subscribed for RMB3,125,000 (approximately equivalent to US\$385,000), representing approximately 31.25% of the equity interest and appointed a director in the board of director.
- (ii) Company B was established in 2017. Company B’s main business are services of transaction and computational force, etc. The Company subscribed for US\$3,284,000, representing approximately 34.62% of the equity interest and appointed a director in the board of director.
- (iii) Company C was established in 2017. Company C’s main business are services of information and quotation software of block chain, etc. The Company subscribed for US\$2,222,000, representing approximately 24.29% of the equity interest and appointed a director in the board of director.

All of the above associates are accounted for using the equity method in the consolidated financial statements.

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20 INVESTMENTS IN SUBSIDIARIES

The Company

	At ended December 31,			At June 30,	
	2015	2016	2017	2017	2018
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
Investment, at cost	-	-	77	-	1,153

21 INTANGIBLE ASSETS

	Software	Software copyright	Patents and trademarks	Domain name	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Cost:					
At January 1, 2015	-	-	-	-	-
Additions	134	-	-	-	134
Exchange adjustments	(4)	-	-	-	(4)
At December 31, 2015	130	-	-	-	130
Accumulated amortisation:					
At January 1, 2015	-	-	-	-	-
Charge for the year	(11)	-	-	-	(11)
At December 31, 2015	(11)	-	-	-	(11)
Net book value:					
At December 31, 2015	119	-	-	-	119
Cost:					
At January 1, 2016	130	-	-	-	130
Exchange adjustments	(8)	-	-	-	(8)
At December 31, 2016	122	-	-	-	122
Accumulated amortisation:					
At January 1, 2016	(11)	-	-	-	(11)
Charge for the year	(42)	-	-	-	(42)
Exchange adjustments	2	-	-	-	2
At December 31, 2016	(51)	-	-	-	(51)
Net book value:					
At December 31, 2016	71	-	-	-	71

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	Software	Software copyright	Patents and trademarks	Domain name	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Cost:					
At January 1, 2017	122	–	–	–	122
Additions	202	70	182	3,410	3,864
Exchange adjustments	14	2	6	–	22
At December 31, 2017	338	72	188	3,410	4,008
Accumulated amortisation:					
At January 1, 2017	(51)	–	–	–	(51)
Charge for the year	(47)	(1)	(2)	(284)	(334)
Exchange adjustments	(4)	–	–	–	(4)
At December 31, 2017	(102)	(1)	(2)	(284)	(389)
Net book value:					
At December 31, 2017	236	71	186	3,126	3,619
Cost:					
At January 1, 2018	338	72	188	3,410	4,008
Additions	204	1,624	3	6,808	8,639
Disposals	(21)	–	–	–	(21)
Exchange adjustments	(10)	(57)	(2)	–	(69)
At June 30, 2018	511	1,639	189	10,218	12,557
Accumulated amortisation:					
At January 1, 2018	(102)	(1)	(2)	(284)	(389)
Charge for the period	(88)	(49)	(10)	(569)	(716)
Written back on disposals	8	–	–	–	8
Exchange adjustments	4	2	–	–	6
At June 30, 2018	(178)	(48)	(12)	(853)	(1,091)
Net book value:					
At June 30, 2018	333	1,591	177	9,365	11,466

The amortisation charges are included in “cost of sales”, “administrative and other operating expenses”, and “research and development expenses” in the consolidated statement of profit or loss.

22 LEASE PREPAYMENTS

Lease prepayments mainly represent prepayments for acquiring land use rights in the PRC for own use, which have a lease period of 50 years.

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23 PROPERTY, PLANT AND EQUIPMENT

	Electronic equipment	Machinery	Motor vehicles and others	Others	Sub-total	Construction in progress	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Cost:							
At January 1, 2015	105	–	86	1	192	–	192
Additions	145	17	–	8	170	–	170
Disposals	(5)	–	–	(1)	(6)	–	(6)
Exchange adjustments	(18)	–	(5)	–	(23)	–	(23)
At December 31, 2015	227	17	81	8	333	–	333
Accumulated depreciation:							
At January 1, 2015	(31)	–	(30)	–	(61)	–	(61)
Charge for the year	(48)	(1)	–	(4)	(53)	–	(53)
Written back on disposals	1	–	–	–	1	–	1
Exchange adjustments	2	–	2	–	4	–	4
At December 31, 2015	(76)	(1)	(28)	(4)	(109)	–	(109)
At December 31, 2015	<u>151</u>	<u>16</u>	<u>53</u>	<u>4</u>	<u>224</u>	<u>–</u>	<u>224</u>
Cost:							
At January 1, 2016	227	17	81	8	333	–	333
Additions	1,272	4	142	324	1,742	1,687	3,423
Construction in progress transferred in	3	374	13	–	390	(390)	–
Disposals	–	–	(29)	–	(29)	–	(29)
Exchange adjustments	(195)	(3)	(5)	(25)	(228)	(8)	(236)
At December 31, 2016	1,307	392	202	307	2,208	1,289	3,497
Accumulated depreciation:							
At January 1, 2016	(76)	(1)	(28)	(4)	(109)	–	(109)
Charge for the year	(239)	(16)	(17)	(28)	(300)	–	(300)
Written back on disposals	–	–	12	–	12	–	12
Exchange adjustments	33	–	2	(18)	17	–	17
At December 31, 2016	(282)	(17)	(31)	(50)	(380)	–	(380)
At December 31, 2016	<u>1,025</u>	<u>375</u>	<u>171</u>	<u>257</u>	<u>1,828</u>	<u>1,289</u>	<u>3,117</u>

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	Electronic equipment	Machinery	Motor vehicles and others	Others	Sub-total	Construction in progress	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Cost:							
At January 1, 2017	1,307	392	202	307	2,208	1,289	3,497
Additions	4,702	287	456	637	6,082	16,366	22,448
Construction in progress transferred in	120	14,171	–	285	14,576	(14,576)	–
Disposals	(15)	–	–	–	(15)	–	(15)
Exchange adjustments	54	13	12	24	103	357	460
At December 31, 2017	6,168	14,863	670	1,253	22,954	3,436	26,390
Accumulated depreciation:							
At January 1, 2017	(282)	(17)	(31)	(50)	(380)	–	(380)
Charge for the year	(1,292)	(1,217)	(86)	(620)	(3,215)	–	(3,215)
Written back on disposals	10	–	–	–	10	–	10
Exchange adjustments	(17)	–	(2)	(13)	(32)	–	(32)
At December 31, 2017	(1,581)	(1,234)	(119)	(683)	(3,617)	–	(3,617)
At December 31, 2017	4,587	13,629	551	570	19,337	3,436	22,773
Cost:							
At January 1, 2018	6,168	14,863	670	1,253	22,954	3,436	26,390
Additions	10,329	372	369	740	11,810	65,598	77,408
Construction in progress transferred in	43	3,078	–	865	3,986	(3,986)	–
Disposals	(736)	(3,399)	–	(24)	(4,159)	–	(4,159)
Exchange adjustments	89	2	5	46	142	564	706
At June 30, 2018	15,893	14,916	1,044	2,880	34,733	65,612	100,345
Accumulated depreciation:							
At January 1, 2018	(1,581)	(1,234)	(119)	(683)	(3,617)	–	(3,617)
Charge for the period	(2,102)	(1,747)	(122)	(879)	(4,850)	–	(4,850)
Written back on disposals	201	465	–	12	678	–	678
Exchange adjustments	(43)	(1)	(1)	(22)	(67)	–	(67)
At June 30, 2018	(3,525)	(2,517)	(242)	(1,572)	(7,856)	–	(7,856)
At June 30, 2018	12,368	12,399	802	1,308	26,877	65,612	92,489

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24 BANK LOANS

	At December 31,			At June 30,
	2015	2016	2017	2018
	US\$'000	US\$'000	US\$'000	US\$'000
Unsecured and unguaranteed short-term bank loans	–	144	–	–

The bank loans at December 31, 2016 were repayable within one year.

25 TRADE PAYABLES

	At December 31,			At June 30,
	2015	2016	2017	2018
	US\$'000	US\$'000	US\$'000	US\$'000
Trade payables to: – third parties	17,460	16,150	394,111	450,108

All of the trade payables are expected to be settled within one year or are repayable on demand.

The ageing analysis of the Group's trade payables, based on the invoice date, is as follows:

	At December 31,			At June 30,
	2015	2016	2017	2018
	US\$'000	US\$'000	US\$'000	US\$'000
Within 3 month	17,460	15,991	393,015	441,824
3 to 6 months	–	65	767	7,600
6 months to 1 year	–	–	318	648
Over 1 year	–	94	11	36
	<u>17,460</u>	<u>16,150</u>	<u>394,111</u>	<u>450,108</u>

26 ADVANCES RECEIVED FROM CUSTOMERS

Advances received from customers primarily includes advances from third-party customers when the Group receives payments in advance of the delivery of products or performance of services.

27 OTHER PAYABLES AND ACCRUALS

	At December 31,			At June 30,
	2015	2016	2017	2018
	US\$'000	US\$'000	US\$'000	US\$'000
Amount due to related parties	21,423	27,702	–	–
Deferred revenue	3,141	1,420	32,104	3,886
Other tax payables	1,493	331	53,878	178
Payables for staff related costs	2,437	5,276	51,797	34,947
Others	3,873	2,414	37,379	32,076
	<u>32,367</u>	<u>37,143</u>	<u>175,158</u>	<u>71,087</u>

All of the other payables and accruals are expected to be settled within one year or are repayable on demand.

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28 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Income tax payable in the consolidated statement of financial position represents:

	At December 31,			At June 30,
	2015	2016	2017	2018
	US\$'000	US\$'000	US\$'000	US\$'000
At the beginning of the year/period	–	12,550	26,887	175,311
Provision for the year/period (<i>Note 8(a)</i>)	12,688	23,903	240,123	231,255
Income tax paid	(138)	(9,566)	(91,699)	(221,979)
At the end of the year/period	<u>12,550</u>	<u>26,887</u>	<u>175,311</u>	<u>184,587</u>

(b) Deferred tax assets recognised:

(i) Movement of each component of deferred tax assets

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements throughout the Relevant Periods are as follows:

Deferred tax arising from:	Accrued payroll	Unrealised profit from intra-group transaction	Impairment loss on receivables and inventory	Accumulated loss	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At January 1, 2015	–	–	–	–	–
Credited to profit or loss (<i>Note 8(a)</i>)	–	3,499	–	–	3,499
At December 31, 2015 and January 1, 2016	–	3,499	–	–	3,499
Credited/(charged) to profit or loss (<i>Note 8(a)</i>)	–	(1,006)	755	–	(251)
At December 31, 2016 and January 1, 2017	–	2,493	755	–	3,248
Credited to profit or loss (<i>Note 8(a)</i>)	3,700	19,130	21,318	–	44,148
At December 31, 2017 and January 1, 2018	3,700	21,623	22,073	–	47,396
Credited/(charged) to profit or loss (<i>Note 8(a)</i>)	–	(7,887)	56,826	17,240	66,179
At June 30, 2018	<u>3,700</u>	<u>13,736</u>	<u>78,899</u>	<u>17,240</u>	<u>113,575</u>

(ii) Deferred tax liabilities not recognised

As at December 31, 2015, 2016 and 2017 and June 30, 2018, temporary differences relating to the retained profits of the subsidiaries of the Group established in the PRC (excluding Hong Kong) amounted to US\$15.9 million (equivalent to RMB105.1 million), US\$29.4 million (equivalent to RMB194.8 million), US\$775.7 million (equivalent to RMB5,132.5 million) and US\$1,248.4 million (equivalent to RMB8,260.1 million) of which no deferred tax liabilities in respect of the tax that would be payable on the distribution of these profits was provided as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

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29 CONVERTIBLE REDEEMABLE PREFERRED SHARES

On August 8, 2017 the Company issued 500,000,000 convertible redeemable preferred shares ("Series A Preferred Shares") at the price of US\$0.1 per share, for a total consideration of US\$50 million to certain third party investors. On June 19, 2018 the Company entered into a share purchase agreement with certain third party investors to issue 261,956,309 convertible redeemable preferred shares ("Series B Preferred Shares") at the price of US\$1.117 per share, for a total consideration of US\$292.7 million, of which US\$248.8 million and US\$43.9 million was wired to the Company on June 19, 2018 and in July 2018.

The key terms of the Series A and Series B Preferred Shares are summarized as follows:

(a) Dividends rights

No dividend shall be paid on or declared and set aside for any ordinary share at any time unless and until a dividend in like amount as is declared or paid on the ordinary shares has been paid on or declared and set aside for each outstanding Series A and Series B Preferred Share, on an as if converted basis.

(b) Liquidation preference

In the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, all assets and funds of the Company legally available for distribution to the Members (after satisfaction of all creditors' claims and claims that may be preferred by law) shall be distributed to the Members of the Company as set forth below:

Each holder of the preferred shares shall be entitled to receive for each series of preferred share held by such holder, on parity with each other and prior and in preference to any distribution of any of the assets or funds of the Company to the holders of any other class or series of shares by reason of their ownership of such shares, an amount equal to 100% of the respective applicable issue price, plus all declared but unpaid dividends for holders of the series of the preferred shares. If the assets and funds thus distributed among the holders of the Series B Preferred Shares shall be insufficient to permit the payment to such holders of the full preferred amount, the liquidation preference amount will be paid to the holders of Series B Preferred Shares firstly and then to the holders of Series A Preferred Shares. Each class A share has one vote per share and each class B share has ten votes per share, capable of being exercised on resolutions in general meetings. After distributing or paying in full the liquidation preference amount to all of the holders of the preferred shares, the remaining assets of the Company available for distribution to members, if any, shall be distributed to the holders of the preferred shares and ordinary shares on a pro rata basis, based on the number of ordinary shares then held by each holder on an as-converted basis.

(c) Conversion rights

The preferred shares shall be converted into Class A ordinary shares at the option of the holders thereof, at any time after the applicable issue date or automatically converted into Class A ordinary shares at the then effective applicable conversion price upon the earlier of (i) the closing of a qualified [REDACTED], or (ii) for Series A Preferred Shares, the date specified by written consent or agreement of all Series A Preferred Shares' holders, or for Series B Preferred Shares, the date specified by written consent or agreement of 50% Series B Preferred Shares' holders.

(d) Redemption rights

Each preferred share holder shall have the right to require the Company to redeem or repurchase all or any part of the preferred shares held by such holder upon the occurrence of any of the following events: (i) if neither a qualified [REDACTED] nor a qualified trade sale defined in the terms has occurred by the fifth anniversary of the preferred shares' issue date, or (ii) the occurrence of a breach by the Group or the Controlling Shareholders of any representations, warranties, covenants or undertakings under the transaction documents which (a) has a material adverse effect on the business, properties, assets, operations, results of operations, financial condition, or liabilities of the Group taken as a whole or other material adverse effects which specified in the subscription agreement and (b) has not been cured within 30 days as defined in the terms.

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The Company does not bifurcate any embedded derivatives from the host instruments and designates the entire instruments as financial liabilities at fair value through profit or loss with the changes in the fair value recorded in the consolidated statements of profit or loss.

The movement of the convertible redeemable preferred shares is set out as below:

	<i>US\$’000</i>
At December 31, 2016 and January 1, 2017	–
Issuance of Series A Preferred Shares	50,000
Changes in fair value	<u>250,633</u>
At December 31, 2017 and January 1, 2018	300,633
Issuance of Series B Preferred Shares	248,840
Changes in fair value	<u>166,402</u>
At June 30, 2018	<u><u>715,875</u></u>

The management has used the discounted cash flow method to determine the underlying share value of the Company and adopted equity allocation model to determine the fair value of the preferred shares as of the dates of issuance and reporting date.

Key valuation assumptions used to determine the fair value of the preferred shares are as follows:

	<u>At December 31,</u>	<u>At June 30,</u>
	<u>2017</u>	<u>2018</u>
Discount rate	25%	23%
Risk-free interest rate	2.16%	2.73%
DLOM	10%	5%
Volatility	41%	41%

Discount rate was estimated by weighted average cost of capital as of each valuation date. The management estimated the risk-free interest rate based on the yield of US Government Bonds with a maturity life closed to period from the respective valuation dates to the expected redemption dates and liquidation dates. The DLOM was estimated based on the option-pricing method. Under option-pricing method, the cost of put option, which can hedge the price change before the private held shares can be sold, was considered as a basis to determine the lack of marketability discount. Volatility was estimated on each valuation date based on average of historical volatilities of the comparable companies in the same industry for a period from the respective valuation date to expected redemption dates and liquidation dates. Probability weighted under each of the [REDACTED], liquidation and redemption scenarios was based on the management’s best estimates. In addition to the assumptions adopted above, the Company’s projections of future performance were also factored into the determination of the fair value of preferred shares on each valuation date.

Change in fair value of preferred shares were recorded in “fair value changes of convertible redeemable preferred shares”. The management considered that fair value change in the preferred shares that are attributable to changes of credit risks of the liability being not significant.

30 EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has a share incentive scheme (the “Former Share Incentive Plan”) which was adopted on June 28, 2017 whereby the director of the Company is authorized, at its discretion, to invite employees of the Group, to take up options to subscribe for shares of the Company. The options vest after two to four years from the date of grant and are then exercisable within a period of ten years. The options granted to most of the entitled employees (“the Grantees”) are only exercisable upon the Company’s [REDACTED]. In preparation of the [REDACTED], the board approved and adopted the share incentive scheme on September 13, 2018 to replace the Former Share Incentive Plan, and the awards granted under the Former Share Incentive Plan were substituted by awards under the share incentive scheme on September 13, 2018.

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(a) The number and weighted average exercise prices of share options are as follows:

	At December 31, 2017		At June 30, 2018	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	US\$	'000	US\$	'000
Outstanding at the beginning of the year/period	–	–	0.003	941,491
Granted during the year/period	0.003	941,491	–	–
Forfeited during the year/period	–	–	–	–
Outstanding at the end of the year/period	0.003	941,491	0.003	941,491
Exercisable at the end of the year/period	0.003	10,000	0.003	10,000

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

(b) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model.

	2017
	US\$
Fair value at measurement date	\$0.05-\$0.58
Share price	\$0.06-\$0.58
Exercise price	\$0.00001-\$0.01
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	44%
Expected dividends	–
Risk-free interest rate	2.19%-2.40%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information.

No dividends are expected to be distributed. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

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31 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group’s consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company’s individual components of equity are set out below:

	Share Capital	Other Reserve	Accumulated deficits	Total
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
Balance at January 1, 2015	–	–	–	–
Changes in equity for 2015:				
Loss for the year	–	–	(19)	(19)
Balance at December 31, 2015 and January 1, 2016	–	–	(19)	(19)
Changes in equity for 2016:				
Loss for the year	–	–	(137)	(137)
Balance at December 31, 2016 and January 1, 2017	–	–	(156)	(156)
Changes in equity for 2017:				
Employees share-based compensation scheme	–	523	–	523
Loss for the year	–	–	(251,416)	(251,416)
Balance at December 31, 2017 and January 1, 2018	–	523	(251,572)	(251,049)
Changes in equity for 2018:				
Employees share-based compensation scheme	–	43,065	–	43,065
Loss for the period	–	–	(209,982)	(209,982)
Balance at June 30, 2018	–	43,588	(461,554)	(417,966)

(b) Share capital

As at December 31, 2015, 2016, 2017 and June 30, 2018, the consolidated share capital represents the share capital of the Company.

(i) Issued share capital

	At December 31,						At June 30,	
	2015		2016		2017		2018	
	Number of shares	Amounts	Number of shares	Amounts	Number of shares	Amounts	Number of shares	Amounts
	<i>’000</i>	<i>US\$’000</i>	<i>’000</i>	<i>US\$’000</i>	<i>’000</i>	<i>US\$’000</i>	<i>’000</i>	<i>US\$’000</i>
Ordinary shares, issued and fully paid:								
At January 1, Shares issued	–	–	–	–	7,954	–	7,953,596	–
Issuance of shares on October 26, 2016	–	–	7,954	–	–	–	–	–
Stock split at June 28, 2017	–	–	–	–	7,945,642	–	–	–
At December 31/June 30,	–	–	7,954	–	7,953,596	–	7,953,596	–

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The Company's issued shares are currently divided into four classes, Class A ordinary shares, Class B ordinary shares, Series A Preferred Shares (Capital) and Series B preferred shares. The number of Class A ordinary shares was 1, 1,704,000,000, 1,704,000,000, 1,704,000,000 while the number of Class B ordinary shares was 0, 6,249,596,000, 6,249,596,000, 6,249,596,000 as of December 31, 2015, 2016, 2017 and June 30, 2018, respectively. Each Class A ordinary share is entitled to one vote and each Class B ordinary share is entitled to ten votes, but in all other respects Class A ordinary shares and Class B ordinary shares rank pari passu. Each of the Series A preferred shares and Series B preferred shares will be automatically converted into Class A ordinary shares upon the Proposed [REDACTED] (see Note 29).

(ii) The authorized share capital of the Company and its operating subsidiaries is US\$50,000.00 divided into: (i) 409,500,000,000 Class A Ordinary Shares with a par value of US\$0.0000001 each, (ii) 90,000,000,000 Class B Ordinary Shares with a par value of US\$0.0000001 each and (ii) 500,000,000 Series A Preferred Shares with a par value of US\$0.0000001 each after the issuance of the Preferred Shares.

(c) Dividends

No dividends have been paid or declared by the Company during each of the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018.

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by Section 34 of the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time.

(ii) Capital reserve

The capital reserve comprises the following:

- the portion of the grant date fair value of unexercised share options granted to employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 2(q)(ii)

(iii) Statutory reserves

In accordance with the relevant PRC laws and regulations, the Company's subsidiaries established in Mainland China is required to transfer 10% of its net profit to the statutory reserves until the reserve reaches 50% of the registered capital. The transfer to this reserve must be made before distributions to equity holders. This reserve can be utilised in setting off accumulated losses or increase capital of the subsidiary and is non-distributable other than in liquidation.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 2(u).

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group's business and financial condition is highly correlate with the market price of cryptocurrencies. During the Relevant Periods, the Group's revenue is mainly generated from cryptocurrency-related operations and the Group hold a material amount of cryptocurrencies. As of December 31, 2015, 2016, 2017 and June 30, 2018, the cryptocurrencies held by the Group in aggregate account for approximately 10%, 25%, 30% and 28% of the total

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assets, respectively. The Group have adopted various measures to minimise the risk associated with the fluctuation in the market price of cryptocurrencies, including, the finance department of the Group monitors the amount and fluctuation of the price of cryptocurrencies received from the Group's ordinary operations on a daily basis and makes recommendations to the management team on conversion of cryptocurrencies into standard currencies based on the Group's operational and working capital's requirements. In addition, the Group conducts regular pressure tests of the value of its cryptocurrencies to effectively control the risk of volatility in the price of the cryptocurrencies.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Group are not subject to externally imposed capital requirements.

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to cash at bank and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The cash at bank of the Group are mainly held with well-known financial institutions. Management does not foresee any significant credit risks from these deposits and does not expect that these financial institutions may default and cause losses to the Group. In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

In respect of trade receivables from customers of mining hardware and accessories, the Group is not exposed to significant credit risk arising from sales as advance payments are required from majority of its customers. Normally, the Group does not contain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customers rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at the end of the Relevant Periods of 2015, 2016, 2017 and as at June 30, 2018, 95%, 91%, 52% and 99% of the total trade receivables was due from the Group's five largest customers with account receivable balance respectively.

The Group does not provide any other guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in Notes 15.

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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The following tables show the remaining contractual maturities at the end of each reporting period of the Group’s non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

December 31, 2015						
Contractual undiscounted cash outflow						
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at December 31
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
Trade payables	17,460	–	–	–	17,460	17,460
Other payables and accruals	32,367	–	–	–	32,367	32,367
	<u>49,827</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>49,827</u>	<u>49,827</u>
December 31, 2016						
Contractual undiscounted cash outflow						
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at December 31
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
Bank loans	144	–	–	–	144	144
Trade payables	16,056	94	–	–	16,150	16,150
Other payables and accruals	37,143	–	–	–	37,143	37,143
	<u>53,343</u>	<u>94</u>	<u>–</u>	<u>–</u>	<u>53,437</u>	<u>53,437</u>
December 31, 2017						
Contractual undiscounted cash outflow						
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at December 31
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
Trade payables	394,100	11	–	–	394,111	394,111
Other payables and accruals	175,158	–	–	–	175,158	175,158
	<u>569,258</u>	<u>11</u>	<u>–</u>	<u>–</u>	<u>569,269</u>	<u>569,269</u>

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June 30, 2018

	Contractual undiscounted cash outflow					Carrying amount at June 30, US\$’000
	Within 1 year or on demand US\$’000	More than 1 year but less than 2 years US\$’000	More than 2 years but less than 5 years US\$’000	More than 5 years US\$’000	Total US\$’000	
Trade payables	450,072	36	–	–	450,108	450,108
Other payables and accruals	71,087	–	–	–	71,087	71,087
	<u>521,159</u>	<u>36</u>	<u>–</u>	<u>–</u>	<u>521,195</u>	<u>521,195</u>

(c) **Interest rate risk**

The Group’s interest-bearing financial instruments at variable rates as at December 31, 2015, 2016, and 2017 and June 30, 2018 are the cash at bank and the cash flow interest risk arising from the change of market interest rate on these balances is not considered significant. The Group’s interest-bearing financial instruments at fixed interest rates as at December 31, 2016 are bank loans that are measured at amortised cost, and the change of market interest rate does not materially expose the Group to fair value interest risk. Overall speaking, the Group’s exposure to interest rate risk is not significant.

(d) **Currency risk**

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Chinese Yuan, Euros, Hong Kong dollars and Japanese Yen. The Group manages this risk as follows:

(i) **Recognised assets and liabilities**

In respect of trade receivables and payables denominated in foreign currencies, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

(ii) **Exposure to currency risk**

The following table details the Group’s exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are expressed in US dollars, translated using the spot rate at the year end date:

	December 31, 2015				
	Chinese Yuan US\$’000	Euros US\$’000	Hong Kong Dollar US\$’000	Japanese Yen US\$’000	Others US\$’000
Trade and other receivables	12,265	–	1	–	–
Cash and cash equivalents	8,722	–	29	–	–
Trade and other payables	(24,401)	–	–	–	–
Net exposure arising from recognised assets and liabilities	<u>(3,414)</u>	<u>–</u>	<u>30</u>	<u>–</u>	<u>–</u>

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December 31, 2016

	Chinese Yuan	Euros	Hong Kong Dollar	Japanese Yen	Others
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Trade and other receivables	13,980	–	2	–	–
Cash and cash equivalents	5,488	1	4	–	–
Trade and other payables	(40,275)	–	(6)	–	–
Net exposure arising from recognised assets and liabilities	<u>(20,807)</u>	<u>1</u>	<u>–</u>	<u>–</u>	<u>–</u>

December 31, 2017

	Chinese Yuan	Euros	Hong Kong Dollar	Japanese Yen	Others
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Trade and other receivables	45,144	–	268	–	16
Cash and cash equivalents	106,320	1	1,106	–	98
Trade and other payables	(338,806)	(19)	(5,988)	–	(153)
Net exposure arising from recognised assets and liabilities	<u>(187,342)</u>	<u>(18)</u>	<u>(4,614)</u>	<u>–</u>	<u>(39)</u>

June 30, 2018

	Chinese Yuan	Euros	Hong Kong Dollar	Japanese Yen	Others
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Trade and other receivables	234,950	4	1,293	–	60
Cash and cash equivalents	52,966	5	499	1,504	128
Trade and other payables	(306,675)	(419)	(7,508)	(1,519)	(704)
Net exposure arising from recognised assets and liabilities	<u>(18,759)</u>	<u>(410)</u>	<u>(5,716)</u>	<u>(15)</u>	<u>(516)</u>

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(iii) *Sensitivity analysis*

The following table indicates the instantaneous change in the Group’s profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	December 31, 2015		December 31, 2016	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits
		<i>US\$’000</i>		<i>US\$’000</i>
Chinese Yuan	5% (5%)	(104) 104	5% (5%)	(866) 866
Euros	5% (5%)	– –	5% (5%)	– –
Hong Kong Dollar	5% (5%)	1 (1)	5% (5%)	– –
Japanese Yen	5% (5%)	– –	5% (5%)	– –
Others	5% (5%)	– –	5% (5%)	– –
	December 31, 2017		June 30, 2018	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits
		<i>US\$’000</i>		<i>US\$’000</i>
Chinese Yuan	5% (5%)	(7,572) 7,572	5% (5%)	(378) 378
Euros	5% (5%)	(1) 1	5% (5%)	(17) 17
Hong Kong Dollar	5% (5%)	(193) 193	5% (5%)	(239) 239
Japanese Yen	5% (5%)	– –	5% (5%)	(1) 1
Others	5% (5%)	(2) 2	5% (5%)	(26) 26

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis is performed on the same basis during the Relevant Periods.

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(e) Fair value measurement

The following table presents the fair value of the Group’s financial instruments measured at the end of the reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

The fair value measurements of the Group’s other financial assets and convertible redeemable preferred shares are categorized into the following level in the fair value hierarchy:

	Fair value at December 31, 2015 <i>US\$’000</i>	Fair value measurement as of December 31, 2015 categories into		
		Level 1 <i>US\$’000</i>	Level 2 <i>US\$’000</i>	Level 3 <i>US\$’000</i>
Assets				
Other financial assets	1,594	–	–	1,594
	Fair value at December 31, 2016 <i>US\$’000</i>	Fair value measurement as of December 31, 2016 categories into		
		Level 1 <i>US\$’000</i>	Level 2 <i>US\$’000</i>	Level 3 <i>US\$’000</i>
Assets				
Other financial assets	9,385	–	–	9,385
	Fair value at December 31, 2017 <i>US\$’000</i>	Fair value measurement as of December 31, 2017 categories into		
		Level 1 <i>US\$’000</i>	Level 2 <i>US\$’000</i>	Level 3 <i>US\$’000</i>
Assets				
Other financial assets	28,603	–	–	28,603
Liability				
Convertible redeemable preferred shares	(300,633)	–	–	(300,633)

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	Fair value at June 30, 2018	Fair value measurement as of June 30, 2018 categories into		
		Level 1	Level 2	Level 3
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
Assets				
Other financial assets	135,447	–	–	135,447
Liability				
Convertible redeemable preferred shares	(715,875)	–	–	(715,875)

During the years ended December 31, 2015, 2016 and 2017 and six months ended June 30, 2018, there were no transfers between Level 1 and Level 2, or transfers into nor out of Level 3. The Group’s policy is to recognize transfers between levels of fair value hierarchy as of the end of the reporting period in which they occur.

The fair value of the other financial assets has been determined by reference to the recent transaction prices of the same or similar investments with appropriate adjustments have been made where applicable.

The movements during the Track Record Period in the balance of convertible redeemable preferred shares were set in Note 29. The movements of the other financial assets during the Track Record Period in the balance of these Level 3 fair value measurements are as follows:

	As at December 31,			As at June 30,
	2015	2016	2017	2018
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
Other financial assets				
At January 1,	–	1,594	9,385	28,603
Addition	1,594	12,767	28,947	131,352
Disposal	–	(7,712)	(5,839)	(73,261)
Changes in fair value	–	2,736	(3,890)	48,753
At December 31,/June 30,	1,594	9,385	28,603	135,447

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33 COMMITMENTS

(a) Capital commitments outstanding at the end of each of the reporting period not provided for in the financial statements were as follows:

	At December 31,			At June 30,
	2015	2016	2017	2018
	US\$'000	US\$'000	US\$'000	US\$'000
Authorized but not contracted for	–	–	–	50,506

(b) At the end of each of the reporting period, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At December 31,			At June 30,
	2015	2016	2017	2018
	US\$'000	US\$'000	US\$'000	US\$'000
Within 1 year	579	643	5,547	9,194
After 1 year but within 5 years	1,604	1,102	7,687	10,789
After 5 years	–	–	25	22
	<u>2,183</u>	<u>1,745</u>	<u>13,259</u>	<u>20,005</u>

34 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the financial statements, the Group entered into the following material related party transactions.

(a) Name and relationship with related parties

During the year ended December 31, 2015 and 2016, transactions with the following party are considered as related party transactions:

Name of party	Relationships
Beijing Diwei Digital Visual Technology Co., Ltd. (“Beijing Diwei”) 北京迪未數視科技有限公司*	Entity wholly owned by Mr. Zhan’s mother

* The English translation of the company name is for reference only. The official name of the company is in Chinese.

Beijing Diwei was established by Mr. Zhan’s mother on May 10, 2010. Tianjin Diwei Digital Visual Technology Co., Ltd. (“Tianjin Diwei”) was established by Beijing Diwei on behalf of Beijing Bitmain on May 23, 2014. On July 31, 2015, the legal owner of Tianjin Diwei was transferred to Beijing Bitmain. And Beijing Bitmain paid RMB10 million to Beijing Diwei, which is the capital initially injected into Tianjin Diwei by Beijing Diwei.

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(b) Significant related party transactions

Particulars of significant related party transactions during the year are as follows:

	At December 31,			At June 30,	
	2015	2016	2017	2017	2018
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Sales of goods and technical services	12,243	–	–	–	–
Purchases of materials	583	325	–	–	–
Technical services provided by a related party	1,096	–	–	–	–
Share transfer from a related party	1,620	–	–	–	–

(c) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company’s directors as disclosed in Note 9 and certain of the highest paid employees as disclosed in Note 10, is as follows:

	Years ended December 31,			Six months ended June 30,	
	2015	2016	2017	2017	2018
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Salaries and other emoluments	149	174	155	231	236
Discretionary bonuses	296	6,849	44,785	334	163
Share-based payments	–	–	–	–	28,377
Retirement scheme contributions	64	71	80	54	59
	<u>509</u>	<u>7,094</u>	<u>45,020</u>	<u>619</u>	<u>28,835</u>

Total remuneration is included in “Staff costs” (see Note 7(b)).

(d) Amounts due from a related party

As at the end of the reporting period, the Group had the following balances with a related party:

	Note	At December 31,			At
		2015	2016	2017	June 30,
		US\$'000	US\$'000	US\$'000	2018
Trade receivables	(i)	<u>4,073</u>	<u>–</u>	<u>–</u>	<u>–</u>

Note:

- (i) Trade receivables from a related party are unsecured, interest free and are expected to be recovered within one year. There was no impairment loss made against these amounts at December 31, 2015.

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(e) Amounts due to related parties

As at the end of reporting period, the Group had the following balances with related parties:

	Note	At December 31,			At
		2015	2016	2017	June 30,
		US\$'000	US\$'000	US\$'000	2018
Other payables	(i)	21,423	27,702	–	–

Note:

(i) Other payables to related parties are unsecured, interest free and are paid within one year.

35 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At December 31, 2015, 2016 and 2017 and June 30, 2018, the director consider the ultimate controlling party of the Group to be Mr Zhan Ketuan and Mr Wu Jihan, who are the Co-founders of the Group and the co-executive officers of the Company.

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ACCOUNTING PERIOD BEGINNING ON JANUARY 1, 2018

Up to the date of this report, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period beginning on January 1, 2018 and which have not been adopted in the Historical Financial Information. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 16, <i>Leases</i>	January 1, 2019
IFRIC 23, <i>Uncertainty over income tax treatments</i>	January 1, 2019
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IAS 28, <i>Long-term interest in associates and joint ventures</i>	January 1, 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group’s interim financial report for the six months ended June 30, 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

IFRS 16, *Leases*

As disclosed in Note 2(j), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding “right-of-use” asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the

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outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group’s accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. As allowed by IFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. The Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at January 1, 2019 and will not restate the comparative information. As disclosed in note 33(b), at June 30, 2018 the Group’s future minimum lease payments under non-cancellable operating leases amount to US\$20,005,000 for properties and other assets, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Upon the initial adoption of IFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to US\$18,777,000, after taking account the effects of discounting, as at January 1, 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of IFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group’s financial statement from 2019 onwards.

37 SUBSEQUENT EVENT

(a) Repurchase of ordinary shares

On June 19, 2018, the Company entered into a share repurchase agreement with the Controlling Shareholders and other ordinary shareholders, pursuant to which the Company will repurchase and cancel an aggregate of 4,877,560 Class A ordinary shares and 17,496,569 Class B ordinary shares at the price of US\$1.117 per share, for a total consideration of US\$25,000,000. Such repurchase was subsequently completed on July 3, 2018.

(b) Issuance of Series B+ convertible redeemable preferred shares

On August 8, 2017 the Company issued 339,102,307 convertible redeemable preferred shares (“Series B+ Preferred Shares”) at the price of approximately US\$1.304 per share, for a total consideration of US\$442.05 million to certain third party investors.

(c) Acquisition of an office building with a special-purpose bank borrowing

In July 2018, Beijing Bitmain signed a series of purchase agreements with a third party to acquire an office building with total consideration of US\$101.1 million (RMB669.0 million) in Haidian District, Beijing, China. To finance the office building acquisition, Beijing Bitmain borrowed US\$49.0 million (RMB334.2 million) from Bank of Beijing. The bank loan is pledged by the acquired office building and further guaranteed by Fujian Zhanhua Intelligence Technologies Ltd., a fellow subsidiary of Beijing Bitmain.

38 SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to June 30, 2018.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association of our Company was conditionally adopted on [●] and states, inter alia, that the liability of the members of our Company is limited, that the objects for which our Company is established are unrestricted and our Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix V in the section headed "Documents available for inspection".

2. ARTICLES OF ASSOCIATION

The Articles of Association of our Company were conditionally adopted on [●] and include provisions to the following effect:

2.1 Classes of Shares

(a) Share capital

The share capital of our Company consists of Class A Shares and Class B Shares. The capital of our Company at the date of adoption of the Articles is US\$50,000 divided into 410,000,000,000 Class A Shares of US\$0.0000001 each and 90,000,000,000 Class B Shares of US\$0.0000001 each.

(b) Weighted voting rights

Subject to the provisions of the Articles of Association, the holders of Class A Shares and Class B Shares shall at all times vote together as one class on all resolutions submitted to a vote by the members. On a poll, each Class A Share shall entitle its holder to one vote and each Class B Share shall entitle its holder to ten votes, provided that each Class A Share and each Class B Share shall entitle its holder to one vote on a poll at a general meeting in respect of a resolution on the following matters:

- (i) any amendment to the Memorandum of Association or the Articles of Association, including the variation of the rights attached to any class of shares;
- (ii) the appointment, election or removal of any independent non-executive Director;
- (iii) the appointment or removal of the auditors; or
- (iv) the voluntary liquidation or winding-up of our Company.

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Notwithstanding the foregoing, where a holder of Class B Shares is permitted by the Stock Exchange from time to time to exercise more than one vote per share when voting on a resolution to amend the Memorandum of Association or the Articles of Association, any holder of Class B Shares may elect to exercise such number of votes per share as is permitted by the Stock Exchange, up to the maximum number of votes attached to each Class B Share as set out in the Articles of Association.

Our Company shall not take any action (including the issue or repurchase of shares of any class) that would result in (i) the aggregate number of votes entitled to be cast by all holders of Class A Shares (for the avoidance of doubt excluding those who are also holders of Class B Shares) present at a general meeting to be less than 10% of the votes entitled to be cast by all members at a general meeting; or (ii) an increase in the proportion of Class B Shares to the total number of shares in issue.

(c) Restrictions on issue of Shares with weighted voting rights

No further Class B Shares shall be issued by our Company, except with the approval of the Stock Exchange and pursuant to (i) an offer to subscribe for shares in our Company made to all the members of our Company pro rata (apart from fractional entitlements) to their existing holdings; (ii) a pro rata issue of shares to all the members of our Company by way of scrip dividends; or (iii) pursuant to a share subdivision or other similar capital reorganization, provided that each member of our Company shall be entitled to subscribe for or be issued shares in the same class as the shares then held by him, and further provided that the proposed allotment or issuance will not result in an increase in the proportion of Class B Shares in issue, so that:

- (i) if, under a pro rata offer, any holder of Class B Shares does not take up any part of the Class B Shares or the rights thereto offered to him, such untaken shares or rights shall only be transferred to another person on the basis that such transferred rights will only entitle the transferee to an equivalent number of Class A Shares; and
- (ii) to the extent that that rights to Class A Shares in a pro rata offer are not taken up in their entirety, the number of Class B Shares that shall be allotted, issued or granted in such pro rata offer shall be reduced proportionately.

(d) Reduction of Shares with weighted voting rights on repurchase of Shares

In the event our Company reduces the number of Class A Shares in issue through a purchase of its own shares, the holders of Class B Shares shall reduce their voting rights in our Company proportionately, whether through a conversion of a portion of their Class B Shares or otherwise, if the reduction in the number of Class A Shares in issue would otherwise result in an increase in the proportion of Class B Shares to the total number of shares in issue.

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(e) Prohibition on variation of terms of shares with weighted voting rights

Our Company shall not vary the rights of the Class B Shares so as to increase the number of votes to which each Class B Share is entitled.

(f) Qualification of holders of shares with weighted voting rights

Class B Shares shall only be held by a Director or a limited partnership, trust, private company or other vehicle wholly owned and wholly controlled by a Director. Subject to the Listing Rules or other applicable laws and regulations, each Class B Share shall be automatically converted into one Class A Share upon the occurrence of any of the following events:

- (i) the death of the holder of such Class B Share (or where the holder is a limited partnership, trust, private company or other vehicle wholly owned and wholly controlled by a Director, the death of that Director);
- (ii) the holder of such Class B Share ceasing to be a Director or a limited partnership, trust, private company or other vehicle wholly owned and wholly controlled by a Director for any reason;
- (iii) the holder of such Class B Share (or, where the holder is a limited partnership, trust, private company or other vehicle wholly owned and wholly controlled by a Director, the Director owning and controlling such vehicle) being deemed by the Stock Exchange to be incapacitated for the purpose of performing his duties as a Director;
- (iv) the holder of such Class B Share (or, where the holder is a limited partnership, trust, private company or other vehicle owned and controlled by a Director, the Director owning and controlling such vehicle) being deemed by the Stock Exchange to no longer meet the requirements of a director set out in the Listing Rules; or
- (v) the transfer to another person of the beneficial ownership of, or economic interest in, such Class B Share or the control over the voting rights attached to such Class B Share (through voting proxies or otherwise), other than (A) the grant of any encumbrance, lien or mortgage over such share which does not result in the transfer of the legal title or beneficial ownership of, or the voting rights attached to, such share, until the same is transferred upon the enforcement of such encumbrance, lien or mortgage, and (B) a transfer of the legal title to such share by a Director to a limited partnership, trust, private company or other vehicle wholly owned and wholly controlled by him, or by a limited partnership, trust, private company or other vehicle wholly owned and wholly controlled by a Director to such Director or another limited partnership, trust, private company or other vehicle wholly owned and wholly controlled by him.

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(g) Cessation of weighted voting rights

All of the Class B Shares in the authorized share capital shall be automatically re-designated into Class A Shares in the event all of the Class B Shares in issue are converted into Class A Shares, and no further Class B Shares shall be issued by our Company.

(h) Shares to rank pari passu

Save and except for the rights, preferences, privileges and restrictions set out in this paragraph 2.1, the Class A Shares and the Class B Shares shall rank pari passu in all other respects and shall have the same rights, preferences, privileges and restrictions.

2.2 Directors

(a) Number of Directors

The number of Directors shall not be less than two, and the board of Directors shall consist of not less than one-third and less than one-half of independent non-executive Directors.

(b) Power to allot and issue Shares

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in our Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by our Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of our Company or the holder thereof, liable to be redeemed.

(c) Power to dispose of the assets of our Company or any subsidiary

The management of the business of our Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by our Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by our Company in

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general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by our Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(d) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by our Company in general meeting.

(e) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(f) Financial assistance to purchase Shares

Subject to all applicable laws, our Company may give financial assistance to Directors and employees of our Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in our Company or any such subsidiary or holding company. Further, subject to all applicable laws, our Company may give financial assistance to a trustee for the acquisition of shares in our Company or shares in any such subsidiary or holding company to be held for the benefit of employees of our Company, its subsidiaries, any holding company of our Company or any subsidiary of any such holding company (including salaried Directors).

(g) Disclosure of interest in contracts with our Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with our Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of our Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to our Company for any profit so realized by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by our Company.

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A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of our Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of our Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of our Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company.

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(h) Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or our Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in our Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of our Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of our Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of our Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(i) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of our Company and shall then be eligible for re-election at that meeting.

Our Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between our Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other

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appointment of office as a result of the termination of this appointment as Director). Our Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. Our Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of our Company and shall then be eligible for re-election but shall not be taken into account in determining the number of Directors and which Directors are to retire by rotation at such meeting. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of our Company notice in writing by a member of our Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

A Director need not hold any qualification shares. No Director shall be required to vacate office or be ineligible for re-election or re-appointment as a Director and no person shall be ineligible for appointment as a Director by reason only of his having attained any particular age.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to our Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association; or
- (vi) if he shall be removed from office by an ordinary resolution of the members of our Company under the Articles of Association.

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At every annual general meeting of our Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. Our Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(j) Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of our Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of our Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(k) Proceedings of the Board

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. A quorum for a duly constituted meeting of the Directors shall have no less than two Directors. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 Variation of rights of existing shares or classes of shares

If at any time the share capital of our Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated only with (in addition to a special resolution to amend the Memorandum or the Articles) the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a resolution passed at a separate meeting of the holders of the shares of that class by members holding shares representing three-fourths in nominal value of the shares present in person or by proxy and voting at such meeting. For so long as any Class B Share is in issue and unless such change is otherwise required by law or the Listing Rules, (a) any change to the composition of the board of Directors set out in paragraph 2.2(a) above; (b) any change in the proportion of votes required to pass a resolution of the members, whether as an ordinary resolution or a special resolution or in respect of particular matters or generally; (c) any

variation to the number of votes attached to a share of any class, except any such variation arising from an automatic conversion of a Class B Share into a Class A Share pursuant to the operation of the provisions described in paragraph 2.1(f) above; and (d) any change to the matters in respect of which each Class A Share and each Class B Share shall entitle its holder to one vote on a poll at a general meeting as summarized in paragraph 2.1(b) above, to the quorum requirements for meetings of Directors as summarized in paragraph 2.2(k) above or to this provision, shall require the consent in writing of the holders of not less than three-fourths in nominal or par value of the issued Class B Shares. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorized representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 Alteration of capital

Our Company may, from time to time, whether or not all the shares for the time being authorized shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

Our Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to our Company for our Company's benefit;

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- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as our Company has power to attach to unissued or new shares.

Our Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorized and subject to any conditions prescribed by the Companies Law.

2.6 Special resolution – majority required

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of our Company entitled to vote at a general meeting of our Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of our Company aforesaid.

2.7 Voting rights

Subject to paragraph 2.2(b) above and any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote for each share registered in his name in the register of members of our Company.

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Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of our Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorized in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of our Company duly registered and who shall have paid all sums for the time being due from him payable to our Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of our Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognized clearing house (or its nominee(s)) is a member of our Company it may authorize such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of our Company or at any general meeting of any class of members of our Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognized clearing house (or its nominee(s)) which he represents as that recognized clearing house (or its nominee(s)) could exercise as if it were an individual member of our Company holding the number and class of shares specified in such authorization, including, where a show of hands is allowed, the right to vote individually on a show of hands.

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2.8 Annual general meetings and extraordinary general meetings

Our Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorize). The annual general meeting shall be specified as such in the notices calling it.

The board of Directors may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any one or more members together holding, as at the date of deposit of the requisition, shares representing not less than one-tenth of the paid up capital of our Company which carry the right of voting at general meetings of our Company. The written requisition shall be deposited at the principal office of our Company in Hong Kong or, in the event our Company ceases to have such a principal office, the registered office, specifying the objects of the meeting and signed by the requisitionist(s).

2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of our Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of our Company, or any of them, shall be open to the inspection by members of our Company (other than officers of our Company) and no such member shall have any right of inspecting any accounts or books or documents of our Company except as conferred by the Companies Law or any other relevant law or regulation or as authorized by the Directors or by our Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of our Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of our Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of our Company for the period covered by the profit and loss account and the state of our Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of our Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by our Company as provided in the Articles of Association to every member of our Company and every holder of debentures of our Company provided that our Company shall not be required to send copies of those documents to any person of whose address our Company is not aware or to more than one of the joint holders of any shares or debentures.

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2.10 Auditors

Our Company shall at every annual general meeting appoint an auditor or auditors of our Company who shall hold office until the next annual general meeting. The removal of an auditor before the expiration of his period of office shall require the approval of an ordinary resolution of the members in general meeting. The remuneration of the auditors shall be fixed by our Company at the annual general meeting at which they are appointed provided that in respect of any particular year our Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.11 Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of our Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from our Company).

Notwithstanding that a meeting of our Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of our Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

2.12 Transfer of shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of our Company in respect thereof. All instruments of transfer shall be retained by our Company.

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The Directors may refuse to register any transfer of any share which is not fully paid up or on which our Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with our Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favor of our Company; and
- (f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to our Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with our Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by our Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of our Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of our Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.13 Power of our Company to purchase its own shares

Our Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of our Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.

2.14 Power of any subsidiary of our Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.15 Dividends and other methods of distribution

Subject to the Companies Law and the Articles of Association, our Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of our Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of our Company such interim dividends as appear to the Directors to be justified by the profits of our Company. The Directors may also pay half-yearly or at other intervals to be selected by them any dividend which may be at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which our Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of our Company all sums of money (if any) presently payable by him to our Company on account of calls, instalments or otherwise.

No dividend shall carry interest against our Company.

Whenever the Directors or our Company in general meeting have resolved that a dividend be paid or declared on the share capital of our Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of our Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of our Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. Our Company may upon the

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recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of our Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of our Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of our Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of our Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of our Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to our Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. Our Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, our Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to our Company.

The Directors may, with the sanction of the members of our Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of our Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of our Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.16 Proxies

Any member of our Company entitled to attend and vote at a meeting of our Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of our Company.

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Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favor of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorized in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of our Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of our Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.17 Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of our Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of our Company shall (subject to our Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorizing the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other monies due in respect thereof.

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If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of our Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of our Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to our Company all monies which at the date of forfeiture were payable by him to our Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.18 Inspection of register of members

The register of members of our Company shall be kept in such manner as to show at all times the members of our Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by our Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as

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the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of our Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of our Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

2.19 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman of the meeting which shall not be treated as part of the business of the meeting.

Two members of our Company holding not less than one-third of the total voting power of our Company present in person or by proxy shall be a quorum provided always that if our Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of our Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of our Company or at any relevant general meeting of any class of members of our Company.

The quorum for a separate general meeting of the holders of a separate class of shares of our Company is described in paragraph 2.4 above.

2.20 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.21 Procedure on liquidation

If our Company shall be wound up, and the assets available for distribution amongst the members of our Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of our Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of our Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If our Company shall be wound up, the liquidator may with the sanction of a special resolution of our Company and any other sanction required by the Companies Law, divide amongst the members of our Company in specie or kind the whole or any part of the assets of our Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of our Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of our Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of our Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.22 Untraceable members

Our Company shall be entitled to sell any shares of a member of our Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) our Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, our Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by our Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to our Company and upon receipt by our Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

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SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1. Introduction

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2. Incorporation

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on November 18, 2013 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. Our Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorized share capital.

3. Share Capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the "share premium account". At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

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No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorized either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4. Dividends and Distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 5 above for details).

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5. Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6. Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7. Disposal of Assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8. Accounting and Auditing Requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

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Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9. Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10. Inspection of Books and Records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11. Special Resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorized by the articles of association of the company.

12. Subsidiary Owning Shares in Parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

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13. Mergers and Consolidations

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of each constituent company and (b) such other authorization, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14. Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15. Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of

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the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16. Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17. Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

18. Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

19. Taxation

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, our Company may obtain an undertaking from the Financial Secretary of the Cayman Islands:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to our Company or its operations; and

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- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of our Company;
or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to our Company.

20. Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21. General

Maples and Calder (Hong Kong) LLP, our Company's legal advisors on Cayman Islands law, have sent to our Company a letter of advice summarizing aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents delivered to the Registrar of Companies in Hong Kong and available for inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

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FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES

Incorporation

Our Company, BitMain Technologies Holding Company, was incorporated as an exempted company with limited liability in the Cayman Islands on November 18, 2013. Our registered office address is at Maples Corporate Services Limited, P.O. Box 309, Umland House, Grand Cayman, KY1-1104, Cayman Islands. Accordingly, our Company's corporate structure and Memorandum and Articles are subject to the relevant laws of the Cayman Islands. A summary of our Memorandum and Articles is set out in Appendix III.

Our principal place of business in Hong Kong is at 15/F, Unit 1502-1503, Cheung Kei Center, 18 Hung Luen Road, Hunghom, Kowloon, Hong Kong. We were registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on [●] with the Registrar of Companies in Hong Kong. Mr. Sit Man Pan has been appointed as the authorized representative of our Company for the acceptance of service of process and any notices required to be served on the Company in Hong Kong. The address for service of process or notice is Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

As at the date of this document, our Company's head office is located at Building 25, North Olympic Science & Technology Park, Baosheng South Road, Haidian District, Beijing, China.

Changes in share capital of our Company

Our Company was incorporated on November 18, 2013 with an authorized share capital of US\$50,000 divided into 500,000,000 shares with a par value of US\$0.0001 each.

The following sets out the changes in the share capital of our Company during the two years immediately preceding the date of this document:

- (a) On June 28, 2017, we effected a share-subdivision, pursuant to which each share was subdivided into 1,000 shares, and the par value of the shares was changed from US\$0.0001 per share to US\$0.0000001 per share. Immediately after the share-subdivision, the authorized share capital of our Company became US\$50,000 divided into 500,000,000,000 ordinary shares with a par value of US\$0.0000001 each.

On the same date, we effected a capital reorganization, following which the ordinary shares in our authorized share capital were re-classified and re-designated into 410,000,000,000 Class A Shares and 90,000,000,000 Class B Shares.

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- (b) On August 17 and August 29, 2017, our Company completed the issuance of an aggregate of 500,000,000 Series A Preferred Shares.
- (c) On June 25, July 3 and July 6, 2018, our Company completed the issuance of an aggregate of 261,956,309 Series B Preferred Shares.
- (d) On July 3, 2018, our Company completed a repurchase of an aggregate of 4,877,560 Class A Shares and 17,496,569 Class B Shares from the following Shareholders:

Shareholders	Number of shares repurchased
Great Simplicity Investment Corporation	11,231,813 Class B Shares
Long Shot Investment Corporation	6,264,756 Class B Shares
SHINNING STONE INVEST CO., LTD.	1,968,923 Class A Shares
Sharesun Investment Corporation	1,342,448 Class A Shares
Zizai Investment Corporation	1,342,448 Class A Shares
BOUNTIFUL WISH LIMITED	223,741 Class A Shares

- (e) On August 20, 2018, our Company completed the issuance of an aggregate of 339,102,307 Series B+ Preferred Shares.

On the [REDACTED] before the [REDACTED], each of the Preferred Shares held by our [REDACTED] Investors will be converted into one Class A Shares of our Company by way of redesignation as Class A Share.

Save as disclosed above there has been no alteration in the share capital of our Company during the two years immediately preceding the date of this document.

Changes in the share capital of our subsidiaries

A summary of the corporate information and the particulars of our subsidiaries are set out in note 1 to the Accountants' Report as set out in Appendix I.

Save as disclosed below, there has been no alteration in the share capital of any of our subsidiaries within the two years immediately preceding the date of this document.

Beijing Bitmain Technologies

On September 14, 2016, the registered capital of Beijing Bitmain Technologies was increased from RMB10,000,000 to RMB11,111,111.

Shenzhen Century Cloud Core Technology

On July 5, 2017, the registered capital of Shenzhen Century Cloud Core Technology was increased from RMB5,000,000 to RMB10,000,000.

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Resolutions of the Shareholders of our Company dated [●] 2018

Written resolutions of our Shareholders were passed on [●] 2018, pursuant to which, among others:

- (a) the authorized share capital of our Company was changed to US\$50,000 divided into 410,000,000,000 Class A Shares and 90,000,000,000 Class B Shares, by the re-designation of 500,000,000 Series A Preferred Shares, 261,956,309 Series B Preferred Shares and 339,102,307 Series B+ Preferred Shares into Class A Shares with a par value of US\$0.0000001 each, with effect immediately prior to the [REDACTED];
- (b) conditional on (i) the Listing Committee granting [REDACTED] of, and permission to deal in, the Shares in issue and to be issued as stated in this document and such [REDACTED] and permission not subsequently having been revoked prior to the commencement of dealing in the Shares on the Stock Exchange; (ii) the [REDACTED] having been determined; and (iii) the obligations of the [REDACTED] under each of the [REDACTED] becoming unconditional (including if relevant, as a result of the waiver of any condition(s) thereunder) and such obligations not having been terminated in accordance with the terms of the [REDACTED] or otherwise, in each case on or before such dates as may be specified in the [REDACTED];
 - (i) the [REDACTED] (including the [REDACTED]) was approved, and the proposed allotment and issue of the [REDACTED] under the [REDACTED] were approved, and the Directors were authorized to determine the [REDACTED] for, and to allot and issue the [REDACTED];
 - (ii) a general unconditional mandate was given to our Directors, exercisable on their behalf by Mr. Zhan Ketuan and Mr. Wu Jihan, to exercise all powers of our Company to allot, issue and deal with Class A Shares or securities convertible into Shares and to make or grant offers, agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive Class A Shares) which might require Class A Shares to be allotted and issued or dealt with subject to the requirement that the aggregate nominal value of the Class A Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, otherwise than by way of the [REDACTED], rights issue or pursuant to the exercise of any subscription rights attaching to any warrants which may be allotted and issued by our Company from time to time or, pursuant to the exercise of any options which may be granted under the allotment and issue of Class A Shares in lieu of the whole or part of a dividend on Class A Shares in accordance with the Articles of Association on a specific authority granted by our Shareholders in general meeting, shall not exceed 20% of the aggregate nominal value of the Shares in issue immediately following the completion of the [REDACTED], excluding any Class A Shares to be issued pursuant to the exercise of the [REDACTED], and Class A Shares to be issued upon conversion of Class B Shares into Class A Shares on a one to one basis;

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- (iii) a general unconditional mandate (the "**Repurchase Mandate**") was given to our Directors, exercisable on their behalf by Mr. Zhan Ketuan and Mr. Wu Jihan, to exercise all powers of our Company to repurchase, on the Hong Kong Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the total number of Shares in issue immediately following the completion of the [REDACTED], excluding any Class A Shares which may be issued pursuant to the exercise of the [REDACTED], and Class A Shares to be issued upon conversion of Class B Shares into Class A Shares on a one to one basis; and

- (iv) the general unconditional mandate as mentioned in paragraph (iii) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by our Company pursuant to the mandate to purchase Shares referred to in paragraph (iii) above (up to 10% of the aggregate nominal value of the Shares in issue immediately following the completion of the [REDACTED], excluding any Class A Shares to be issued pursuant to the exercise of the [REDACTED], and Class A Shares to be issued upon conversion of Class B Shares into Class A Shares on a one to one basis; and

- (c) our Company conditionally approved and adopted the Memorandum and the Articles with effect from [REDACTED].

Each of the general mandates referred to in sub-paragraphs (a)(ii), (a)(iii), and (a)(iv) above will remain in effect until whichever is the earliest of:

- the conclusion of the next annual general meeting of our Company;

- the expiration of the period within which the next annual general meeting of our Company is required to be held by any applicable law or the Articles of Association; and

- the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting.

Repurchase of our own securities

The following paragraphs include, among others, certain information required by the Stock Exchange to be included in this document concerning the repurchase of our own securities.

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Provision of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

Shareholders' Approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our Shareholders on [●] 2018, the Repurchase Mandate was given to our Directors (exercisable on their behalf by Mr. Zhan Ketuan and Mr. Wu Jihan) authorizing them to exercise all the powers of our Company to repurchase Shares on the Hong Kong Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the total number of Shares in issue immediately following the completion of the [REDACTED] (excluding any Class A Shares to be issued pursuant to the exercise of the [REDACTED], and Class A Shares to be issued upon conversion of Class B Shares into Class A Shares on a one to one basis), with such mandate to expire at the earliest of (i) the conclusion of the next annual general meeting of our Company (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held by any applicable law or the Articles of Association, and (iii) the date when it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

Source of funds

Purchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles and the applicable laws of Hong Kong and the Cayman Islands. A listed company may not purchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. As a matter of laws of the Cayman Islands, any purchases by our Company may be made out of profits or out of the proceeds of a new issue of shares made for the purpose of the purchase or from sums standing to the credit of our share premium account or out of capital, if so authorized by the Articles of Association and subject to the Cayman Companies Law. Any premium payable on the purchase over the par value of the shares to be purchased must have been provided for out of profits or from sums standing to the credit of our share premium account or out of capital, if so authorized by the Articles of Association and subject to the Cayman Companies Law.

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Trading restrictions

A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

Status of repurchased Shares

The listing of all purchased securities (whether on the Stock Exchange or otherwise) is automatically cancelled and the relative certificates must be cancelled and destroyed. Under the laws of the Cayman Islands, unless, prior to the purchase our Directors resolve to hold the shares purchased by our Company as treasury shares, shares purchased by our Company shall be treated as cancelled and the amount of our Company's issued share capital shall be diminished by the nominal value of those shares. However, the purchase of shares will not be taken as reducing the amount of the authorized share capital under the laws of the Cayman Islands.

Suspension of repurchase

Pursuant to the Listing Rules, our Company may not make any repurchases of Shares after inside information has come to its knowledge until the information is made publicly available. In particular, under the requirements of the Listing Rules in force as of the date hereof, during the period of one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half year, quarterly or any other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of our Company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and in each case ending on the date of the results announcement, our Company may not repurchase Shares on the Stock Exchange unless the circumstances are exceptional.

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Reporting requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

Core connected persons

The Listing Rules prohibit a company from knowingly purchasing securities on the Stock Exchange from a "core connected person," that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or a close associate of any of them (as defined in the Listing Rules) and a core connected person shall not knowingly sell their securities to the company.

Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and Shareholders for our Directors to have a general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and Shareholders.

Funding of repurchases

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of the current financial position as disclosed in this document and taking into account the current working capital position, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Company as compared with the position disclosed in this document. The Directors, however, do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the gearing levels of our Company which in the opinion of the Directors are from time to time appropriate for our Company.

The exercise in full of the Repurchase Mandate, on the basis of [REDACTED] Shares in issue immediately following the completion of the [REDACTED] (but not taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED]), could

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accordingly result in [REDACTED] Shares being repurchased by our Company during the period prior to the earliest occurrence of (1) the conclusion of the next annual general meeting of our Company; (2) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws of Hong Kong to be held; or (3) the revocation or variation of the purchase mandate by an ordinary resolution of the Shareholders in general meeting (the "**Relevant Period**").

General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Any repurchase of Shares that results in the number of Shares held by the public being reduced to less than 25% of the Shares then in issue could only be implemented if the Stock Exchange agreed to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be granted other than in exceptional circumstances.

No core connected person of our Company has notified our Company that they have a present intention to sell Shares to our Company, or have undertaken not to do so, if the Repurchase Mandate is exercised.

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FURTHER INFORMATION ABOUT OUR BUSINESS

Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this document and are or may be material:

- (1) a Series A Preferred Shares subscription agreement dated August 8, 2017 entered into by, among others, our Company, certain of our subsidiaries, Great Simplicity Investment Corporation, Long Shot Investment Corporation, Mr. Zhan Ketuan, Mr. Wu Jihan, and each of the Series A Preferred Shareholders, pursuant to which the Series A Preferred Shareholders agreed to subscribe for an aggregate of 500,000,000 Series A Preferred Shares for a total consideration of US\$50,000,000;
- (2) a shareholders agreement dated August 17, 2017 entered into by, among others, our Company, certain of our subsidiaries, Great Simplicity Investment Corporation, Long Shot Investment Corporation, Mr. Zhan Ketuan, Mr. Wu Jihan, Mr. Zhao Zhaofeng (趙肇豐), Mr. Ge Yuesheng (葛越晟), Mr. Hu Yishuo (胡一說), Mr. Song Wenbao (宋文寶) and Series A Preferred Shareholders;
- (3) a Series B Preferred Shares subscription agreement dated June 19, 2018 entered into by, among others, our Company, certain of our subsidiaries, Great Simplicity Investment Corporation, Long Shot Investment Corporation, Mr. Zhan Ketuan, Mr. Wu Jihan and each of the Series B Preferred Shareholders, pursuant to which the Series B Preferred Shareholders agreed to subscribe for an aggregate of 261,956,309 Series B Preferred Shares for a total consideration of US\$292,700,000;
- (4) a share repurchase agreement dated June 19, 2018 entered into by, among others, our Company, Great Simplicity Investment Corporation, Long Shot Investment Corporation, SHINNING STONE INVEST CO., LTD., Sharesun Investment Corporation, Zizai Investment Corporation and BOUNTIFUL WISH LIMITED, pursuant to which Great Simplicity Investment Corporation agreed to sell 6,264,756 Class B Shares for an aggregate amount of US\$7,000,000, Long Shot Investment Corporation agreed to sell 11,231,813 Class B Shares for an aggregate amount of US\$12,550,000, SHINNING STONE INVEST CO., Ltd. agreed to sell 1,968,923 Class A Shares for an aggregate amount of US\$2,200,000, Sharesun Investment Corporation agreed to sell 1,342,448 Class A Shares for a an aggregate amount of US\$1,500,000, Zizai Investment Corporation agreed to sell 1,342,448 Class A Shares for an aggregate amount of US\$1,500,000 and BOUNTIFUL WISH LIMITED agreed to sell 223,741 Class A Shares for an aggregate amount of US\$250,000, to our Company;
- (5) an amended and restated shareholders agreement dated June 25, 2018 entered into by, among others, our Company, certain of our subsidiaries, Great Simplicity Investment Corporation, Long Shot Investment Corporation, Mr. Zhan Ketuan, Mr. Wu Jihan, Mr. Zhao Zhaofeng (趙肇豐), Mr. Ge Yuesheng (葛越晟), Mr. Hu Yishuo (胡一說), Mr. Song Wenbao (宋文寶), Series A Preferred Shareholders and Series B Preferred Shareholders;

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- (6) a Series B+ Preferred Shares subscription agreement dated August 7, 2018 entered into by, among others, our Company, certain of our subsidiaries, Great Simplicity Investment Corporation, Long Shot Investment Corporation, Mr. Zhan Ketuan, Mr. Wu Jihan, and each of the Series B+ Preferred Shareholders, pursuant to which the Series B+ Preferred Shareholders agreed to subscribe for an aggregate of 339,102,307 Series B+ Preferred Shares for a total consideration of US\$442,050,000;
- (7) a second amended and restated shareholders agreement dated August 20, 2018 entered into by, among others, our Company, certain of our subsidiaries, Great Simplicity Investment Corporation, Long Shot Investment Corporation, Mr. Zhan Ketuan, Mr. Wu Jihan, Mr. Zhao Zhaofeng (趙肇豐), Mr. Ge Yuesheng (葛越晟), Mr. Hu Yishuo (胡一說), Mr. Song Wenbao (宋文寶), Series A Preferred Shareholders, Series B Preferred Shareholders and Series B+ Preferred Shareholders; and
- (8) the [REDACTED].

Intellectual property rights

(a) Trademarks

As of the Latest Practicable Date, our Group had registered the following trademarks which we consider to be material to our Group’s business:


<u>Trademark</u>	<u>Registered owner</u>	<u>Place of registration</u>
BITMAIN	Bitmain Hong Kong	PRC
BITMAIN	Bitmaintech Pte. Ltd.	Hong Kong
BITMAIN	Bitmaintech Pte. Ltd.	European Union
BITMAIN	Bitmaintech Pte. Ltd.	Singapore
BITMAIN	Bitmain Hong Kong	U.S.
 ANTMINER	Bitmain Hong Kong	PRC
 ANTMINER	Bitmaintech Pte. Ltd.	Hong Kong
 ANTMINER	Bitmaintech Pte. Ltd.	European Union
 ANTMINER	Bitmaintech Pte. Ltd.	Singapore

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Trademark	Registered owner	Place of registration
	Bitmain Hong Kong	U.S.
	Beijing Bitmain Technologies	PRC
	Beijing Bitmain Technologies	European Union
	Bitmaintech Pte. Ltd.	Hong Kong
	Suanfeng Technology (Beijing) Co., Ltd.	PRC

As of the Latest Practicable Date, our Group had made applications to register the following trademarks which we consider to be material to our Group’s business:

Trademark	Applicant	Place of application
比特大陆	Bitmain Hong Kong	PRC
SOPHON	Suanfeng Technology (Beijing) Co., Ltd.	PRC
算丰	Suanfeng Technology (Beijing) Co., Ltd.	PRC
	Suanfeng Technology (Beijing) Co., Ltd.	PRC

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(b) Patents

As of the Latest Practicable Date, our Group had registered the following patents which we consider to be material to our Group’s business:

<u>Patent</u>	<u>Registered owner</u>	<u>Place of registration</u>
Communication electronic device and wireless router with virtual digital coin mining function	Beijing Bitmain Technologies	PRC
Chip heat sink, virtual digital coin mining hardware and electronic equipment	Beijing Bitmain Technologies	PRC
Virtual digital coin mining hardware input power isolation conversion circuit	Beijing Bitmain Technologies	PRC
Power supply and equipment system	Beijing Bitmain Technologies	PRC
Switchgear equipment	Beijing Bitmain Technologies	PRC
Circuit board	Beijing Bitmain Technologies	PRC
Rectifier circuit and power supply	Beijing Bitmain Technologies	PRC
Radiating equipment and radiating system	Beijing Bitmain Technologies	PRC
Power supply circuit, virtual digital coin mining hardware and computer server	Beijing Bitmain Technologies	PRC
Driver transformer	Beijing Bitmain Technologies	PRC
Resonant inductor and power supply	Beijing Bitmain Technologies	PRC
Virtual digital coin mining hardware	Beijing Bitmain Technologies	PRC
Series power supply chip and system	Beijing Bitmain Technologies	PRC
Chip (virtual digital coin mining hardware)	Beijing Bitmain Technologies	PRC
Power supply device	Beijing Bitmain Technologies	PRC
Miner system	Beijing Bitmain Technologies	PRC
Multistage series power supply circuit, device, mining hardware and server	Beijing Bitmain Technologies	PRC
Data processing device and system, server	Suanfeng Technology (Beijing) Co., Ltd.	PRC

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<u>Patent</u>	<u>Registered owner</u>	<u>Place of registration</u>
Data processing device and server	Suanfeng Technology (Beijing) Co., Ltd.	PRC
Early childhood robot	Suanfeng Technology (Beijing) Co., Ltd.	PRC
Board	Suanfeng Technology (Beijing) Co., Ltd.	PRC

As of the Latest Practicable Date, our Group had made applications to register the following patents which we consider to be material to our Group’s business:

<u>Patent</u>	<u>Applicant</u>	<u>Place of application</u>
A cryptocurrency mining hardware and mining system	Beijing Bitmain Technologies	PRC
Chip structure, encapsulation method and electronic equipment	Beijing Bitmain Technologies	PRC
Chip structure and electronic equipment	Beijing Bitmain Technologies	PRC
A water-cooled heat sink system	Beijing Bitmain Technologies	PRC
Data processing method and device, chip and electronic equipment	Suanfeng Technology (Beijing) Co., Ltd.	PRC
Clock signal transmission method and device, multiplex chip and electronic device	Suanfeng Technology (Beijing) Co., Ltd.	PRC
A method and device to solve voltage drop in SOC layout	Suanfeng Technology (Beijing) Co., Ltd.	PRC
Proportional electric current measurement for chips	Suanfeng Technology (Beijing) Co., Ltd.	PRC
AI chip high-speed transmission architecture, AI arithmetic card and server	Suanfeng Technology (Beijing) Co., Ltd.	PRC
Interface bridge circuit and method based on high speed serial communication	Suanfeng Technology (Beijing) Co., Ltd.	PRC

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(c) Copyrights

As of the Latest Practicable Date, we had registered the following copyrights which we consider to be material to our Group’s business:

(i) Software (軟件)

<u>Copyright</u>	<u>Registered owner</u>	<u>Place of registration</u>
DASH calculation mining hardware software V1.0	Beijing Bitmain Technologies	PRC
Script computing software V1.0	Beijing Bitmain Technologies	PRC
Virtual currency computing terminal software V2.0.11	Beijing Bitmain Technologies	PRC
HASH computing software V1.1	Beijing Bitmain Technologies	PRC
SIA computing software V1.0	Beijing Bitmain Technologies	PRC
DHASH computing software V1.0	Beijing Bitmain Technologies	PRC
Hash computing software V1.1	Beijing Bitmain Technologies	PRC
CRYPTONIGHT computing software V1.0	Beijing Bitmain Technologies	PRC
TENSORITY computing software V1.0	Beijing Bitmain Technologies	PRC
Equihash computing software V1.0	Beijing Bitmain Technologies	PRC
Intelligent collection platform V1.0	Beijing Bitmain Technologies	PRC
Risk control service platform V1.0	Beijing Bitmain Technologies	PRC
Century Cloud Core mining hardware backup software V1.0	Shenzhen Century Cloud Core Technology	PRC
Century Cloud Core computing power board automatic adapter software V1.0	Shenzhen Century Cloud Core Technology	PRC
Century Cloud Core mining router software V1.0	Shenzhen Century Cloud Core Technology	PRC

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<u>Copyright</u>	<u>Registered owner</u>	<u>Place of registration</u>
Century Cloud Core mining hardware monitoring system V1.0	Shenzhen Century Cloud Core Technology	PRC
Century Cloud Core mining hardware agent software V1.0	Shenzhen Century Cloud Core Technology	PRC
Century Cloud Core mining hardware defending DDOS software V1.0	Shenzhen Century Cloud Core Technology	PRC
Century Cloud Core mining hardware leasing system software V1.0	Shenzhen Century Cloud Core Technology	PRC

(ii) *Works (作品)*

<u>Copyright</u>	<u>Registered owner</u>	<u>Place of registration</u>
Antpool cartoon image small ant	Beijing Bitmain Technologies	PRC
Antpool hand-painted video in English and Chinese	Beijing Bitmain Technologies	PRC

(d) *Domain names*

As of the Latest Practicable Date, we owned the following domain names which we consider to be material to our Group’s business:

<u>Domain Name</u>	<u>Registered owner</u>	<u>Expiry date (dd/mm/yyyy)</u>
bitmain.com	Beijing Bitmain Technologies	17/7/2019
bitmaintech.com	Beijing Bitmain Technologies	3/9/2020
bitmain.cn	Beijing Bitmain Technologies	4/11/2027
connectbtc.com	Beijing Bitmain Technologies	20/7/2023
cloudic.com	Shenzhen Century Cloud Core Technology	19/2/2020
antpool.com	Shenzhen Century Cloud Core Technology	4/7/2022
btc.com	Shenzhen Century Cloud Core Technology	26/3/2023
sophon.ai	Shenzhen Century Cloud Core Technology	9/8/2020

Save as aforesaid, as of the Latest Practicable Date, there were no other intellectual property rights which were material to our business.

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FURTHER INFORMATION ABOUT OUR DIRECTORS

Particulars of Directors’ service contracts and appointment letters

Executive Directors

Each of our executive Directors has entered into a service contract with our Company on [●] 2018. Pursuant to their respective service contracts, they agreed to act as executive Directors for an initial term of three years commencing from the [REDACTED]. Either party has the right to give not less than three months’ written notice to terminate the agreement. Details of our Company’s remuneration policy is described in section headed “Directors and Senior Management – Remuneration.”

No annual director’s fees are payable to the executive Directors under the current arrangement. The appointment of the executive Directors are subject to the provisions of retirement and rotation of Directors under the Articles.

Independent non-executive Directors

Each of our independent non-executive Directors has entered into an appointment letter with our Company on [●] 2018. The initial term of their appointment shall be three years from the [REDACTED], and may be terminated by either party giving to the other not less than one month’s prior notice in writing. Under these appointment letters, each of the independent non-executive Directors will receive a fixed Directors’ fee and are not entitled to any remuneration. The appointment of the independent non-executive Directors are subject to the provisions of retirement and rotation of Directors under the Articles.

Remuneration of Directors

- (1) Remuneration and benefits in kind of approximately US\$0.16 million, US\$0.84 million, US\$43.31 million and US\$0.11 million in aggregate were paid and granted by our Group to our Directors in respect of the years ended December 31, 2015, 2016, 2017 and the six months ended June 30, 2018.
- (2) Under the arrangements currently in force, our Directors will be entitled to receive remuneration and benefits in kind which, for the year ending December 31, 2018, is expected to be approximately US\$0.40 million in aggregate (excluding year-end discretionary bonus).
- (3) None of our Directors has or is proposed to have a service contract with our Company other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

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Disclosure of interests

Interests and short positions of our Directors in the share capital of our Company and its associated corporations following completion of the [REDACTED]

Immediately following completion of the [REDACTED] (assuming the [REDACTED] is not exercised), the interests and/or short positions (as applicable) of our Directors and chief executives in the shares, underlying shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO), which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions (as applicable) which he is taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to our Company and the Stock Exchange, will be as follows:

(a) *Interest in Shares of our Company*

<u>Name of Director</u>	<u>Nature of interest</u>	<u>Number and class of securities</u>	<u>Approximate percentage of shareholding of each class of shares in our Company immediately after the [REDACTED] (assuming the [REDACTED] is not exercised)⁽¹⁾</u>
Mr. Zhan Ketuan ⁽²⁾	Beneficiary and founder of a Trust (L)	3,988,768,187 Class B Shares	[REDACTED]%
Mr. Wu Jihan ⁽³⁾	Beneficiary and founder of a Trust (L)	2,243,331,244 Class B Shares	[REDACTED]%
Mr. Ge Yuesheng ⁽⁴⁾	Beneficiary and founder of a Trust (L)	462,657,552 Class A Shares	[REDACTED]%

Notes:

- (1) The table above is calculated on the basis that a total of [REDACTED] Shares will be in issue immediately after completion of the [REDACTED] (assuming the [REDACTED] is not exercised), which comprises of [REDACTED] Class A Shares and [REDACTED] Class B Shares.
- (2) Cosmic Frontier Limited is a limited liability company incorporated in the BVI and is wholly-owned by Great Savvy Limited, a limited liability company incorporated in the BVI, which is in turn wholly-owned by Vistra Trust (Hong Kong) Limited as trustee for a trust established by Mr. Zhan Ketuan (as settlor) for the benefit of Mr. Zhan Ketuan and his family members. Mr. Zhan Ketuan is deemed to be interested in 3,988,768,187 Class B Shares held by Cosmic Frontier Limited under the SFO.

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- (3) Victory Courage Limited is a limited liability company incorporated in the BVI and is wholly-owned by Cosmic Gains Global Limited, a limited liability company incorporated in the BVI, which is in turn wholly-owned by Vistra Trust (Hong Kong) Limited as trustee for a trust established by Mr. Wu Jihan (as settlor) for the benefit of Mr. Wu Jihan and his family members. Mr. Wu Jihan is deemed to be interested in the 2,243,331,244 Class B Shares held by Victory Courage Limited under the SFO.
- (4) Flourishing Well Limited is a limited liability company incorporated in the BVI and is wholly-owned by Ample Profit Group Limited, a limited liability company incorporated in the BVI, which is in turn wholly-owned by Sharesun Trust as trustee for a trust established by Mr. Ge Yuesheng (as settlor) for the benefit of Mr. Ge Yuesheng and his family members. Mr. Ge Yuesheng is deemed to be interested in the 462,657,552 Class A Shares held by Flourishing Well Limited under the SFO.

(b) Interest in associated corporations

<u>Name of Director or chief executive</u>	<u>Nature of interest</u>	<u>Associated corporations</u>	<u>Percentage of shareholding in the associated corporation</u>
Mr. Zhan Ketuan	Beneficiary and founder of a Trust (L)	Cosmic Frontier Limited ⁽¹⁾	100%

Note:

- (1) Cosmic Frontier Limited is a limited liability company incorporated in the BVI and is wholly-owned by Great Savvy Limited, a limited liability company incorporated in the BVI, which is in turn wholly-owned by Vistra Trust (Hong Kong) Limited as trustee for a trust established by Mr. Zhan Ketuan (as settlor) for the benefit of Mr. Zhan Ketuan and his family members.

Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO

For information on the persons who will, immediately following the completion of the [REDACTED], having or be deemed or taken to have beneficial interests or short positions in our Shares or underlying shares which would fall to be disclosed to our Company under the provisions of 2 and 3 of Part XV of the SFO, or directly or indirectly be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group, please see the section headed “Substantial Shareholders.”

Save as set out above, as of the Latest Practicable Date, our Directors were not aware of any persons who would, immediately following the completion of the [REDACTED], be interested, directly or indirectly, in 10% or more of the nominal of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group or had option in respect of such capital.

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Disclaimers

Save as disclosed in this document:

- (1) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between the Directors and any member of our Group;
- (2) none of the Directors or the experts named in the section headed “– Other Information – Consents of experts” below has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (3) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any Shares in or debentures of our Company within the two years ended on the date of this document;
- (4) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group taken as a whole;
- (5) taking no account of any Shares which may be taken up under the [REDACTED] and allotted, so far as is known to any Director or chief executive of our Company, no other person (other than a Director or chief executive of our Company) will, immediately following completion of the [REDACTED], have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or (not being a member of the Group), be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group; and
- (6) none of the Directors or chief executive of our Company has any interests or short positions in the Shares, underlying shares or debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or will be required, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers, to be notified to our Company and the Stock Exchange once the Shares are listed thereon.

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SHARE INCENTIVE SCHEME

On June 28, 2017, we adopted a 2017 share incentive plan (the “**Former Share Incentive Plan**”). In preparation of the [REDACTED], our Board approved and adopted the Share Incentive Scheme on September 13, 2018 (the “**Adoption Date**”) to replace the Former Share Incentive Plan, and the awards granted under the Former Share Incentive Plan were substituted by awards under the Share Incentive Scheme. Our Company will enter into a trust deed (the “**Trust Deed**”) with Vistra Trust (Hong Kong) Limited as the trustee, which contains the terms of the Share Incentive Scheme.

Summary of Terms

The following is a summary of the principal terms of the Share Incentive Scheme. The terms of the Share Incentive Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as the Share Incentive Scheme will not involve the grant of options by us to subscribe for Shares. In addition, the grant of awards under the Share Incentive Scheme (the “**Award(s)**”) by our Company or transfer upon vesting of the Awards of any of the Class A Shares pursuant to the Share Incentive Scheme by any trustee or trust holding entities to a connected person of our Company should not be subject to the requirement of Chapter 14A of the Listing Rules.

(a) Purposes of the Share Incentive Scheme

The purpose of the Share Incentive Scheme is to attract and retain exceptionally qualified individuals, to provide additional incentives to selected employees, directors, consultants and other third parties to promote the success of our Company’s business, and to encourage them to acquire a proprietary interest in the growth and performance of our Company.

(b) Awards

Award means an award of Class A Shares, the corresponding vested Class A Shares interests and pre-vesting Class A Shares interests (if any) or an equivalent value in cash with reference to the market value of the Class A Shares, the corresponding vested Class A Shares interests and pre-vesting Class A Shares interests (if any) or any combination thereof to a Participant (as defined below).

(c) Maximum Numbers of Class A Shares subject to Share Incentive Scheme

The total number of Class A Shares which may be vested upon exercise of Awards that may be granted under the Share Incentive Scheme shall not exceed in aggregate 2,046,404,000 Class A Shares, equivalent to approximately [REDACTED]% of the total number of issued Shares immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised). As of the Latest Practicable Date, Awards in respect of [941,491,000] Class A Shares had been granted under the Share Incentive Scheme and are outstanding.

Accordingly, the number of Class A Shares underlying the Awards which remains available under the Share Incentive Scheme to be granted is [1,104,913,000] Class A Shares, representing approximately [REDACTED]% of the Shares in issue following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised).

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(d) Selected Participants of the Share Incentive Scheme

The Board (for the purpose of this sub-section, shall mean the board of directors of our Company or one or more persons (if more than one, acting jointly) as the board of directors of our Company may authorize) may select the following participants (the "**Participants**") to be granted with Awards (the "**Grantees**") under the Share Incentive Scheme whom the Board considers, in its sole discretion, has contributed or will contribute to the business and/or development of our Group:

- (i) any director (including executive director, non-executive director and independent non-executive director) of any member of our Group from time to time;
- (ii) any employees who has or will contribute to the business and/or development of our Group; and
- (iii) any advisors, consultants, distributors, contractors, contract manufacturers, agents, customers, business partners, joint venture business partners, service providers of any member of our Group.

(e) Vesting Condition

Upon fulfillment or waiver of the vesting period and conditions (if any) applicable to a Grantee,

- (i) a vesting notice will be sent to the Grantee by the Board, or by the Trustee (as defined below) under the authorization and instruction by the Board confirming (i) the extent to which the vesting period and conditions have been fulfilled or waived, (ii) the number of Shares and (if applicable) the amount of pre-vesting Class A Share interests or the amount of cash the Grantee will receive, (iii) where the Grantee will receive Class A Shares or cash equivalent of the Class A Shares, (iv) the lock-up arrangements for such Class A Shares (if applicable) and (v) payment (if any) to be made by the Grantee to the Trustee as required in the terms and conditions applicable to the Award;
- (ii) the Grantee is required to execute, after receiving within the period prescribed in the vesting notice, certain documents set out in the vesting notice that the Board considers necessary, which may include, without limitation, a certification to our Group that he or she has complied with all the terms and conditions set out in the Trust Deed and the Notice of Grant (as defined below); and
- (iii) where required, the Grantee shall make the payment of consideration to the Trustee in such sum and manner indicated in the vesting notice.

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(f) Term of the Share Incentive Scheme

Subject to the specific terms and conditions of the Share Incentive Scheme, the Share Incentive Scheme shall be valid and effective for the period beginning on the date of the Trust Deed and ending upon the first to happen of the following, namely:

- (i) the expiration of the term of ten (10) years beginning with the date of the Trust Deed; or
- (ii) the date when an order for winding-up of our Company is made or a resolution is passed for the voluntary winding-up of our Company (otherwise than for the purposes of, and followed by, an amalgamation or reconstruction in such circumstances that substantially the whole of the undertaking, assets and liabilities of our Company pass to a successor company); or
- (iii) such date of early termination as decided by the Board.

(g) Administration of the Share Incentive Scheme

The Share Incentive Scheme shall be subject to the administration of the Board. The Board may, from time to time, subject always to the provisions of the Share Incentive Scheme, at its sole and absolute discretion,

- (i) select any Participant to receive a grant of Award;
- (ii) determine the number of the Class A Shares underlying each Award;
- (iii) determine the terms and conditions on which each Award is granted (including the vesting schedule of the Class A Shares, any consideration, if any, required from the Grantee, whether the Grantee will receive an equivalent value in cash with reference to the market value of the Class A Shares or any part thereof, and whether the Grantee will also receive pre-vesting Class A Share interests with respect to the relevant Class A Shares);
- (iv) amend or revoke any Award granted to a Grantee with the written consent of the Grantee; and
- (v) take such other action, for purposes of facilitating the Share Incentive Scheme, as the Board deems appropriate.

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(h) Trustee and Trust Fund

Trustee refers to the original trustee and any person who is officially appointed as the trustee or trustees pursuant to the Trust Deed from time to time to administer the trust ("Trustee(s)"). Subject to the clauses of the Trust Deed, the Board shall have the power to appoint a new Trustee and to remove any person as a Trustee of the trust on giving not less than one month's notice in writing to such Trustee provided always that this power shall only be operative and capable of taking effect from the date on which the Trustee being removed receives notice in writing of such removal and the new trustee accepts office as such.

For the purpose of satisfying Award grants made under the Share Incentive Scheme, we will allot and issue 2,046,404,000 Class A Shares at par value before the [REDACTED] to the Trustee, and such Class A Shares will be held on trust through Oceanic Summit Holdings Limited (the "**Trust Fund**") for the benefit of the Grantees pending the vesting of the outstanding Awards.

(i) Grant of Awards

Subject to limitations and conditions of the Trust Deed, the Board may authorize the Trustee by written notification to grant to each of the selected Participants an offer of grant of Award by way of a letter or any such written notice or document in such form as the Board may from time to time determine and notify the Trustee ("**Notice of Grant**"), which shall attach an acceptance notice, subject to the conditions that the Board thinks fit.

No grant of an Award shall be made to, nor shall any grant be capable of acceptance by, any selected Participant at a time when the selected Participant would or might be prohibited from dealing in the Class A Shares by the Listing Rules (where applicable) or by any other applicable rules, regulations or law.

(j) Acceptance of Awards

If the selected Participant intends to accept the grant of an Award as specified in the Notice of Grant, he is required to sign an acceptance notice, and return it to the Trustee through our Company within the time period and in a manner prescribed in the Notice of Grant. Upon the receipt from the selected Participant of a duly executed acceptance notice, the Class A Shares are granted to such Participant in respect of a board lot or an integral multiple thereof (along with the corresponding vested Class A Share interests or, if applicable, the pre-vesting Class A Share interests), who becomes a Grantee pursuant to the terms of the Share Incentive Scheme and the Notice of Grant.

(k) Rights attached to Awards

No Grantee shall enjoy any of the rights of a Shareholder (including but not limited to the exercising of voting rights attached to the Class A Shares) by virtue of the grant of an Award pursuant to the Share Incentive Scheme, unless and until such Class A Shares underlying the Award are actually transferred to the Grantee in accordance with the terms of the Share Incentive Scheme.

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(l) Rights on an Offer

In the event a general offer by way of voluntary offer, takeover or otherwise (other than by way of scheme of arrangement) is made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the vesting date of any Class A Shares, the Board shall, prior to the offer becoming or being declared unconditional, determine at its absolute discretion whether such Class A Shares shall vest and the period within which such Class A Shares shall vest. If the Board determines that such Class A Shares shall vest, it shall notify the Grantee that the Class A Shares shall vest and the period within which such Class A Shares shall vest.

(m) Rights on a Plan of Arrangement

In the event a general offer for Class A Shares by way of plan of arrangement is made to all the holders of Class A Shares and has been approved by the necessary number of holders of Class A Shares at the requisite meetings, our Company shall forthwith give notice thereof to the Grantee and the Grantee may at any time thereafter (but before such time as shall be notified by our Company) exercise the Award to its full extent or, if our Company shall give the relevant notification, to the extent notified by our Company.

(n) Rights on a Voluntary Winding-up

In the event a notice is given by our Company to the Shareholders to convene a Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up our Company prior to the vesting date of any Class A Shares, the Board shall determine at its discretion whether such Class A Shares shall vest, and the period when such Class A Shares shall vest. If the Board determines that such Class A Shares shall vest, it shall notify the Grantee that the Class A Shares shall vest and the period within which such Class A Shares shall vest.

(o) Modification

During the term of the Share Incentive Scheme, the Board shall have power, so as to bind the Trustee, to vary, amend, modify, alter or extend the trusts, powers and provisions of the Trust Deed in any manner and in any particular whatsoever by deed delivered to the Trustee revocable (during the term of the Share Incentive Scheme) or irrevocable, which shall be expressed to be supplemental to the Trust Deed, and the Trust Deed shall then and construed and take effect as if such provisions were incorporated in the Trust Deed subject to its restrictive clauses.

(p) General

An application has been made to the Stock Exchange for the [REDACTED] of, and permission to deal in, Class A Shares underlying any Awards which may be granted pursuant to the Share Incentive Scheme.

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As of the Latest Practicable Date, Awards in respect of [941,491,000] Class A Shares had been granted and outstanding under the Share Incentive Scheme and are outstanding. As of the Latest Practicable Date, three Grantees are our senior management and no Award has been granted to any Director.

Vesting Schedule

Except as approved by the Board and specified in the applicable Award, Awards under the Share Incentive Scheme normally vest as follows: each of the 25% of the Awards shall vest upon the first, second, third and fourth anniversary of the applicable vesting commencement date, respectively, in each case subject to continuous service to our Group on such dates.

OTHER INFORMATION

Estate duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

Litigation

Save as disclosed in this document and so far as our Directors are aware, no litigation or claim of material importance is pending or threatened against any member of our Group.

Sponsor

The Sole Sponsor has made an application on our behalf to the Listing Committee for the [REDACTED] of, and permission to deal in, the Class A Shares in issue, the Class A Shares to be issued pursuant to the [REDACTED] (including any Shares which may fall to be issued pursuant to the exercise of the [REDACTED]) and Class A Shares to be issued pursuant to the awards granted under Share Incentive Scheme.

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. The Sole Sponsor will receive a fee of US\$1.00 million for acting as the Sole Sponsor for the [REDACTED].

Consents of experts

The following experts have each given and have not withdrawn their respective written consents to the issue of this document with copies of their reports, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they are respectively included:

<u>Name</u>	<u>Qualification</u>
China International Capital Corporation Hong Kong Securities Limited	A licensed corporation to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on future contracts) and Type 6 (advising on corporation finance) as defined under the SFO

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<u>Name</u>	<u>Qualification</u>
Commerce & Finance Law Offices	Qualified PRC Lawyers
Maples and Calder (Hong Kong) LLP	Cayman Islands attorneys-at-law
KPMG	Certified Public Accountants
Frost & Sullivan	Industry consultant

As of the Latest Practicable Date, none of the experts named above has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for securities, in any member of our Group.

Binding effect

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

Bilingual Document

The English language and Chinese language versions of this document are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Documents from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

Preliminary expenses

The preliminary expenses incurred by our Company in relation to our incorporation were approximately US\$300 and were paid by us.

Taxation of holders of Shares

(a) *Hong Kong*

The sale, purchase and transfer of shares registered with our Hong Kong register of members will be subject to Hong Kong stamp duty. The current rate charged on each of the purchaser and seller is 0.1% of the consideration or, if higher, of the value of the shares being sold or transferred. Profits from dealings in the shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) *Cayman Islands*

Under present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfers of shares in our Company.

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(c) People's Republic of China

We may be treated as a PRC resident enterprise for PRC enterprise income tax purposes. In that case, distributions to our Shareholders may be subject to PRC withholding tax and gains from dispositions of our Shares may be subject to PRC tax. See the sub-section headed "Risk Factors – Risks Relating to Doing Business in the PRC – Dividends paid by us to our foreign investors may be subject to withholding taxes and gains on the sale of our Shares may be subject to PRC tax under the PRC tax laws if we are classified as a PRC 'resident enterprise'".

(d) Consultation with professional advisors

Potential investors in the [REDACTED] are urged to consult their professional tax advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, and dealing in our Shares (or exercising rights attached to them). None of our Company, our Directors or the other parties involved in the [REDACTED] accept responsibility for any tax effects on, or liabilities of, any person, resulting from the subscription, purchase, holding or disposal of, dealing in or the exercise of any rights in relation to our Shares.

Other Disclaimers

- (a) Save as disclosed in this document, within the two years immediately preceding the date of this document:
 - (i) no share or loan capital or debenture of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be issued for cash or as fully or partly paid other than in cash or otherwise; and
 - (ii) no commissions, discounts, brokerages or other special terms have been granted, have been paid or are payable in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries by our Company for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares in or debentures of our Company or any of our subsidiaries.
- (b) Save as disclosed in this document:
 - (i) we do not have any promoter. No cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the [REDACTED] and the related transactions described in this document;
 - (ii) there are no founder, management or deferred shares in our Company or any of our subsidiaries; and
 - (iii) no share or loan capital or debenture of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.

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STATUTORY AND GENERAL INFORMATION

- (c) Save as disclosed in this document, our Group had not issued any debentures nor did it have any outstanding debentures nor any convertible debt securities.
- (d) Our Directors confirm that:
 - (i) there is no arrangement under which future dividends are waived or agreed to be waived; and
 - (ii) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this document.
- (e) The principal register of members of our Company will be maintained in the Cayman Islands by our Principal Share Registrar and Transfer Office. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Hong Kong Share Registrar.
- (f) All necessary arrangements have been made to enable our Class A Shares to be admitted into [REDACTED] for clearing and settlement.
- (g) No company within our Group is presently listed on any stock exchange or traded on any trading system.

**APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
IN HONG KONG AND AVAILABLE FOR INSPECTION**

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this document delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) a copy of each of the [REDACTED];
- (b) the written consents referred to in the section headed “Statutory and General Information – Other Information – Consents of experts” in Appendix IV to this document; and
- (c) a copy of each of the material contracts referred to in the section headed “Statutory and General Information – Further Information about Our Business – Summary of material contracts” in Appendix IV to this document.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Davis Polk & Wardwell at 18th Floor, The Hong Kong Club Building, 3A Chater Road, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this document:

- (a) the Memorandum and the Articles;
- (b) the Accountants’ Report of our Group prepared by KPMG, the text of which is set out in Appendix I to this document;
- (c) the report on the unaudited pro forma financial information of our Group issued by KPMG, the text of which is set out in Appendix II to this document;
- (d) the audited consolidated financial statements of our Company for the three financial years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018;
- (e) the legal opinions as to the laws of PRC issued by Commerce & Finance Law Offices, our legal advisor on the laws of PRC, in respect of certain general corporate matters and property interests of our Group;
- (f) the letter of advice prepared by Maples and Calder (Hong Kong) LLP, our legal advisor on Cayman Islands law, summarizing certain aspects of the Cayman Companies Law referred to in Appendix III to this document;
- (g) the Cayman Companies Law;
- (h) the industry report issued by Frost & Sullivan Inc., from which information in the section headed “Industry Overview” of this document is extracted;

**APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
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- (i) the written consents referred to in the section headed “Statutory and General Information – Other Information – Consents of experts” in Appendix IV to this document;
- (j) the material contracts referred to in the section headed “Statutory and General Information – Further Information about Our Business – Summary of material contracts” in Appendix IV to this document;
- (k) the service contracts and the letters of appointment with our Directors referred to in the section headed “Statutory and General Information – Further Information about our Directors – Particulars of Directors’ service contracts and appointment letters” in Appendix IV to this document; and
- (l) the terms of the Share Incentive Scheme.