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YUXING INFOTECH INVESTMENT HOLDINGS LIMITED

裕興科技投資控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8005)

UPDATE ON DISCLOSEABLE TRANSACTION IN RELATION TO THE PROCUREMENT AGREEMENT

Reference is made to the announcements of the Company dated 7 May 2021, 14 May 2021 and 31 May 2021 (the “**Announcements**”) respectively in respect of the discloseable transaction in relation to procurement of hashrate capacity. Unless otherwise defined, capitalised terms used in this announcement shall have the meanings as those defined in the Announcements.

THE SUPPLEMENTAL AGREEMENT

On 2 June 2021 (after trading hours), the Purchaser (a direct wholly-owned subsidiary of the Company) and the Vendor entered into a supplemental agreement (the “**Supplemental Agreement**”) to the Procurement Agreement, pursuant to which the following terms of the Procurement Agreement have been amended:

- (1) the first instalment and the second instalment of the Consideration is adjusted from RMB150,000,000 to RMB92,000,000, which will be paid by the Purchaser to the Vendor on or before 3 June 2021. The Earnest Money of RMB70,000,000 paid on 7 May 2021 will be applied towards satisfaction of the first instalment of the Consideration;
- (2) the remaining portion of the second instalment of RMB58,000,000 and the third instalment of the Consideration of RMB140,000,000 will be paid by the Purchaser to the Vendor on or before 8 August 2021;
- (3) upon receiving the payment of RMB92,000,000 as set out in paragraph (1) above, the Vendor shall deliver the corresponding hashrate capacity (i.e. 551,847MH/S ($\pm 5\%$)) to the Purchaser on the same day; and
- (4) the Purchaser and the Vendor agreed that, if the PRC Government announces any policy prohibiting procurement of hashrate capacity, they will conduct the procurement of hashrate capacity at a place out of the PRC where such procurement is legal.

Save as disclosed above, all other terms of the Procurement Agreement remain in full force and effect.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SUPPLEMENTAL AGREEMENT

In light of the statement made by the State Council's Financial Stability and Development Committee of the PRC on 21 May 2021 on Bitcoin mining and trading activities (the "Statement"), the Directors considered that the regulatory changes on mining activities have no direct impact on the investment of hashrate capacity yet. However, the regulatory changes indicated an increased regulatory risk to the Group's continuance of the investment. In this regard, the Directors are of the view that the amended payment terms and delivery terms for the Procurement will better protect the Company from exposing to any potential legal consequences.

Although the market price of Ethereum has been recently deteriorated to a relatively low level after the release of the Statement, the Directors believe that such volatility will only last for a short period and is simply caused by the regulatory changes but not the whole investment environment. Having considered the optimistic future on prospects of blockchain technology and cryptocurrencies, the Board is of the view that the entering into of the Supplemental Agreement will still provide the Group with a good investment opportunity to expand the investment portfolio with quality assets in the long run. In addition, the Board considers that the usage of blockchain technology can be broadened and expanded to a wider spectrum, and that the recent deterioration of the cryptocurrencies market will not affect the core value of the blockchain technologies.

To minimise the relevant price risk and regulatory risk, the Company will continue to implement the risk control measures for the market volatility and closely monitor the regulatory environment as a whole. The Board will pay close attention to the development of cryptocurrencies market and believes that the investments in hashrate capacity are in the best interests of the Company and the shareholders as a whole.

Based on the above, the Directors are of the view that the terms of the Procurement Agreement (as amended by the Supplemental Agreement) are on normal commercial terms and the terms of the Procurement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

PURCHASER'S ENTITLEMENT TO COMPENSATION IF THE VENDOR BREACHES ITS GUARANTEES

Under the Procurement Agreement, if there is a breach of any provision of the Procurement Agreement including a breach of the guarantees provided by the Vendor in respect of hashrate capacity and power consumption, the Vendor is required to compensate the Purchaser for all the losses of the Purchaser. The Vendor has guaranteed that the right of repairment and replacement within the scope of the original maintenance agreement to be transferred to the Purchaser. At the same time, if more than 10% of the machine's hashrate capacity and power consumption are not up to standard within 12 months, the Vendor shall compensate for the hashrate capacity and power consumption. If more than 10% of the Machines including power supply accessories fail to meet the standards, and the original manufacturer cannot repair and replace them in time, the Vendor shall bear the irrevocable guarantee for replacement or unconditional return.

FURTHER DETAILS OF THE MACHINES AND MINING HASHRATE

The expected useful life of the Machines and the procurement of hashrate capacity for a term of three years

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the normal expected useful lives of mining machines are approximately three years. As disclosed in the announcement of the Company dated 7 May 2021, based on public information, the A10 pro 6G version machines (“**A10 pro**”) was only announced by the manufacturer in August 2020. The Purchaser agreed to procure hashrate capacity of the Machines for a term of three years by reference to the normal expected useful lives of other mining machines.

Direct correlation relationship between the market price of Ethereum and the mining hashrate

The “hashrate” is the processing power of the Ethereum network and represents the number of computations that are processed by the network in a given time period. The total network hashrate and the mining difficulty, which indicates the complexity of the task that miners need to solve to create the block, are positively correlated in the sense that the more difficult mining on the network becomes, the more hashrate is needed, leading to the additional demands for mining hardware within the network. In other words, it is the speed at which miners are able to perform proof-of-work calculations per second. The higher the hashrate, the more blocks are being mined which increases the chance an individual miner has to solve the block reward puzzle and receive newly mined Ethereum.

The demand and price of mining machines are primarily determined by the expected economic return of mining activities, which is significantly affected by the Ethereum price and other factors such as the electricity price, the hashrate of mining equipment, and the total network hashrate and the difficulty of mining. Therefore, the mining hashrate has a direct correlation with the price of cryptocurrencies (including Ethereum).

Relationship between the market price of the Machines and the mining hashrate

Although the mining hashrate prices follow the market prices of cryptocurrencies, there is a lag between price increases and increasing hashrate as additional efficient mining equipment need to be ordered and installed with the block rewards becoming more lucrative as the Ethereum price rises. This is the reason why the hashrate increases lag behind the cryptocurrencies price rise and subject to the cost of the mining machine. In other words, it explains why the procured hashrate capacity was referenced by the market price of the A10 pro.

Estimated economic benefit from hashrate capacity

Taking into account the expected units of Ethereum to be mined by the Machines within one to three years and the market price of Ethereum based on research by the Company, the Company expects that it is able to generate a positive return. The investment in the hashrate capacity locks the investment costs of Ethereum at its production cost.

In view of the market researches on the relationship between the mining hashrate and the market price of the Ethereum as well as the market prices of the Machines, the Board believes that the Procurement Agreement was entered into between the Purchaser and the Vendor after arm's length negotiation with the terms being made under normal commercial terms so that the Consideration is fair and reasonable and in the interest of the Company and its shareholders as a whole.

By order of the Board
Yuxing InfoTech Investment Holdings Limited
Li Qiang
Chairman

Hong Kong, 2 June 2021

** For identification purposes only*

As at the date hereof, the executive Directors of the Company are Mr. Li Qiang, Mr. Cong Yu, Mr. Gao Fei, Mr. Shi Guangrong, Mr. Zhu Jiang and Mr. Chen Biao; the independent non-executive Directors of the Company are Ms. Shen Yan, Ms. Dong Hairong and Ms. Huo Qiwei.

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

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