THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.

乐透互娱
LOTO INTERACTIVE

Loto Interactive Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8198)

(1) CONNECTED TRANSACTION RELATING TO SHARE SUBSCRIPTION UNDER SPECIFIC MANDATE; (2) MAJOR TRANSACTION RELATING TO THE ACQUISITION OF THE REMAINING 49% EQUITY INTEREST OF THE TARGET; (3) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL; (4) RE-ELECTION OF THE RETIRING DIRECTORS; AND (5) NOTICE OF EXTRAORDINARY GENERAL MEETING

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

八方 金融有限公司
OCTAL Capital Limited

All capitalised terms used in this circular shall have the same meanings ascribed to them in the section headed "Definitions" of this circular.

A letter from the Board is set out on pages 7 to 31 of this circular. A letter from the Listing Rules Independent Board Committee is set out on pages 32 to 33 of this circular. A letter from the Independent Financial Adviser containing its advice to the Listing Rules Independent Board Committee and the Listing Rules Independent Shareholders is set out on pages 34 to 65 of this circular.

A notice convening the EGM of the Company to be held at Units 813 & 815, Level 8, Core F, Cyberport 3, 100 Cyberport Road, Hong Kong on Friday, 26 March 2021 at 11:00 a.m. is set out on pages EGM-1 to EGM-4 of this circular. Whether or not you are able to attend the EGM in person, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish.

PRECAUTIONARY MEASURES FOR THE EGM

Please see page 1 of this circular for measures being taken to try to prevent and control the spread of the Novel Coronavirus (COVID-19) at the EGM, including:

- **compulsory temperature checks and health declarations**
- **recommended wearing of surgical face masks**
- **no distribution of corporate gifts and refreshments**

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the meeting venue. The Company encourages attendees to wear face masks and reminds Shareholders that they may appoint the Chairman of the meeting as their proxy to vote on the relevant resolution(s) at the EGM as an alternative to attending the EGM in person.

This circular will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for a minimum period of 7 days from the date of its publication and on the Company's website at www.lotoie.com.

11 March 2021

CHARACTERISTICS OF GEM

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

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

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PRECAUTIONARY MEASURES FOR THE EGM

In view of the ongoing Novel Coronavirus (COVID-19) epidemic and recent requirements for prevention and control of its spread, the Company will implement the following preventive measures at the EGM to protect attending Shareholders, staff and other stakeholders from the risk of infection:

(i) Compulsory body temperature checks will be conducted for every Shareholder, proxy or other attendee at each entrance of the meeting venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the meeting venue or be required to leave the meeting venue.

(ii) The Company encourages each attendee to wear a surgical face mask throughout the EGM and inside the meeting venue, and to maintain a safe distance between seats.

(iii) No corporate gift, food or beverages will be provided at the EGM.

(iv) Each attendee may be asked whether (a) he/she travels outside of Hong Kong within the 14-day period immediately before the EGM; and (b) he/she is subject to any Hong Kong Government prescribed quarantine. Anyone who responds positively to any of these questions may be denied entry into the meeting venue or be required to leave the meeting venue.

To the extent permitted under law, the Company reserves the right to deny entry into the meeting venue or require any person to leave the meeting venue in order to ensure the safety of the attendees at the EGM.

In the interest of all stakeholders' health and safety and consistent with recent COVID-19 guidelines for prevention and control, the Company reminds all Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. As an alternative, by using proxy forms with voting instructions inserted, Shareholders may appoint the Chairman of the meeting as their proxy to vote on the relevant resolution(s) at the EGM instead of attending the EGM in person.

The proxy form is attached to the EGM Circular for Shareholders who opt to receive physical circulars. Alternatively, the proxy form can be downloaded from the "Investor Relations" section of the Company's website at www.lotoie.com or the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk. If you are not a registered Shareholder (if your Shares are held via banks, brokers, custodians or the Hong Kong Securities Clearing Company Limited), you should consult directly with your banks or brokers or custodians (as the case may be) to assist you in the appointment of proxy.

If any Shareholder chooses not to attend the meeting in person but has any question about any resolution or about the Company, or has any matter for communication with the board of directors of the Company, he/she is welcome to contact the Company by email to info@lotoie.com or by mail to the Company Secretary at Units 813 & 815, Level 8, Core F, Cyberport 3, 100 Cyberport Road, Hong Kong.

If Shareholders have any questions relating to the EGM, please contact Computershare Hong Kong Investor Services Limited, the share registrar of the Company, as follows:

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong
Website: www.computershare.com/hk/contact
Tel: 2862 8555
Fax: 2865 0990

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

"2012 Share Option Scheme"	the share option scheme adopted by the Company pursuant to an ordinary resolution passed by the Shareholders on 18 May 2012
"Acquisition"	the acquisition of the Sale Interest by the Purchaser pursuant to the Acquisition Agreement
"Acquisition Agreement"	the acquisition agreement entered into by and among the Purchaser and the Sellers on 28 January 2021 in relation to the Acquisition
"Acquisition Completion"	the completion of the Acquisition in accordance with the terms and conditions of the Acquisition Agreement
"Acquisition Conditions"	the conditions precedent to the Acquisition Completion, as more particularly set out in the section headed "Conditions precedent to the Acquisition Completion"
"Acquisition Consideration"	the consideration of RMB88.2 million (equivalent to approximately HK$105.8 million) payable by the Purchaser to the Sellers pursuant to the Acquisition Agreement for the Acquisition
"Acquisition Long Stop Date"	28 July 2021 (or such later date as the Purchaser and the Sellers may agree in writing)
"acting in concert"	has the meaning ascribed to it in the Takeovers Code
"ADS"	American depositary share(s) of the Offeror
"ADS Options"	options granted by the Offeror to subscribe for ADS
"associate(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Board"	the board of Directors
"Business Day(s)"	means any day (other than a Saturday, Sunday or public holiday) on which banks are open for general banking business in Hong Kong and the PRC
"BOCOM Securities"	BOCOM International Securities Limited, a corporation licensed to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 5 (advising on futures contracts) regulated activities under the SFO, being the agent making the Offers on behalf of the Offeror

"Company"	Loto Interactive Limited, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on GEM (stock code: 8198)
"Director(s)"	the director(s) of the Company
"EGM"	an extraordinary general meeting of the Company to be held and convened for the purpose of approving, among other things, the Subscription Agreement and the transactions contemplated thereunder, the Specific Mandate, the Acquisition Agreement and the transactions contemplated thereunder as well as the Increase in Authorised Share Capital (or any adjournment thereof)
"Enlarged Group"	the Group as enlarged by the Acquisition
"GEM"	GEM operated by the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Increase in Authorised Share Capital"	the proposed increase in the authorised share capital of the Company from HK$55,000,000 (divided into 550,000,000 Shares) to HK$65,000,000 (divided into 650,000,000 Shares) by the creation of an additional 100,000,000 Shares
"Independent Financial Adviser"	Octal Capital Limited, a licensed corporation permitted under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, and being the independent financial adviser appointed for the purpose of advising the Listing Rules Independent Board Committee and the Listing Rules Independent Shareholders in respect of the Subscription Agreement and the granting of the Specific Mandate
"Joint Announcements"	the announcements jointly issued by the Company and the Subscriber on 28 January 2021 and 11 February 2021 in relation to, among others, the Subscription Agreement, the Acquisition, the Increase in Authorised Share Capital and the transaction contemplated thereunder

"Last Trading Day"	27 January 2021, being the last trading day for the Shares prior to the publication of the announcement jointly issued by the Company and the Subscriber on 28 January 2021 in relation to, among others, the Subscription Agreement, the Acquisition, the Increase in Authorised Share Capital and the transaction contemplated thereunder
"Latest Practicable Date"	4 March 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules Independent Board Committee"	an independent committee of the Board comprising all the independent non-executive Directors who have no direct or indirect interest in the Subscription, established for the purpose of advising the Listing Rules Independent Shareholders on the Subscription Agreement and the transactions contemplated thereunder
"Listing Rules Independent Shareholders"	the Shareholders other than (i) the Subscriber and its associates and (ii) all other parties (if any) who are involved in or interested in the Subscription Agreement and the transactions contemplated thereunder
"Mr. Law"	Mr. Man San Law, a former director, chairman and chief executive officer of the Offeror and is a party acting in concert with the Offeror
"Offers"	the Share Offer and the Option Offer
"Offer Share(s)"	all the Share(s) in issue, other than those already owned or agreed to be subscribed for by the Offeror and the parties acting in concert with it
"Offeror" or "Subscriber"	500.com Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the New York Stock Exchange under the ticker symbol "WBAI"
"Options"	the outstanding share options granted by the Company pursuant to the 2012 Share Option Scheme
"Option Offer"	the possible unconditional mandatory cash offer to be made by BOCOM Securities on behalf of the Offeror upon the Subscription Completion for the cancellation of the Options in accordance with the Takeovers Code
"PRC"	the People's Republic of China (which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan)
"Purchaser"	樂透互娛信息技術(深圳)有限公司 (Loto Interactive Information Technology (Shenzhen) Limited), a wholly-owned subsidiary of the Company, being the purchaser of the Sale Interest under the Acquisition Agreement

"RMB"	Renminbi, the lawful currency of the PRC
"Sale Interest"	49% of the equity interest of the Target
"Seller A"	深圳市誠佑科技有限公司 (Shenzhen Chengyou Technology Co., Ltd.), being one of the sellers to the Acquisition Agreement which holds 39% equity interest in the Target as at the Latest Practicable Date
"Seller B"	Mr. Guo Xiaoquan (郭筱荃), being one of the sellers to the Acquisition Agreement who holds 10% equity interest in the Target as at the Latest Practicable Date
"Sellers"	collectively, the Seller A and the Seller B
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share of HK$0.1 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Share Offer"	the possible unconditional mandatory cash offer for the Offer Shares to be made by BOCOM Securities on behalf of the Offeror upon the Subscription Completion in accordance with the Takeovers Code
"Specific Mandate"	the specific mandate proposed to be sought from the Listing Rules Independent Shareholders at the EGM to issue the Subscription Shares to the Subscriber
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription"	the subscription of the Subscription Shares by the Subscriber pursuant to the Subscription Agreement
"Subscription Agreement"	the subscription agreement dated 28 January 2021 entered into between the Company and the Subscriber in relation to the Subscription
"Subscription Conditions"	the conditions precedent to the Subscription Completion, as more particularly set out in the section headed "Conditions precedent to the Subscription Completion"
"Subscription Completion"	the completion of the Subscription in accordance with the terms and conditions of the Subscription Agreement

"Subscription Long Stop Date"	28 July 2021, being the date falling six months after the date of the Subscription Agreement (or such other date as the Company and the Subscriber may agree in writing)
"Subscription Price"	HK$0.62 per Subscription Share
"Subscription Share(s)"	an aggregate of new 169,354,839 Shares to be allotted and issued by the Company and to be subscribed by the Subscriber pursuant to the terms and conditions of the Subscription Agreement
"subsidiaries"	has the meaning ascribed to it under the GEM Listing Rules
"Target"	甘孜州長河水電消納服務有限公司 (Ganzi Changhe Hydropower Consumption Service Co., Ltd.), a company established in the PRC with limited liability
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers as amended from time to time
"%"	per cent

In this circular, amounts denominated in RMB have been translated into HK$ at the rate of RMB1 = HK$1.2 and amounts denominated in US$ have been translated into HK$ at the rate of US$1 = HK$7.8. Such conversion rates are for illustration purposes only and should not be construed as representations that the amounts in question have been, could have been or could be converted at any particular rate or at all.

In this circular, the English translation of Chinese names of the companies incorporated in the PRC is included for information purposes only and should not be regarded as their official English translation.

乐透互娱
LOTO INTERACTIVE

Loto Interactive Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8198)

Directors:
Ms. Zhang Jing* *(Chairman)*
Mr. Yan Hao# *(Chief Executive Officer)*
Ms. Huang Lilan#
Mr. Yuan Qiang*
Dr. Lu Haitian+
Mr. Lin Sen+
Mr. Huang Jian+

Executive Director
* *Non-executive Director*
+ *Independent Non-executive Director*

Registered office:
P.O. Box 31119
Grand Pavilion, Hibiscus Way
802 West Bay Road
Grand Cayman, KY1-1205
Cayman Islands

Head office and principal place of business in Hong Kong:
Units 813 & 815, Level 8
Core F, Cyberport 3
100 Cyberport Road
Hong Kong

11 March 2021

To the Shareholders

Dear Sir or Madam,

(1) CONNECTED TRANSACTION RELATING TO SHARE SUBSCRIPTION UNDER SPECIFIC MANDATE; (2) MAJOR TRANSACTION RELATING TO THE ACQUISITION OF THE REMAINING 49% EQUITY INTEREST OF THE TARGET; (3) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL; AND (4) RE-ELECTION OF THE RETIRING DIRECTORS

I. INTRODUCTION

Reference is made to Joint Announcements in relation to, among others, the entering into of the Subscription Agreement and the Acquisition Agreement and the Increase in Authorised Share Capital.

The purposes of this circular are to provide you with (1) a letter from the Board containing further details of the Subscription Agreement and the Acquisition Agreement and the Increase in Authorised Share Capital; (2) a letter of recommendation from the Listing Rules Independent Board Committee containing its recommendations to the Listing Rules Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder; (3) a letter from the Independent Financial Adviser to the Listing Rules Independent Board Committee and the Listing Rules Independent Shareholders containing its recommendation in respect of the Subscription Agreement and the transactions contemplated thereunder; (4) details of the re-election of the retiring Director; (5) notice of convening the EGM; and (6) other information as required under the GEM Listing Rules.

II. THE SUBSCRIPTION

On 28 January 2021 (after trading hours of the Stock Exchange), the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, the Subscription Shares (i.e. an aggregate of 169,354,839 Shares) at the Subscription Price of HK$0.62 per Subscription Share.

Set out below is a summary of the principal terms of the Subscription Agreement.

The Subscription Agreement

Date:

28 January 2021 (after trading hours of the Stock Exchange)

Parties:

(1) the Company (as the issuer); and

(2) 500.com Limited (as the Subscriber).

Number of Subscription Shares

As at the Latest Practicable Date, the Company has a total number of 379,023,983 Shares in issue. The Subscription Shares (i.e. a total of 169,354,839 Shares) to be allotted and issued under the Subscription represent:

(1) approximately 44.7% of the total number of issued Shares as at the Latest Practicable Date;

(2) approximately 30.9% of the issued Shares of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming there are no other changes to the total issued share capital of the Company from the Latest Practicable Date to the Subscription Completion); and

(3) approximately 28.8% of the issued Shares of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming all the Options have been exercised at or prior to the Subscription Completion and there are no other changes to the total issued share capital of the Company from the Latest Practicable Date to the Subscription Completion).

Based on the closing price of the Shares of HK$0.69 per Share on the Last Trading Day, the Subscription Shares have a market value of approximately HK$116.9 million. Based on the nominal value of HK$0.1 per Share, the aggregate nominal value of the Subscription Shares is HK$16,935,483.9.

Ranking of the Subscription Shares

The Subscription Shares, when issued and fully paid, shall rank pari passu in all respects with the Shares already in issue at the date of allotment and in particular will rank in full for all dividends and all other distributions declared, made or paid at any time after the date of allotment and issue.

Subscription Price

The Subscription Price of HK$0.62 per Subscription Share represents:

(i) a discount of approximately 10.1% to the closing price of HK$0.69 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 11.9% to the average closing price of HK$0.704 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 11.8% to the average closing price of HK$0.703 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 11.5% to the average closing price of HK$0.7 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day;

(v) a discount of approximately 28.8% over the audited consolidated net asset value attributable to the Shareholders of approximately HK$0.87 per Share as at 31 December 2019 (based on the audited consolidated net asset value attributable to the Shareholders as at 31 December 2019 (the date to which the latest audited financial results of the Group were made up) divided by 379,023,983 Shares in issue as at the Latest Practicable Date);

(vi) a discount of approximately 20.3% over the unaudited consolidated net asset value attributable to the Shareholders of approximately HK$0.778 per Share as at 30 June 2020 (based on the unaudited consolidated net asset value attributable to the Shareholders as at 30 June 2020 divided by 379,023,983 Shares in issue as at the Latest Practicable Date); and

(vii) a discount of approximately 38.6% to the closing price of HK$1.01 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price was determined after arm's length negotiations between the Company and the Subscriber with reference to the prevailing market price of the Shares, the recent trading volume of the Shares and the prospects of the Group.

In assessing the fairness of the Subscription Price, the Board has also, on best effort basis and through the search of the website of the Stock Exchange, identified an exhaustive list of other similar Takeovers Code transactions with substantial size of new shares issuance of over 30% of its existing share capital by the listed issuers and involving the application of the whitewash waivers for the year of 2019 and 2020 published in the Stock Exchange (the "**Subscription Transactions**"). The Subscription Transactions conducted recently in the market generally involved subscription of new shares at discounts to their respective historical trading prices with an average discount of (i) approximately 17.5% to its closing share price of the last trading day; (ii) approximately 18.9% to the average closing prices for the five trading days immediately prior to and including the last trading day.

Details of the Subscription Transactions are set out below:

Date of annoucement	Company name (Stock code)	Percentage of the subscription shares to the issued share capital as at the date of the announcement	Subscription price	Premium/ (discount) of subscription price over/ (to) the closing price of the shares on the last trading day prior to the date of the announcement/ the date of corresponding agreement	Premium/ (discount) of subscription price over/ (to) the average closing price of the shares for the last five trading days up to and including the last trading day prior to the date of the announcement/ the date of corresponding agreement
		%	*HK$*	*%*	*%*
9 January 2019	Shunfeng International Clean Energy Limited (1165.HK)	152.4%	0.214	(58.9%)	(55.8%)
14 February 2019	Sun International Group Limited (8029.HK)	62.4%	0.31	8.8%	6.9%
5 June 2019	China Singyes Solar Technologies Holdings Limited (750.HK)	202.3%	0.92	(7.1%)	(6.5%)
20 June 2019	Shengjing Bank Co., Ltd. (2066.HK)	38.0%	6.818182	37.2%	31.1%
1 November 2019	Ozner Water International Holding Limited (2014.HK)	75.0%	1.03	(30.4%)	(29.7%)
19 November 2019	Panda Green Energy Group Limited (686.HK)	47.1%	0.25	7.8%	9.2%
6 February 2020	China Finance Investment Holdings Limited (875.HK)	200.0%	0.65	(31.6%)	(33.9%)
27 March 2020	Asia Energy Logistics Group Limited (351.HK)	221.8%	0.16	(3.0%)	(7.0%)
23 December 2020	China Oil Gangran Energy Group Holdings Limited (8132.HK)	300.0%	0.307693	(80.3%)	(84.0%)
			Maximum	**37.2%**	**31.1%**
			Minimum	**(80.3%)**	**(84.0%)**
			Median	**(7.1%)**	**(7.0%)**
			Average	**(17.5%)**	**(18.9%)**
28 January 2021	The Company	44.7%	0.62	(10.1%)	(11.9%)

In addition, to determine the appropriate pricing discount applied in the Subscription, the Board has also compared the proposed terms of the Subscription with the prior placing exercise of the new shares under the general mandate to independent third parties by the Company (the "**Previous Placing**") completed recently on 9 October 2020, in which placing price was concluded at (i) approximately 17.5% discount to the closing price of the Shares on the date of signing of the placing agreement of the Previous Placing; (ii) approximately 18.5% discount to the average of closing prices of the Shares for the last five consecutive trading days immediately preceding the date of the placing agreement of the Previous Placing; and (iii) approximately 15.6% discount to the average of closing prices of the Shares for the last ten consecutive trading days immediately preceding the date of the placing agreement of the Previous Placing. The Subscription Price represented (i) a discount of approximately 10.1% to the closing price of HK$0.69 per Share as quoted on the Stock Exchange on the Last Trading Day; (ii) a discount of approximately 11.9% to the average closing price of HK$0.704 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day; and (iii) a discount of approximately 11.8% to the average closing price of HK$0.703 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day, are no less favorable to those offered to the independent third parties under the Previous Placing.

Though the Subscription Price represented a discount to its net asset value per Share as at 30 June 2020 of approximately 20.3%, the Board takes the view that the Share price performance and valuation of the Shares prior to the entering into the Subscription Agreement is more relevant in assessing the fairness of the Subscription Price as it reflects the prevailing valuation of the Company perceived by the Shareholders and investors and serves an appropriate benchmark in its evaluation.

As at the Latest Practicable Date, each of Ms. Zhang Jing, Ms. Huang Lilan and Mr. Yuan Qiang holds positions in the Subscriber, and they had abstained from the Board meeting approving the Subscription Agreement. As at the Latest Practicable Date, (i) Ms. Zhang Jing also holds 3,481 ADS and 49,200 ADS Options; (ii) Ms. Huang Lilan holds 5,151 ADS and 15,500 ADS Options; and (iii) Mr. Yuan Qiang holds 84,266 ADS of the Subscriber.

Mr. Yan Hao is a party presumed to be acting in concert with the Offeror by virtue of the fact that he has a close working relationship with Ms. Zhang Jing, Ms. Huang Lilan and Mr. Yuan Qiang (each of whom holds positions in the Subscriber) and is privy to the discussion and negotiation of the Subscription with the Offeror. Taking into account that (i) Mr. Yan Hao, being the executive director and chief executive officer of the Company, was only involved in the discussion and negotiation of the Subscription in the capacity of the representative of the Company, which is a party to the Subscription; and (ii) Mr. Yan Hao does not hold any interests or positions in the Subscriber, the Board is of the view that Mr. Yan Hao does not have material interest in the Subscription and he was not required to abstain from voting on the relevant board resolutions in accordance with the articles of association of the Company. As such, Mr. Yan Hao has not abstained from voting on such board resolutions.

The Directors (excluding Ms. Zhang Jing, Ms. Huang Lilan and Mr. Yuan Qiang and including members of the Listing Rules Independent Board Committee, after taking into account the advice of the Independent Financial Adviser) considers that the Subscription Price is fair and reasonable and in the interests of the Company and the Listing Rules Independent Shareholders as a whole.

Conditions precedent to the Subscription Completion

Subscription Completion shall be conditional upon the following Subscription Conditions having been satisfied:

(1) the passing of an ordinary resolution by the Listing Rules Independent Shareholders at the general meeting of the Company for approving the Specific Mandate and the allotment and issue of the Subscription Shares by the Company in accordance with the applicable law (including the GEM Listing Rules);

(2) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Subscription Shares on the Stock Exchange and such approval and permission remaining in full force and effect;

(3) the passing of an ordinary resolution by the Shareholders at the general meeting of the Company for approving the Increase in Authorised Share Capital;

(4) all necessary governmental approvals, consents, filings and reports for the Subscription Completion having been obtained or duly filed (as applicable) by the Company;

(5) all necessary governmental, shareholders' and the third parties' approvals, consents, filings and reports for the Subscription Completion having been obtained or duly filed (as applicable) by the Subscriber; and

(6) the transactions contemplated by the Acquisition Agreement having become unconditional in accordance with its terms (other than any condition relating to the Subscription Agreement having become unconditional).

Pursuant to the Subscription Agreement, the Subscription Conditions are not capable of being waived by the Company or the Subscriber. In respect of condition (4), save for the approval of the Listing Rules Independent Shareholders and the Stock Exchange set out in conditions (1) and (2), the Company does not foresee any other mandatory governmental approvals, consents, filings and reports for the Subscription Completion. In respect of condition (5), the Subscriber does not foresee necessary governmental, shareholders' and the third parties' approvals, consents, filings and reports required for the Subscription Completion. As at the Latest Practicable Date, none of the Subscription Conditions had been fulfilled.

Consideration for the Subscription Shares

The total consideration for the Subscription Shares payable in cash by the Subscriber shall be approximately HK$105 million. The Subscriber intends to fund the consideration payable under the Subscription Agreement with its internal resources.

Subscription Completion

The Subscription Completion shall take place within ten Business Days after the satisfaction of all the Subscription Conditions (or such other date as the Subscriber and the Company may mutually agree in writing). It is currently expected that the Subscription Completion will take place by and around the end of March 2021 or early April 2021.

In the event that the Subscription Completion does not take place by the Subscription Long Stop Date, the Company and the Subscriber shall then consult each other and discuss a later date for the satisfaction of the Subscription Conditions and the Subscription Completion as the Company and the Subscriber may agree in writing. In the event that the Company and the Subscriber cannot agree to a later date, either the Company or the Subscriber shall be entitled to terminate the Subscription Agreement by written notice to the other party and the Subscription Agreement and all rights and obligations of the Company and the Subscriber thereunder shall cease and terminate save for accrued rights and obligations of the Company and the Subscriber under the Subscription Agreement.

Specific Mandate

The Subscription Shares will be allotted and issued under the Specific Mandate to be sought from the Listing Rules Independent Shareholders at the EGM.

The Specific Mandate to be sought at the EGM shall be valid and effective for six months from the date of the Subscription Agreement. In the event that any Subscription Conditions cannot be fulfilled or the Subscription is not completed according to the terms of the Subscription Agreement within the effective period of the Specific Mandate, the Company will re-comply with the GEM Listing Rules and seek approval for a new specific mandate for the issue of the Subscription Shares from the Listing Rules Independent Shareholders at a subsequent extraordinary general meeting.

Application for listing

Application will be made by the Company to the Listing Committee of the Stock Exchange for the grant of approval for the listing of, and permission to deal in, the Subscription Shares.

Fund raising exercises of the Company in the past 12 months

The equity fund raising activities conducted by the Company during the past twelve months immediately preceding the Latest Practicable Date are set out below:

Date of announcement	Fund raising activity	Net proceeds raised	Proposed use of proceeds	Actual use of proceeds as at the Latest Practicable Date	Expected timeline for utilizing the remaining balance of net proceeds from the placing
24 September 2020	Placing of new Shares under general mandate (completed on 9 October 2020)	HK$16.03 million	Expanding the capital base for the big data centers operations of the Group	Approximately HK$9.61 million has been used for expanding the capital base for the big data centers operations of the Group	Remaining balance of approximately HK$6.42 million is expected to be utilized in accordance with the original plan which will be fully utilized by end of 2021

Use of proceeds and the reasons and benefits for the Subscription

The gross proceeds of the Subscription will be approximately HK$105.0 million. The net proceeds of the Subscription are estimated to be approximately HK$103.4 million after deducting all related professional fees and other related expenses. The Company intends to use all net proceeds from the Subscription for the payment of the Acquisition Consideration payable to the Sellers under the Acquisition.

The gross and net issue price per Share from the Subscription will be approximately HK$0.62 and HK$0.61, respectively. Based on the closing price of approximately HK$0.69 per Share on the Last Trading Day as compared to the Subscription Price of HK$0.62 per Share, there will be a value dilution on the theoretical price of the Shares of approximately 3.1%.

As of the Latest Practicable Date, the Company does not have sufficient financial capacity for the Acquisition. Accordingly, the Group proposes to conduct the Subscription to raise fund for settling the Acquisition Consideration of RMB88.2 million (equivalent to approximately HK$105.8 million) payable under the Acquisition Agreement while maintaining a sufficient level of general working capital of the Group. As at 30 June 2020, the Group's bank balances and cash (including bank deposits with original maturity over three months) amounted to HK$45.7 million. The Directors, after due and careful consideration, are of the opinion that, taking into consideration the financial resources available to the Enlarged Group including the internally generated funds and the proceeds from the Subscription, the Enlarged Group will have sufficient working capital in the next 12 months after completion of the Subscription. The Company currently does not have any plan or has not entered into any arrangement, agreement, negotiation or understanding (formal or informal; express or implied) to conduct acquisition of new business or disposal of existing business in the next 12 months from the Latest Practicable Date. As at the Latest Practicable Date, save for the Subscription, the Board has no intention or plan to conduct equity fund raising activities in the next 12 months. However, if there shall arise any other potential investment opportunities or any change of the Group's current circumstances and existing business plans and that the net proceeds from the Subscription may not satisfy such upcoming financing needs, the Board does not rule out the possibility that the Company may conduct further equity and/or fund financing raising exercises to support such future developments of the Group. The Company will make further announcement in this regard in accordance with the GEM Listing Rules as and when appropriate.

Save for the Subscription, the Company has also considered the feasibility of other fundraising methods such as debt financing from bank or money lenders and other forms of equity financing to raise sufficient funding to finance the Acquisition. The Company considered that debt financing would incur interest expenses which would in turn hinder the ability of the Group to achieve turnaround results in the coming years. Moreover, due to the loss-making performance of the Group and lack of bank deposit and other acceptable collateral as security, the Group could not obtain debt financing with terms favorable to the Group. Under such circumstances, the Company considered that debt financing from banks or money lenders is not a preferable choice.

To obtain the best available terms of the Subscription, the Company has endeavored to seek equity investments from potential investors through two financial institutions with a view to finance the funding of the Acquisition. Due to (i) the scale of the funding required for the Acquisition; (ii) relatively short period of time for the funding to be in place; (iii) the thin trading liquidity of the Shares; and (iv) the net loss position of the Company for the recent years, none of the financial institutions could provide expected timeframe of placing or subscription of new Shares nor identify any potential investors who show interest in participating in a sizeable placing of or subscription for new Shares that would meet the funding needs of the Acquisition. In terms of rights issue and open offer, the Company considered that as rights issue and open offer would include issue of prospectus, appointment of underwriter and share registrar, the expected completion time would be not less than three months and the additional costs for preparing prospectus would be not less than US$350,000 as quoted from professional parties by the Company. Taking into account the lengthy process and additional administrative costs to be involved, the Company considered that rights issue and open offer are also not a preferable choice.

Having considered that (i) the Subscription would not incur interest expenses which would hinder the Group's ability to achieve turnaround results; and (ii) the Subscription requires relatively short period of time and less costly when compared to the above alternative equity financing methods, the Company is of the view that the Subscription is more cost-effective and efficient as compared to above alternative fundraising methods. In addition, given the Group could not identify any potential investors who show interest in participating in a sizable placing of or subscription for new Shares other than the Subscriber, the Board considers that it has applied its best endeavour to obtain the best available terms for the Subscription Shares, and funding the Acquisition by the Subscription is the best option available to the Company, and is fair and reasonable and in the interest of the Company and its shareholders as a whole notwithstanding the dilution impact of the Subscription.

Other than the dilution effect on the shareholding of existing public Shareholders in the Company as a result of the issue of Subscription Shares, the Board is of the view that the Subscription would not have any disadvantages to the Company. Taking into account that (i) the proceeds from the Subscription is to be entirely utilized for the Acquisition Consideration and the rationale of the use of proceeds as set out above; and (ii) the Subscription Price is fair and reasonable so far as the Company and the Listing Rules Independent Shareholders are concerned, the Board considers that the dilution effect on the shareholding of existing public Shareholders in the Company is acceptable so far as the Company and the Listing Rules Independent Shareholders are concerned.

The Directors (excluding Ms. Zhang Jing, Ms. Huang Lilan and Mr. Yuan Qiang who had abstained from giving their view on the Subscription Agreement and the transactions contemplated thereunder as they hold positions in the Subscriber and including members of the Listing Rules Independent Board Committee, after taking into account the advice of the Independent Financial Adviser) consider that although the entering into the Subscription Agreement is not in the ordinary and usual course of business of the Group, the terms of the Subscription Agreement and the transactions contemplated thereunder are on normal commercial terms and fair and reasonable so far as the Listing Rules Independent Shareholders are concerned, and the entering into the Subscription Agreement is in the interest of the Company and the Shareholders as a whole.

Information on the Parties to the Subscription

The Group

The Group is principally engaged in (i) the provision of data analysis and storage services; (ii) the distribution of mobile gaming; and (iii) the money lending business in Hong Kong. For details of the consolidated financial information of the Group, please refer to Appendix I to this circular.

The Offeror

The Offeror is a company incorporated in the Cayman Islands with limited liability and the shares of which are traded on the New York Stock Exchange under the ticker symbol "WBAI" since 2013. As at the Latest Practicable Date, the single largest beneficial owner of the Offeror is Tsinghua Unigroup International Co., Ltd., which owns 27.18% of voting rights of the Offeror and is ultimately controlled by Mr. Zhao Weiguo.

The Offeror is an online sports lottery service provider in the PRC. The Offeror offers a comprehensive and integrated suite of online lottery services, information, user tools and virtual community venues to its users. The Offeror was among the first companies to provide online lottery services in the PRC, and is one of the two entities that is authorised by the PRC Ministry of Finance to provide online lottery sales services on behalf of China Sports Lottery Administration Centre, the government authority in charge of the issuance and sale of sports lottery products in the PRC. The Offeror is also actively exploring blockchain related business opportunities. As at the Last Trading Date, the Offeror's market capitalisation was approximately US$607 million.

The audited consolidated financial information of the Offeror is as follows:

	Year ended 31 December	
	2018	**2019**
	RMB'000	*RMB'000*
Net revenue	126,089	39,688
Loss before income tax	(491,339)	(661,928)
Net loss	(459,394)	(654,286)

	As at 31 December	
	2018	**2019**
	RMB'000	*RMB'000*
Total assets	1,246,584	695,779
Total liabilities	111,634	111,861
Total shareholders' equity	1,105,562	569,069

Implications under the GEM Listing Rules

As at the Latest Practicable Date, the Subscriber is interested in 127,871,432 Shares, representing approximately 33.74% of the entire issued share capital of the Company, and the Subscriber is the controlling shareholder of the Company. As such, the Subscriber is a connected person of the Company under Chapter 20 of the GEM Listing Rules, and the Subscription constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules, and is subject to the announcement, reporting and the Listing Rules Independent Shareholder's approval requirements under the GEM Listing Rules.

III. THE ACQUISITION

On 28 January 2021 (after trading hours of the Stock Exchange), the Purchaser, a wholly-owned subsidiary of the Company, and the Sellers entered into the Acquisition Agreement, pursuant to which the Purchaser has conditionally agreed to purchase and the Sellers have conditionally agreed to sell the Sale Interest (representing 49% equity interest of the Target) for a cash consideration of RMB88.2 million (equivalent to approximately HK$105.8 million) in accordance with the terms and conditions of the Acquisition Agreement.

The Acquisition Agreement

Set out below is a summary of the principal terms of the Acquisition Agreement.

Date:

28 January 2021

Parties:

(1) 樂透互娛信息技術(深圳)有限公司 (Loto Interactive Information Technology (Shenzhen) Limited), as the Purchaser

(2) 深圳市誠佑科技有限公司 (Shenzhen Chengyou Technology Co., Ltd.), as the Seller A

(3) Mr. Guo Xiaoquan (郭筱荃), as the Seller B

To the best knowledge, information and belief of the Directors having made reasonable enquiries, each of the Sellers and the ultimate beneficial owners of Seller A are third parties independent of the Company and its connected persons (as defined in the GEM Listing Rules). Each of the Sellers and the ultimate beneficial owners of Seller A are not a Shareholder and do not hold any Shares in the Company.

The Sale Interest

The Purchaser has conditionally agreed to acquire, and the Sellers have conditionally agreed to sell, the Sale Interest, which represents an aggregate of 49% of the equity interest of the Target (as to 39% of the equity interest of the Target from the Seller A and 10% of the equity interest of the Target from the Seller B). Further information regarding the Target is set out in the section headed "Information about the parties to the Acquisition – the Target" below.

The Acquisition Consideration

The Acquisition Consideration for the Sale Interest is RMB88.2 million (equivalent to approximately HK$105.8 million) in cash. The Acquisition Consideration shall be payable by the Purchaser to the Sellers in the following manner:

(a) a refundable first payment of RMB52.92 million (equivalent to approximately HK$63.5 million) or 60% of the Acquisition Consideration (the "**First Payment**") shall be paid to the Sellers in cash within five Business Days after the Acquisition Completion; and

(b) the remaining balance in the sum of RMB35.28 million (equivalent to approximately HK$42.3 million) or 40% of the Acquisition Consideration shall be paid to the Sellers in cash within five Business Days following the date on which the industry and commercial registration relating to the transfer of the Sale Interest from the Sellers to the Purchaser having been completed.

The Acquisition Consideration will be funded by the net proceeds raised by the Company through the Subscription.

Basis of the Acquisition Consideration

The Acquisition Consideration was arrived at after arm's length negotiations between the parties to the Acquisition Agreement and primarily determined with reference to, among other things, the following factors:

(a) the historical business operation and financial performance of the Target, including that the Target recorded audited net profit after tax for the year ended 31 December 2020 of approximately RMB7.9 million;

(b) the future business prospects of the Target in light of (i) the favorable governmental policies including "Proposals of the Central Committee of the Communist Party of China on Formulating the Fourteenth Five-Year Plan for National Economic and Social Development and the Long-term Goals for 2035" (《中華人民共和國國民經濟和社會發展第十四個五年規劃綱要和二〇三五年遠景目標的建議》) which aims to, amongst others, accelerate the construction of 5G mobile communications, industrial internet,and big data centres and "Guiding Opinions on Accelerating the Establishment of a National Integrated Big Data Centre Collaborative Innovation System" (《關於加快構建全國一體化大資料中心協同創新體系的指導意見》) which states that the PRC government will promote and develop big data centres, including optimizing the network and energy resources to construct innovative big data centres, enhancing data centres infrastructure, improving data transfer efficiency and developing big data applications, etc.; and (ii) increasing demand for data centres market in the PRC as a result of the rapid development of emerging technologies, including 5G, cloud computing, big data, blockchain and internet of things which drives up the demand for data processing, storage and transmission capacity;

(c) trading multiples of price-to-earning ratio (the "**P/E Ratio**") and price-to-book value ratio (the "**P/B Ratio**") of an exhaustive list of three industry comparable companies in the market ("**Acquisition Comparables**"), which were selected for comparison on the basis that they are companies listed on the Stock Exchange, Shenzhen Stock Exchange and Shanghai Stock Exchange which are principally engaged in the data centre services business which contributed over 50% of the revenue and recorded net profit for the latest annual financial results, further details of the P/E Ratio and P/B Ratio are set out in the paragraph headed "Comparison Analysis of Acquisition Comparables" below;

(d) the net asset value attributable to the Sale Interest in the amount of approximately RMB76.9 million (equivalent to approximately HK$92.3 million) as at 31 December 2020; and

(e) the benefits to be derived by the Group upon the Acquisition Completion as described under the section headed "Reasons for and benefits of the Acquisition" in this circular.

Companion Analysis of Acquisition Comparables

	Company name (Stock code)	Closing price on Last Trading Day *HK$*	Market capitalization *HK$ million*	Latest published net profit attributable to shareholders prior to the Last Trading Day *HK$ million*	Latest published net assets attributable to shareholders prior to the Last Trading Day *HK$ million*	P/E Ratio *(times)*	P/B Ratio *(times)*
1	SUNeVision Holdings Ltd (1686.HK)	7.26	16,957.7	694.3	4,311.3	24.4	3.9
2	Guangdong Aofei Data Technology Co., Ltd. (300738.SZ)	44.26	9,383.4	124.6	951.1	75.3	9.9
3	Shanghai AtHub Co., Ltd (603881.SH)	70.68	16,606.1	132.4	3,438.8	125.4	4.8
					Maximum	125.4	9.9
					Minimum	24.4	3.9
					Median	75.3	4.8
					Average	75.1	6.2
		The Target	105.8	9.5	188.2	22.7 *(Note 1)*	1.1 *(Note 2)*

Source: Stock Exchange (www.hkex.com.hk)

Notes:

1. The implied P/E Ratio of the Target was calculated by the Acquisition Consideration divided by the net profit of the Target for the year ended 31 December 2020 after adjusted by the Sale Interest.

2. The implied P/B Ratio of the Target was calculated by the Acquisition Consideration divided by the net assets of the Target as at 31 December 2020 after adjusted by the Sale Interest.

3. For the purpose of this table, conversion of RMB into HK$ in relation to the respective financial figures of the Acquisition Comparables and the Target denominated in RMB (if applicable and if any) is calculated at the approximate exchange rate of RMB1 to HK$1.2. This exchange rate is for illustration purpose only and does not constitute a representation that any amounts have been, could have been, or may be exchanged at this or any other rate at all.

As illustrated in the table above, the P/E Ratio of the Acquisition Comparables ranged from approximately 24.4 times to approximately 125.4 times with a median of approximately 75.3 times and an average of approximately 75.1 times; the P/B Ratio of the Acquisition Comparables ranged from approximately 3.9 times to approximately 9.9 times with a median of approximately 4.8 times and an average of approximately 6.2 times. The Directors consider that (i) the implied P/E Ratio of the Target at approximately 22.7 times is below the P/E Ratio of all Acquisition Comparables; and (ii) the implied P/B Ratio of the Target at approximately 1.1 times is also below the P/B Ratio of all Acquisition Comparables.

As at the Latest Practicable Date, each of Ms. Zhang Jing, Ms. Huang Lilan and Mr. Yuan Qiang holds positions in the Subscriber and taking into account that the Subscription and the Acquisition are inter-conditional upon each other, they had abstained from the Board meeting approving the Acquisition Agreement.

Mr. Yan Hao is a party presumed to be acting in concert with the Offeror by virtue of the fact that he has a close working relationship with Ms. Zhang Jing, Ms. Huang Lilan and Mr. Yuan Qiang (each of whom holds positions in the Subscriber) and is privy to the discussion and negotiation of the Subscription with the Offeror. Taking into account that (i) Mr. Yan Hao, being the executive director and chief executive officer of the Company, was only involved in the discussion and negotiation of the Subscription in the capacity of the representative of the Company, which is a party to the Subscription; and (ii) Mr. Yan Hao does not hold any interests or positions in the Subscriber, the Board is of the view that Mr. Yan Hao does not have material interest in the Acquisition and he was not required to abstain from voting on the relevant board resolutions in accordance with the articles of association of the Company. As such, Mr. Yan Hao has not abstained from voting on such board resolutions.

Although the Acquisition Consideration is at slight premium over the net assets value attributable to the Sale Interest, taking into account of the positive historical financial performance of the Target, the future business prospects of the Target in light of the vibrant data centre industry in the PRC, it is expected that the Target would continue to would bring positive impact to the Group's earnings. Having considered the factors above, the Directors (excluding Ms. Zhang Jing, Ms. Huang Lilan and Mr. Yuan Qiang as the Subscription and the Acquisition are inter-conditional upon each other) consider that the Acquisition Consideration is fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

Conditions precedent to the Acquisition Completion

Acquisition Completion shall be conditional upon the following Acquisition Conditions having been satisfied or waived (as the case may be):

(i) the transactions contemplated by the Subscription Agreement having become unconditional in accordance with its terms (other than any condition relating to the Acquisition Agreement having become unconditional);

(ii) the passing of an ordinary resolution by the Shareholders at the EGM for approving the Acquisition Agreement and the transactions contemplated thereunder in accordance with the applicable law (including the GEM Listing Rules);

(iii) all necessary approvals, consents, waivers and/or authorizations required by the relevant governmental, regulatory authorities and other third parties (if any) (save for the industry and commercial registration relating to the transfer of the Sale Interest from the Sellers to the Purchaser) having been obtained;

(iv) the representations and warranties made by the Sellers under the Acquisition Agreement being true, accurate and not misleading in all respects and with no material omission, and that no events have occurred that would result in any breach of such sellers' warranties or any clauses of the Acquisition Agreement as at the Acquisition Completion; and

(v) each of the Sellers and the Purchaser having obtained all necessary acknowledgements, consents and approvals in respect of the Acquisition Agreement and the transactions contemplated thereunder, and such acknowledgements, consents and approvals having remained in full force and effect upon the Acquisition Completion.

The Purchaser may at any time prior to the Acquisition Long Stop Date waive in writing Acquisition Condition (iv). Apart from Acquisition Condition (iv), none of the Acquisition Conditions is capable of being waived by the Purchaser or the Sellers. As at the Latest Practicable Date, save for the approval of the Shareholders set out above in condition (ii) and the industry and commercial registration relating to the transfer of the Sale Interest, the Company does not foresee any other mandatory approvals, consents, waivers and/or authorizations required to be obtained prior to the Acquisition Completion in respect of condition (iii). As at the Latest Practicable Date, none of the Acquisition Conditions had been fulfilled and the Purchaser had no intention to waive Acquisition Condition (iv).

The Sellers shall arrange for the industry and commercial registration procedure relating to the transfer of the Sale Interest from the Sellers to the Purchaser within five Business Days following the date of First Payment (or such other date as the Purchaser and the Sellers may mutually agree in writing). In the event that the industry and commercial registration procedure cannot be completed for any reasons, the Seller shall return the First Payment in full without interest to the Purchaser within two Business Days after the receipt of written notice from the Purchaser and the Acquisition Agreement shall be terminated forthwith.

In the event that the Acquisition Completion does not take place by the Acquisition Long Stop Date, the Purchaser and the Sellers can delay the Acquisition Completion to a later date in writing. In the event that the Purchaser and the Sellers cannot agree to a later date, either the Purchaser or the Sellers shall be entitled to terminate the Acquisition Agreement by written notice to the other party, and all rights and obligations of the Purchaser and the Sellers thereunder shall cease and terminate save for accrued rights and obligations of the Purchaser and the Sellers under the Acquisition Agreement.

After making reasonable enquiry with its PRC legal adviser, the Company understands that the industry and commercial registration relating to the transfer of the Sale Interest is procedural in nature and the Company does not currently expect to encounter any legal obstacle in completing the registration. In arriving at the aforementioned view, the Company has made due diligence and online public searches against the Sellers and the Sale Interest and it is not aware of any encumbrance over the Sale Interest or any legal proceedings and claims against the Sellers and the Sale Interest as of the Latest Practicable Date. Upon the Acquisition Completion, the Subscription Completion would also have taken place as they are inter-conditional, and the Offers will proceed, and it is the intention of the Offeror to proceed to make the Offers even in the unlikely event that the industry and commercial registration in relation to the Acquisition is not successful.

The Acquisition Completion

The Acquisition Completion shall take place within ten Business Days after the satisfaction or waiver (as the case may be) of all the Acquisition Conditions (or such other date as the Purchaser and the Sellers may mutually agree in writing). The Company intends the Acquisition Completion shall take place on the same day of the Subscription Completion.

Financial effect of the Acquisition on the Group

As at the Latest Practicable Date, the Group is interested in 51% of the equity interest of the Target. Upon Completion, the Target will become an indirect wholly-owned subsidiary of the Company and its financial results, assets and liabilities of will continue to be consolidated in the consolidated financial statements of the Group.

Earnings

Upon Acquisition Completion, the Target will become wholly-owned subsidiary of the Company and the Group will be entitled to the entire profit of the Target. As set out in the accountants' report of the Target in Appendix II to this circular, the Target recorded revenue and net profit for the year ended 31 December 2020 of approximately RMB145.9 million and RMB7.9 million respectively. As such, the Acquisition is expected to have a positive effect on the net profit of the Group upon Acquisition Completion as the Group will be entitled to the entire profit of the Target, instead of sharing of profit to non-controlling interest of the Target.

Assets and liabilities

As stated in the 2020 interim report of the Company, the total assets, total liabilities and net assets of the Group as at 30 June 2020 was approximately HK$454.0 million, HK$81.2 million and HK$372.9 million, respectively. According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to this circular, assuming the Subscription and the Acquisition had been completed on 30 June 2020, the total assets and net assets of the Enlarged Group as at 30 June 2020 would be approximately HK$451.6 million and HK$370.5 million respectively, representing a slight decrease by approximately HK$2.4 million when compared to each of the total assets and net assets of the Group as at 30 June 2020. There is no change to the total liabilities of the Enlarged Group as at 30 June 2020 and the amount of the total liabilities of the Enlarged Group would remain at approximately HK$81.2 million. Furthermore, the registered capital of the Target is RMB180 million, among which RMB150 million has been paid up. Upon Acquisition Completion, the Group will be liable to fulfil its payment obligation to pay up the unpaid capital of the Target in the amount of RMB30 million. As the Target will become a wholly-owned subsidiary of the Company upon Acquisition Completion, the liability for such unpaid capital to the Target will not have impact to the net asset of the Enlarged Group. As such, the Subscription and the Acquisition are expected to have an overall slightly negative impact to the net assets value of the Group. For details of the unaudited pro forma financial information of the Enlarged Group, please refer to Appendix V to this circular.

It should be noted that the aforementioned analysis is for illustrative purposes only and does not purport to represent how the financial position of the Group will be upon the completion of the Acquisition.

Information about the parties to the Acquisition

The Purchaser is a company established in the PRC with limited liability on 14 December 2017 and its principal business activity is the provision of information technology and other technical services in connection with the big data centre. The Purchaser is an indirect wholly-owned subsidiary of the Company.

The Seller A is a company established in the PRC with limited liability on 17 April 2019 and its principal business activity is data processing and provision of application software services. It is ultimately beneficially owned by Yang Yajun (楊亞軍) as to 94% and Wang Yi (王毅) as to 6%. Each of the Seller A and its beneficial owners are independent of the Company and its connected persons (as defined in the GEM Listing Rules) and are not a shareholder of the Company.

The Seller B is an individual and he is independent of the Company and its connected persons (as defined in the GEM Listing Rules). The Seller B has engaged in the education industry and the electric power industry, and he has more than 20 years' experience working in the electric power industry and is not a shareholder of the Company.

Each of the Seller A and Seller B is a passive investor of the Target and they do not participate in any management or daily operation of the Target. The Board does not consider that their disposal of the Sale Interest would have an any adverse operation impact to the Target.

The Target

The Target is a company established in the PRC with limited liability on 25 April 2019 and its principal business activity is data processing and provision of application software services. At the time of incorporation, the Target is a company established by the Group and the Seller A in which the Group and the Seller A owned 51% and 49%, respectively. The Seller A subsequently sold its 10% equity interest of the Target to the Seller B. Prior to such sale, the Seller A consulted with the Company on the proposed sale to the Seller B. In consideration of the substantial experience possessed by the Seller B in the electric power industry, which the Group considered to be relevant and helpful with respect to the sourcing of electricity supply contract in early stage before the commencement of operation of the Target, the Group agreed to introduce the Seller B as an investor of the Target. As at the Latest Practicable Date, the Target is an indirect 51%-owned subsidiary of the Company, and the remaining 39% and 10% equity interest in the Target is held by Seller A and Seller B, respectively.

As at the Latest Practicable Date, the registered capital of the Target is RMB180 million, among which RMB76.5 million, RMB58.5 million and RMB15 million has been paid up by the Group, the Seller A and the Seller B respectively in pro rata to their equity interests in the Target. Upon Subscription Completion, the Target will become a wholly-owned subsidiary of the Company, and the Group will be liable to pay up the remaining unpaid registered capital in the amount of RMB30 million on or before 31 December 2029 in accordance with the timeline prescribed in articles of association of the Target. The Group expects to finance such capital investment by its operating income.

The Target is operating one of the three big data centres of the Group, namely Ganzi Big Data Centre, which has commenced its operation since mid of 2020. Ganzi Big Data Centre has a gross area of approximately 10,500 square meter, it has an operation capacity of providing data analysis and storage services for up to 136,000 data processors at the same time, accounting for approximately 60% of total production capacity of the Group in terms of number of data processors. The Target is principally engaged in the provision of premises, hardware support, power supply, ancillary supervision and management services to its clients. The services provided by the Target cover a full range from monitoring the average utilisation rate and working status of data processors to supervising the overall safety and security of both physical environment and internet connection within the big data centres. The customers of the Group's big data centres are mainly engaged in cryptocurrency mining business.

The Target is committed to become the industry benchmark of big data centre services, in terms of scale, qualification, stability of power system, or environmental protection. Upon the Acquisition Completion, the Target will further strengthen marketing and promotion to attract new users and build up its own brand name in the next one to two years, make further investment to optimize the service content including but not limited to accelerating the development of other value-added services to attract more high-quality customers in three to five years and strive to increase the capacity of the big data centre in the long run, which would bring more considerable revenue to the Group. The Group currently has no plan to inject additional financial resources to fund the development plan of the Target. The Group will strive to seek changes, adhere to the spirit of innovation, and leverage on its core experience and corporate resources to achieve long-term benefits for the Group and its shareholders.

The table below sets out selected financial information of the Target based on audited financial statements for the period since its incorporation and up to 31 December 2019 and for the year ended 31 December 2020 adopting the Hong Kong Financial Reporting Standard:

	For the period since incorporation and up to 31 December 2019 *(audited, approximately RMB)*	**For the year ended 31 December 2020** *(audited, approximately RMB)*
Net (loss)/profit before tax	(1.1) million (equivalent to approximately HK$ (1.3) million)	10.2 million (equivalent to approximately HK$12.2 million)
Net (loss)/profit after tax	(1.1) million (equivalent to approximately HK$ (1.3) million)	7.9 million (equivalent to approximately HK$9.5 million)

The audited net asset value of the Target is approximately RMB156.9 million (equivalent to approximately HK$188.3 million) as at 31 December 2020.

Reasons for and benefits of the Acquisition

The Group is principally engaged in (i) the provision of data analysis and storage services; (ii) the distribution of mobile gaming; and (iii) the money lending business in Hong Kong.

The Target was incorporated in 2019 and has commenced its operation of big data center service since mid of 2020. Taking into account the increasing demand for big data center services in the PRC and the marketing effort in promoting its services by the Target, the Target recorded audited net profit after tax for the year ended 31 December 2020 of approximately RMB7.9 million. By acquiring an additional 49% equity interest in of the Target, the Target will become a wholly-owned subsidiary of the Company and the Group will be entitled to the entire profit of the Target. The Acquisition will enable the Company to obtain full management control of the Target, thereby achieving an improvement in management operational efficiency. On the other hand, the Group possesses expertise in data center business and has customer base in the PRC. The Directors believe that the Acquisition is in line with the Company's business development strategy and will achieve commercial synergies to the existing principal business of the Group, which in turn bring satisfactory returns to the Company and its Shareholders as a whole in the future. The Acquisition represents a good opportunity to fully consolidate the shareholding in the Target and will improve the flexibility of the Group in driving the future growth of the Target.

In view of the above, the Directors (excluding Ms. Zhang Jing, Ms. Huang Lilan and Mr. Yuan Qiang who had abstained from giving their view on the Acquisition Agreement and the transactions contemplated thereunder as they hold positions in the Subscriber and considering that the Subscription and the Acquisition are inter-conditional upon each other) are of the view that the terms of the Acquisition Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Implications under the GEM Listing Rules

As one or more of the applicable percentage ratios (as defined in the GEM Listing Rules) in respect of the Acquisition are more than 25% but are all less than 100%, the Acquisition constitutes a major transaction for the Company under the GEM Listing Rules, and is therefore subject to the reporting, announcement and Shareholders' approval requirements pursuant to Chapter 19 of the GEM Listing Rules.

IV. PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the existing authorised share capital of the Company is HK$55,000,000 divided into 550,000,000 Shares of which 379,023,983 Shares are in issue and fully paid or credited as fully paid. In light of the Subscription and in order to accommodate for future expansion and growth of the Company and to provide the Company with greater flexibility to raise funds by allotting and issuing Shares in the future as and when necessary, the Board proposes to increase the authorised share capital of the Company from HK$55,000,000 (divided into 550,000,000 Shares) to HK$65,000,000 (divided into 650,000,000 Shares) by the creation of an additional 100,000,000 Shares which shall rank *pari passu* in all respects with the existing Shares in issue. The Increase in Authorised Share Capital is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM.

V. POSSIBLE UNCONDITIONAL MANDATORY CASH OFFERS

As at the Latest Practicable Date, the Subscriber (i.e. the Offeror) and parties acting in concert with it (including Mr. Law, Ms. Zhang Jing, Ms. Huang Lilan, Mr. Yuan Qiang and Mr. Yan Hao) are beneficially interested in 128,192,632 Shares (representing approximately 33.82% of the issued Shares as at the date of this the Latest Practicable Date). Immediately following the Subscription Completion, the Offeror and parties acting in concert with it (including Mr. Law, Ms. Zhang Jing, Ms. Huang Lilan, Mr. Yuan Qiang and Mr. Yan Hao) will be interested in (i) a total of 297,547,471 Shares, representing approximately 54.26% of the enlarged issued share capital of the Company (assuming no Options has been exercised at or prior to the Subscription Completion and there are no other changes to the total issued share capital of the Company from the Latest Practicable Date to the Subscription Completion); and (ii) a total of 312,614,271 Shares, representing approximately 53.23% of the enlarged issued share capital of the Company (assuming all the Options have been exercised at or prior to the Subscription Completion and there are no other changes to the total issued share capital of the Company from the Latest Practicable Date to the Subscription Completion).

Upon the Subscription Completion and pursuant to Rule 26.1 and Rule 13.5 of the Takeovers Code, the Offeror will be required to make the Share Offer to acquire all the Offer Shares and the Option Offer to cancel all the Options.

As at the Latest Practicable Date, the Company has (i) 379,023,983 Shares in issue; and (ii) 38,903,600 Options conferring rights to subscribe for 38,903,600 new Shares with exercise prices ranging from HK$0.26 to HK$2.00 per Option. Save for the Options, the Company has no other outstanding convertible securities, warrants, options or derivatives in issue which may confer any rights to subscribe for, convert or exchange into Shares as at the Latest Practicable Date.

Please refer to the Joint Announcements for more details of the Offers.

Shareholding structure of the Company

The table below sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon Subscription Completion but before the Offers are made (assuming none of the Options have been exercised at or prior to Subscription Completion); and (iii) immediately upon Subscription Completion but before the Offers are made (assuming all of the Options have been exercised at or prior to Subscription Completion):

Shareholders	As at the Latest Practicable Date		Immediately upon Subscription Completion but before the Offers are made (assuming none of the Options have been exercised at or prior to the Subscription Completion)		Immediately upon Subscription Completion but before the Offers are made (assuming all of the Options have been exercised at or prior to the Subscription Completion)	
		(approximately)		*(approximately)*		*(approximately)*
	Number of Shares	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*
The Offeror and parties acting in concert with it						
The Offeror	127,871,432	33.74	297,226,271	54.20	297,226,271	50.61
Ms. Zhang Jing	137,200	0.04	137,200	0.03	3,704,000	0.63
Mr. Yan Hao	–	–	–	–	3,300,000	0.56
Ms. Huang Lilan	–	–	–	–	2,000,000	0.34
Mr. Yuan Qiang	–	–	–	–	6,200,000	1.06
Mr. Law	184,000	0.05	184,000	0.03	184,000	0.03
Independent non-executive Directors						
Dr. Lu Haitian	–	–	–	–	400,000	0.07
Mr. Lin Sen	–	–	–	–	400,000	0.07
Mr. Huang Jian	–	–	–	–	200,000	0.03
Individual Shareholders under the Irrevocable Undertakings (other than the parties acting in concert with the Offeror)						
Ms. Mak Lam	15,160,000	4.00	15,160,000	2.76	15,160,000	2.58
Mr. Li Qi	15,160,000	4.00	15,160,000	2.76	15,160,000	2.58
Mr. Mei Siyuan	6,316,000	1.67	6,316,000	1.15	6,316,000	1.08
Other public Shareholders	214,195,351	56.51	214,195,351	39.06	237,032,151	40.35
Total	**379,023,983**	**100.00**	**548,378,822**	**100.00**	**587,282,422**	**100.00**

Notes:

(i) Given each of Ms. Zhang Jing, Ms. Huang Lilan and Mr. Yuan Qiang holds positions in the Subscriber and that Mr. Yan Hao is an executive Directors of the Company who has a close working relationship with the aforementioned Directors and is privy to the discussion and negotiation of the Subscription with the Offeror, they are presumed to be parties acting in concert with the Offeror.

(ii) Mr. Law is a former director, chairman and chief executive officer of the Offeror and is a party acting in concert with the Offeror.

(iii) Certain percentage figures included in this table have been subject to rounding adjustments. Figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

VI. RE-ELECTION OF THE RETIRING DIRECTORS

As disclosed in the announcement of the Company dated 7 August 2020, Mr. Huang Jian was appointed by the Board as an independent non-executive Director with effect from 7 August 2020. As disclosed in the announcement of the Company dated 1 September 2020, Mr. Yan Hao was appointed by the Board as an executive Director with effect from 1 September 2020. In accordance with Article 86 (3) of the articles of association of the Company, any Director so appointed by the Board shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the Board), and shall then be eligible for re-election at that meeting.

Mr. Yan Hao and Mr. Huang Jian, being eligible, will offer themselves for re-election at the EGM.

The Company has in place a nomination policy which sets out, inter alia, the criteria and procedures in nominating and selecting candidates to be appointed or re-appointed as Directors. In the context of re-appointment of any existing member of the Board, the nomination committee of the Company makes recommendation to the Board for its consideration and recommendation, for the proposed candidates to stand for re-election at a general meeting. The Board, having considered the recommendation of the nomination committee of the Company, is of the view that the retiring Directors have contributed positively to the Company with their extensive knowledge and experience in various fields, thus providing invaluable contribution and diversity of the Board.

The ordinary resolutions proposed for the re-election of Mr. Yan Hao as an executive Director and Mr. Huang Jian as an independent non-executive Director will be set out in the notice of EGM and the proxy form. Details of the Directors who are subject to re-election at the EGM are set out in Appendix VI to this circular in accordance with the relevant requirements of the GEM Listing Rules.

VII. EXTRAORDINARY GENERAL MEETING

A notice convening the EGM is set out on pages EGM-1 to EGM-4 of this circular for the purpose of considering and, if thought fit, approving, among other things, the Subscription Agreement and the transactions contemplated thereunder, the allotment and issue of the Subscription Shares, the granting of the Specific Mandate, the Acquisition Agreement and the transactions contemplated thereunder, the Increase in Authorised Share Capital and the re-election of the retiring Directors.

With respect to the Subscription Agreement and the transactions contemplated thereunder, the Subscriber and its associates and those who are interested in the Subscription Agreement and the transactions contemplated thereunder will be required to abstain from voting on the resolution in relation to the Subscription Agreement and the transactions contemplated thereunder at the EGM. With respect to the Acquisition Agreement and the transactions contemplated thereunder, taking into account that the Subscription and the Acquisition are inter-conditional upon each other, the Subscriber and its associates will abstain from voting on the resolution approving the Acquisition Agreement and the transactions contemplated thereunder at the EGM. As at the Latest Practicable Date, to the best knowledge, information and belief of the Directors having made all reasonable enquiries, save as aforementioned, no other Shareholder has a material interest in the Subscription Agreement, the Acquisition Agreement and the respective transactions contemplated thereunder, the Increase in Authorised Share Capital or the re-election of the retiring Directors, and therefore no other Shareholder is required to abstain from voting at the EGM on the relevant resolutions.

The ordinary resolutions to be proposed at the EGM will be determined by way of poll by the Listing Rules Independent Shareholders and the Shareholders (as the case may be).

A form of proxy for use at the EGM is enclosed with this circular. Whether or not a Shareholder is able to attend the EGM, he is requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same as soon as possible to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a Shareholder from attending and voting in person at the extraordinary general meeting or any adjournment thereof (as the case may be) should he so wish.

VIII. RECOMMENDATION

Your attention is drawn to the letter from the Listing Rules Independent Board Committee containing its recommendations to the Listing Rules Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder set out on pages 32 to 33 of this circular; and the letter from the Independent Financial Adviser to the Listing Rules Independent Board Committee and the Listing Rules Independent Shareholders containing its recommendation in respect of the Subscription Agreement and the transactions contemplated thereunder set out on pages 34 to 65 of this circular.

The Directors (excluding Ms. Zhang Jing, Ms. Huang Lilan and Mr. Yuan Qiang who had abstained from giving their view on the Subscription Agreement and the transactions contemplated thereunder as they hold positions in the Subscriber and including members of the Listing Rules Independent Board Committee, after taking into account the advice of the Independent Financial Adviser) consider that although the entering into the Subscription Agreement is not in the ordinary and usual course of business of the Group, the terms of the Subscription Agreement and the transactions contemplated thereunder are on normal commercial terms and fair and reasonable so far as the Listing Rules Independent Shareholders are concerned, and the entering into the Subscription Agreement is in the interest of the Company and the Shareholders as a whole.

The Directors consider that the terms of the Acquisition Agreement and the transactions contemplated thereunder are fair and reasonable and on normal commercial terms or better so far as the Shareholders are concerned. The Acquisition Agreement and the transactions contemplated thereunder, the Increase in Authorised Share Capital and the re-election of the retiring Directors are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Board (including the Listing Rules Independent Board Committee having taken into account the advice of the Independent Financial Adviser) recommends the Listing Rules Independent Shareholders and the Shareholders (as the case may be) to vote in favour of the ordinary resolutions set out in the notice of the EGM enclosed to this circular.

Yours faithfully,
For and on behalf of the Board of
Loto Interactive Limited
Yan Hao
Chief Executive Officer and Executive Director

The following is the text of a letter from the Listing Rules Independent Board Committee setting out its recommendation to the Listing Rules Independent Shareholders in relation to the Subscription Agreement and the transaction contemplated thereunder.

乐透互娱
LOTO INTERACTIVE

Loto Interactive Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8198)

11 March 2021

To the Listing Rules Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION
RELATING TO SHARE SUBSCRIPTION UNDER SPECIFIC MANDATE

We refer to the circular issued by the Company dated 11 March 2021 (the "**Circular**") to the Shareholders of which this letter forms part. Unless otherwise specified, terms defined in the Circular shall have the same meanings in this letter.

We have been appointed by the Board to advise the Listing Rules Independent Shareholders in respect of the terms of the Subscription Agreement and the transactions contemplated thereunder, details of which are set out in the "Letter from the Board" contained in the Circular. The Independent Financial Adviser has been appointed to advise the Listing Rules Independent Shareholders and us in this regard.

Details of the advice and the principal factors and reasons which the Independent Financial Adviser has taken into consideration in giving such advice are set out in the "Letter from the Independent Financial Adviser" in the Circular. Your attention is also drawn to the "Letter from the Board" in the Circular and the additional information as set out in the appendix hereto.

Having taken into account the terms of the Subscription Agreement and the transactions contemplated thereunder, and the recommendation of the Independent Financial Adviser as stated in its letter of advice, we are of the opinion that although the entering into the Subscription Agreement is not in the ordinary and usual course of business of the Group, the terms of the Subscription Agreement and the transactions contemplated thereunder are on normal commercial terms and fair and reasonable so far as the Listing Rules Independent Shareholders are concerned, and the entering into the Subscription Agreement is in the interest of the Company and the Shareholders as a whole. We, therefore, recommend that you vote in favour of the resolution to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Listing Rules Independent Board Committee

Lu Haitian	**Lin Sen**	**Huang Jian**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the full text of the letter from Octal Capital Limited to the Listing Rules Independent Board Committee and the Listing Rules Independent Shareholders in respect of the terms of the Subscription Agreement prepared for the purpose of inclusion in this circular.

金融有限公司
OCTAL Capital Limited

Octal Capital Limited
801-805, 8/F, Nan Fung Tower
88 Connaught Road Central
Hong Kong

11 March 2021

To the Listing Rules Independent Board Committee and the Listing Rules Independent Shareholders

Dear Sirs,

CONNECTED TRANSACTION SHARE SUBSCRIPTION UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to the Listing Rules Independent Board Committee and the Listing Rules Independent Shareholders in respect of the Subscription and the transactions contemplated thereunder, details of which are contained in the circular to the Shareholders dated 11 March 2021 (the "**Circular**"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As set out in the letter from the Board (the "**Letter from the Board**") of the Circular, on 28 January 2021 (after trading hours of the Stock Exchange), the Company and the Subscribers entered into the Subscription Agreement, pursuant to which the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, the Subscription Shares (i.e. an aggregate of 169,354,839 Shares) at the Subscription Price of HK$0.62 per Subscription Share.

As at the Latest Practicable Date, the Subscriber is interested in 127,871,432 Shares, representing approximately 33.74 % of the entire issued share capital of the Company, and the Subscriber is the controlling shareholder of the Company. As such, the Subscriber is a connected person of the Company under Chapter 20 of the GEM Listing Rules, and the Subscription constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules, and is subject to the announcement, reporting and the Listing Rules Independent Shareholder's approval requirements under the GEM Listing Rules.

The Subscription Shares will be allotted and issued under the Specific Mandate to be sought from the Listing Rules Independent Shareholders at the EGM. Application will be made by the Company to the Stock Exchange for the granting of approval for the listing of, and permission to deal in, the Subscription Shares.

As at the Latest Practicable Date, the Subscriber (i.e. the Offeror) and parties acting in concert with it (including Mr. Law, Ms. Zhang Jing, Ms. Huang Lilan, Mr. Yuan Qiang and Mr. Yan Hao) are beneficially interested in 128,192,632 Shares (representing approximately 33.82% of the issued Shares as at the Latest Practicable Date). Immediately following the Subscription Completion, the Offeror and parties acting in concert with it will be interested in (i) a total of 297,547,471 Shares, representing approximately 54.26% of the enlarged issued share capital of the Company (assuming no Options has been exercised at or prior to the Subscription Completion and there are no other changes to the total issued share capital of the Company from the Latest Practicable Date to the Subscription Completion); and (ii) a total of 312,614,271 Shares, representing approximately 54.23% of the enlarged issued share capital of the Company (assuming all the Options have been exercised at or prior to the Subscription Completion and there are no other changes to the total issued share capital of the Company from the Latest Practicable Date to the Subscription Completion).

LISTING RULES INDEPENDENT BOARD COMMITTEE

Pursuant to Rule 20.37 of the GEM Listing Rules, the Listing Rules Independent Board Committee comprising all the independent non-executive Directors who have no direct or indirect interest in the Subscription (which include Dr. Lu Haitian, Mr. Lin Sen and Mr. Huang Jian) has been established to advise the Listing Rules Independent Shareholders on the Subscription Agreement and the transactions contemplated thereunder.

We, Octal Capital Limited, have been appointed by the Company with approval from the Listing Rules Independent Board Committee to advise the Listing Rules Independent Board Committee and the Listing Rules Independent Shareholders on the Subscription Agreement and the transactions contemplated thereunder.

OUR INDEPENDENCE

During the last two years, there was no engagement between the Company or the Subscriber and us. Apart from normal professional fee payable to us by the Company in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Group or the Directors, chief executive and substantial Shareholders or the Subscriber or any of its subsidiaries or their respective associates, and any parties acting in concert with them. Therefore, we consider ourselves eligible to act as the Independent Financial Adviser to the Company under the requirements of the GEM Listing Rules. As at the Latest Practicable Date, there is no financial and business relationship between us and the Directors, chief executives of the Company, substantial Shareholders and the Subscriber or any of their respective subsidiaries or associates, and any parties acting in concert with them, and are therefore considered independent and suitable to give independent advice to the Listing Rules Independent Board Committee and the Listing Rules Independent Shareholders.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussions with the management of the Company regarding the Group, the Subscriber and the Subscription including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, the Subscribers and their respective associates nor have we carried out any independent verification of the information supplied.

As set out in the responsibility statement in Appendix VII to the Circular, 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 the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

Should there be any material changes after the Latest Practicable Date, we will notify the Listing Rules Independent Board Committee and the Listing Rules Independent Shareholders as soon as possible.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation in respect of the Subscription, we have taken into account the following principal factors and reasons:

1. Background to and reasons for the Subscription

(i) Information of the Group, the Subscriber and the Purchaser

The Company

The Company is an investment holding company. Its subsidiaries are principally engaged in (i) provision of data analysis and storage services; (ii) distribution of mobile gaming; and (iii) the money lending business in Hong Kong.

The Subscriber

The Subscriber was incorporated in the Cayman Islands with limited liability and the shares of which are traded on the New York Stock Exchange under the ticker symbol "WBAI" since 2013. The Subscriber is principally engaged in provision of online sports lottery services and issuance and sale of sports lottery products in the PRC. The Subscriber is the controlling shareholder of the Company. The Subscriber has no relationship with the Sellers and their associates.

The Purchaser

The Purchaser is a company established in the PRC with limited liability on 14 December 2017 and its principal business activity is data processing and provision of application software services. The Purchaser is an indirect wholly-owned subsidiary of the Company.

Financial information of the Group

Set out below is a summary of the consolidated financial information of the Group for the years ended 31 December 2018 ("**FY2018**") and 2019 ("**FY2019**"), the six months ended 30 June 2019 ("**2Q2019**") and 2020 ("**2Q2020**") and the nine months ended 30 September 2019 ("**3Q2019**") and 2020 ("**3Q2020**") as extracted from the annual report of the Group for FY2019 (the "**2019 Annual Report**"), the interim report of the Group for 2Q2020 (the "**2020 Interim Report**") and the third quarter report of the Group for 3Q2020 (the "**2020 Third Quarter Report**"), respectively:

Summary of statements of profit or loss and other comprehensive income

	For the year ended 31 December		**For the nine months ended 30 September**	
	2018	**2019**	**2019**	**2020**
	(audited)	(audited)	(unaudited)	(unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue				
– Lottery business	5,457	111	112	30
– Online game services	577	2,020	1,696	780
– Big data centre services	–	62,425	21,633	280,282
– Money lending services	–	–	–	1,500
Total Revenue	**6,034**	**64,556**	**23,441**	**282,592**
Gross profit	**722**	**13,319**	**9,315**	**34,813**
(Loss) for the year/period attributable to				
– Equity shareholders of the Company	(34,087)	(33,618)	(16,724)	(32,053)
– Non-controlling interests	(694)	(1,153)	(524)	6,411
Total	**(34,781)**	**(34,771)**	**(17,248)**	**(25,642)**

Summary of statements of financial position

	As at 31 December		As at 30 June
	2018	**2019**	**2020**
	(audited)	(audited)	(unaudited)
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets	29,571	194,232	302,359
Current assets	360,369	217,683	151,677
Total assets	**389,940**	**411,915**	**454,036**
Non-current liabilities	–	1,723	940
Current liabilities	18,788	67,445	80,212
Total liabilities	**18,788**	**69,168**	**81,152**
Net assets	**371,152**	**342,747**	**372,884**

Summary of statements of cash flows

	For the year ended 31 December		For the six months ended 30 June	
	2018	**2019**	**2019**	**2020**
	(audited)	(audited)	(unaudited)	(unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Net cash (used in) operating activities	(38,788)	(12,365)	(14,953)	(24,429)
Net cash generated from/(used in) investing activities	31,541	(108,094)	(30,580)	(88,247)
Net cash (used in)/generated from financing activities	(1,408)	16,185	28,928	61,422
Cash and bank balances	**198,221**	**95,030**	**182,098**	**45,713**

The Group recorded total revenue of approximately HK$64.6 million for FY2019, representing a substantial increase of approximately HK$58.5 million or 9.7 times as compared to that for FY2018. The increase in revenue was primarily attributable to the revenue contributed by the two big data centres constructed by the Group which commenced business in March 2019 and June 2019 respectively, compared with no revenue generated from big data centre services for FY2018. The two big data centres are principally engaged in provision of premises, hardware support, power supply, ancillary supervision and management services to its clients. During the same period, the revenue contributed by the Group's lottery business decreased substantially due to the Group's suspension in sales of lottery terminals and parts for the sports lottery in view of the sluggish demand from the PRC lottery market. The increase in revenue and gross profit during FY2019 was offset by (i) the increase in staff cost of approximately HK$6.7 million due to the increased number of employees for the expansion of the big data centre service business; and (ii) the impairment provision made by the Company of approximately HK$7.7 million on investment in its associates due to the decline in its profitability, the share of loss of associates of approximately HK$1.7 million and the deregistration of the associate during FY2019. The associate, which was principally engaged in development of mobile games, discontinued its business in 2019 as a result of intense competition in the PRC mobile game industry and tightening government policies to the industry. The combination of the aforementioned factors led to a net loss of the Group of approximately HK$34.8 million for FY2019, which was roughly equivalent to that for FY2018.

As at 31 December 2019, the Group recorded net assets of approximately HK$342.7 million, representing a decrease of approximately HK$28.4 million or 7.7% as compared to that as at 31 December 2018. The decrease in net assets was mainly due to (i) the withdrawal of structured notes upon their maturity into cash for operational purpose; (ii) the repayment of the loan receivables; and (iii) the increase in trade payables, accruals and other payables, and was partially offset by the increase in property, plant and equipment for the big data centre services.

The Group's net cash used in operating activities decreased from approximately HK$38.8 million for FY2018 to HK$12.4 million for FY2019. The decrease in net cash used in operating activities was mainly due to the increase in revenue generated from the big data centres. As at 31 December 2019, the Group's cash and bank balances amounted to approximately HK$95.0 million, representing a decrease of approximately HK$103.2 million or 52.1% compared to that as at 31 December 2018. The decrease in cash and bank balances was mainly due to the cash payment for the construction of three big data centres of approximately HK$176.1 million which was partially offset by the cash received by withdrawal of structured notes amounted to approximately HK$50.0 million and the cash received by repayment of loan receivables amounted to approximately HK$49.3 million.

The Group recorded total revenue of approximately HK$282.6 million for 3Q2020, representing a substantial increase of approximately HK$259.2 million or 11 times as compared to that for 3Q2019. The increase in revenue was primarily attributable to the full period revenue contribution from the operation of the first and second big data centres of the Group during 3Q2020 as compared to their partial period revenue contribution during 3Q2019 and the third big data centres commenced operation in June 2020. The Group recorded a net loss of approximately HK$25.6 million during 3Q2020, representing an increase of approximately HK$8.4 million as compared to the net loss of approximately HK$17.2 million during 3Q2019, which was mainly attributable to (i) increase in operation expense amounted to approximately HK$14.3 million due to the expansion of big data centre services; (ii) increase in staff cost of approximately HK$8.1 million which was attributable to the increased number of employees due to expansion of the big data centre services; and (iii) decrease in interest income of approximately HK$6.7 million, which was partially offset by increase in gross profit of approximately HK$25.5 million mainly due to the commencement of operation of the Group's third big data centre.

As at 30 June 2020, the Group recorded net assets of approximately HK$372.9 million, representing an increase of approximately HK$30.1 million or 8.8% as compared to that as at 31 December 2019. The increase in net assets was mainly due to (i) increase in property, plant and equipment for the big data centre services; (ii) the increase in trade receivables; and (iii) the repayment of the amount due to a related company and was partially offset by the repayment of the loan receivables.

The Group's net cash used in operating activities increased from approximately HK$15.0 million for the six months ended 30 June 2019 to HK$24.4 million for the six months ended 30 June 2020. The increase in net cash used in operating activities was mainly due to the increase in prepayment for the construction of and the utility deposit for the big data centres. As at 30 June 2020, the Group's cash and bank balances amounted to approximately HK$45.7 million, representing a decrease of approximately HK$49.3 million or 51.9% compared to that as at 31 December 2019. The decrease in cash and bank balances was mainly due to (i) the cash payment for the construction of the third big data centre of approximately HK$93.6 million; (ii) the cash payment for data processor of approximately HK$22.3 million; and (iii) the loan advance to an independent third party amounted to approximately HK$30.0 million, which was partially offset by the cash received by repayment of loan receivables amounted to approximately HK$57.5 million and the contribution received from the non-controlling shareholders amounted to approximately HK$72.8 million.

(ii) Information of the Sellers and the Target

The Seller A

The Seller A is a company established in the PRC with limited liability on 17 April 2019 and its principal business activity is data processing and provision of application software services. It is ultimately beneficially owned by Yang Yajun (楊亞軍) as to 94% and Wang Yi (王毅) as to 6%.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of the Seller A and its beneficial owner are independent of the Company and its connected persons (as defined in the GEM Listing Rules) and are not a Shareholder.

The Seller B

The Seller B is an individual who has engaged in the education industry and the electric power industry, and he has more than 20 years' experience working in the electric power industry.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, he is independent of the Company and its connected persons (as defined in the GEM Listing Rules) and is not a Shareholder.

Save and except that the Target is owned as to approximately 49% and 51% by the Sellers and the Group respectively as at the Latest Practicable Date, there is no other relationship between the Sellers and the Group.

The Target

The Target is a company established in the PRC with limited liability on 25 April 2019 and its principal business activity is data processing and provision of application software services. As at the Latest Practicable Date, the Target is an indirect 51%-owned subsidiary of the Company, and the remaining 39% and 10% equity interest in the Target is held by Seller A and Seller B, respectively. The registered capital of the Target is RMB180 million, among which RMB150 million has been paid up.

The Target is operating one of the three big data centres of the Group, namely Ganzi Big Data Centre, which has commenced its operation since mid of 2020. Ganzi Big Data Centre has a gross area of approximately 10,500 sqm, it has an operation capacity of providing data analysis and storage services for up to 136,000 data processors at the same time, accounting for approximately 60% of total production capacity of the Group in terms of number of data processors.

Financial information of the Target

The table below sets out selected financial information of the Target based on audited financial statements for the period from 25 April 2019 to 31 December 2019 and for the year ended 31 December 2020:

Summary of statements of profit or loss and other comprehensive income

	For the period from 25 April 2019 to 31 December 2019 (audited) *RMB'000*	Year ended 31 December 2020 (audited) *RMB'000*
Revenue	**–**	**145,932**
Gross profit	**–**	**25,577**
(Loss)/profit and total comprehensive (loss)/income for the period/year	**(1,066)**	**7,924**

Summary of statements of financial position

	As at 31 December	
	2019	**2020**
	(audited)	(audited)
	RMB'000	*RMB'000*
Non-current assets	63,742	152,046
Current assets	21,150	23,436
Total assets	**84,892**	**175,482**
Current liabilities	2,458	18,624
Total liabilities	**2,458**	**18,624**
Net assets	**82,434**	**156,858**

Summary of statements of cash flows

	For the period from 25 April 2019 to 31 December 2019	Year ended 31 December 2020
	(audited)	(audited)
	RMB'000	*RMB'000*
Net cash (used in)/generated from operating activities	(10,895)	20,339
Net cash (used in) investing activities	(63,535)	(104,513)
Net cash generated from financing activities	79,426	79,234
Cash and bank balances	**4,996**	**56**

The Target incorporated on 25 April 2019 and commenced operation in June 2020, thus no revenue generated for the period from 25 April 2019 to 31 December 2019. The revenue and profit and total comprehensive income of the Target were approximately RMB145.9 million and RMB7.9 million for the year ended 31 December 2020, respectively.

As at 31 December 2020, the Target recorded net assets of approximately RMB$156.9 million, representing an increase of approximately RMB$74.4 million or 90.3% as compared to that as at 31 December 2019. The increase in net assets was mainly due to increase in property, plant and equipment as a result of the construction development of the big data centre of the Target.

As at 31 December 2020, the Target's cash and bank balances amounted to approximately RMB56,000, representing a decrease of approximately RMB4.9 million or 98.9% compared to that as at 31 December 2019. The decrease in cash and bank balances was mainly due to the cash payment for the construction of big data centre of approximately HK$104.5 million which was partially offset by the cash generated from operating activities and the proceeds from the paid in capital.

(iii) Reasons and benefits for the Subscription

As stated in the Letter from the Board, the gross proceeds of the Subscription will be approximately HK$105.0 million. The net proceeds of the Subscription are estimated to be approximately HK$103.4 million after deducting all related professional fees and other related expenses. The Company intends to use the net proceeds from the Subscription primarily for the payment of the Acquisition Consideration payable to the Sellers under the Acquisition (the "**Use of Proceeds**").

The Acquisition Consideration for the Sale Interest is RMB88.2 million (equivalent to approximately HK$105.8) in cash. Based on the unaudited consolidated management accounts of the Company for the eleven months ended 31 November 2020, the Company had bank balance and cash amounted to approximately HK$51.5 million as at 30 November 2020 which is not sufficient to satisfy the Acquisition Consideration. Accordingly, the Group proposes to conduct the Subscription to raise fund for settling the Acquisition Consideration of RMB88.2 million (equivalent to approximately HK$105.8) payable under the Acquisition Agreement while maintaining a sufficient level of general working capital of the Group.

On 24 September 2020, the Company entered into the placing agreement with the placing agent to place up to 63,168,000 placing shares to not less than six independent placees at the placing price of HK$0.26 per placing share (the "**Previous Placing**"). The Placing was completed on 9 October 2020, net proceeds of approximately HK$16.03 million has been raised. The proceeds have been used for expanding the capital base for the big data centres operations of the Group. As at the Latest Practicable Date, approximately HK6.42 million has not yet been utilized for the expansion of capital base for the Group's big data centers operations.

As advised by the Company, other than the Subscription, the Company considered the feasibility of other fundraising methods such as debt financing from bank or money lenders and other forms of equity financing to raise sufficient funding to finance the Acquisition. Although the Group recorded significant growth of revenue in its latest financial statement, there is still room for further improvement on its financial performance. The Company considered that debt financing which would incur interest expenses would hinder the ability of the Group to achieve turnaround results in the coming years. Moreover, due to the loss-making performance of the Group and lack of bank deposit and bank guarantee as security, the Group could not obtain debt financing with terms favorable to the Group. Under such circumstances, the Company considered that debt financing from banks or money lenders is not a preferable choice.

For other forms of equity financing, the Company has been actively seeking potential investors through two financial institutions to finance the funding of the Acquisition. Based on our further discussion with the Company, we understand that, due to (i) the scale of the funding required for the Acquisition; (ii) relatively short period of time for the funding to be in place; (iii) the thin trading liquidity of the Shares; and (iv) the net loss position of the Company for the recent years, none of the financial institutions could provide expected timeframe of placing or subscription of new Shares nor identify any potential investors who show interest in participating in a sizeable placing of or subscription for new Shares that would meet the funding needs of the Acquisition. In terms of rights issue and open offer, we understand from the Company that, as rights issue and open offer include issue of prospectus, appointment of underwriter and share registrar, the expected completion time would be not less than three months and the additional costs for preparing prospectus would be not less than US$350,000 as quoted from professional parties by the Company. Taking into account the lengthy process and additional administrative costs to be involved, the Company considered that rights issue and open offer are also not a preferable choice.

On the other hand, the Subscription (i) would not incur interest expenses which would hinder the Group's ability to achieve turnaround results; and (ii) requires relatively short period of time and less costly when compared to the above alternative equity financing methods, therefore the Company is of the view that the Subscription is more cost-effective and efficient as compared to above alternative fundraising methods.

In view of the proceeds of the Subscription to be used for settlement of the Acquisition Consideration, we have referred to the announcements of the Company dated 13 April 2018 and 5 March 2019 and understand that the Group acquired entire equity interest of Chengdu Yilaike Technology Co., Ltd ("**Chengdu Yilaike**") for the purpose of providing stable source of electricity supply for the Group's first big data centre in Sichuan Province. Further, as disclosed in the announcement of the Company dated 14 June 2019, the Group entered into the joint venture agreement with the Seller A in relation to the formation of the Target for the investment in and operation of the big data centre services. Leveraged from the Group's continuous effort in development of big data centre business, the big data centre business has contributed to a material extent to the ongoing growth of the Group's revenue and becomes the core business of the Group. According to the 2020 Third Quarter Report, the revenue generated from big data centre business for the nine months ended 30 September 2020 was approximately HK$280.3 million, representing a significant increase of approximately 12 times as compared with the corresponding period of 2019 and approximately 99% of the corresponding total revenue of the Group for the nine months ended 30 September 2020.

Since the acquisition of Chengdu Yilaike in 2018, the Group has focused on the big data centre business and accumulated the relevant technology and experience in big data centre industry. The Group currently operates three big data centres in Sichuan, the PRC, which in aggregate have a gross area of over 18,000 square meters, with a total operation capacity of providing data analysis and storage services for up to 225,000 data processors at the same time. The Target is operating one of the three big data centres of the Group, namely Ganzi Big Data Centre, which has commenced its operation since mid of 2020. Ganzi Big Data Centre has a gross area of approximately 10,500 sqm, it has an operation capacity of providing data analysis and storage services for up to 136,000 data processors at the same time, accounting for approximately 60% of total production capacity of the Group in terms of number of data processors. The Target recorded revenue of approximately RMB145.9 million for the year ended 31 December 2020. Further, it is notable that the Target recorded net profit of approximately RMB7.9 million for the year ended 31 December 2020, representing a turnaround from net loss of approximately RMB1.1 million in 2019. By acquiring an additional 49% equity interest in of the Target, the Target will become a wholly-owned subsidiary of the Company and the Group will be entitled to the entire profit of the Target. Moreover, we understand from the Company that the Acquisition will (i) enable the Company to obtain full management control of the Target, thereby achieving an improvement in management operational efficiency; and (ii) achieve commercial synergies to the existing big data centre business of the Group while the dedicated and experienced management and operation teams have been established by the Company since the incorporation of Chengdu Yilaike in 2018 such that the Group has been already familiar with the business and operation of big data business.

According to the "Proposals of the Central Committee of the Communist Party of China on Formulating the Fourteenth Five-Year Plan for National Economic and Social Development and the Long-term Goals for 2035" (《中華人民共和國國民經濟和社會發展第十四個五年規劃綱要和二〇三五年遠景目標的建議》)[1] which has been duly passed on 29 October 2020 in the favorably Fifth Plenary Session of the 19th Central Committee of the Communist Party of China, one of the goals is to accelerate the construction of 5G mobile communications, industrial internet, and big data centres. On 28 December 2020, the National Development and Reform Commission of the PRC published "Guiding Opinions on Accelerating the Establishment of a National Integrated Big Data Centre Collaborative Innovation System" (《關於加快構建全國一體化大資料中心協同創新體系的指導意見》)[2], it stated the PRC government will promote and develop big data centres, including optimizing the network and energy resources to construct innovative big data centres, enhancing data centres infrastructure, improving data transfer efficiency and developing big data applications, etc.

Moreover, the Ministry of Industry and Information Technology of the PRC issued the "Communications Statistics Bulletin 2020" (《2020年通信業統計公報》)[3] in January 2021. According to the bulletin, due to the rapid development on cloud computing, big data, internet of things and artificial intelligence in recent years, the total income generated from fixed data and internet of thing in the PRC increased significantly from approximately RMB168.2 billion in 2015 to approximately RMB237.6 billion in 2020, coupled with an annual increase in such total income by approximately 9.2% in 2020 as compared to 2019 of approximately RMB217.6 billion. Staying-home living style becomes common in the PRC as a result of the impact of the COVID-19 epidemic, the demand for mobile internet applications has surged, and online consumption has been more predominant. High-traffic applications, such as short videos and live broadcasts, have also driven the rapid growth of mobile internet traffic. In 2020, the average monthly mobile internet traffic per individual in the PRC was approximately 10.4GB, representing a substantial increase of 32.4% when compared to 2019. Taking into account the rapid adoption of emerging technologies, including 5G, cloud computing, big data, blockchain and internet of things, it is foreseeable that the demand for data processing, storage and transmission capacity are expected to grow in future.

Leveraging on the rapid growth of the data centres market in the PRC, the Group will strengthen marketing and promotion to attract new users, optimize the service content including but not limited to accelerating the development of other value-added services to attract more high-quality customers and strive to increase the capacity of the big data centre, which would bring more considerable revenue to the Group. The Group will also strive to seek changes, adhere to the spirit of innovation, and leverage on its core experience and corporate resources to achieve long-term benefits for the Group and the Shareholders.

Having considered that (i) the rationale under the Subscription is in line with the principal business of the Group; (ii) the financial position of the Group which is necessary to raise fund in order to complete the Acquisition; (iii) it is not cost-effective nor feasible for the Group to obtain debt financing and/or carry out other forms of equity financing; (iv) the positive historical financial performance of the Target; and (v) the prospect of the data centre industry in the PRC and the future outlook of the Group, we concur with the Directors that the Subscription is in the interest of the Company and the Shareholders as a whole.

1 http://www.gov.cn/zhengce/2020-11/03/content_5556991.htm

2 https://www.ndrc.gov.cn/xxgk/zcfb/tz/202012/t20201228_1260496.html

3 http://www.gov.cn/shuju/2021-01/26/content_5582523.htm

2. Principal terms of the Subscription Agreement

On 28 January 2021 (after trading hours of the Stock Exchange), the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, the Subscription Shares (i.e. an aggregate of 169,354,839 Shares) at the Subscription Price of HK$0.62 per Subscription Share.

Set out below is a summary of the principal terms of the Subscription Agreement.

Date

28 January 2021 (after trading hours of the Stock Exchange)

Parties

(1) the Company (as the issuer); and

(2) 500.com Limited (as the Subscriber).

Number of Subscription Shares

As at the Latest Practicable Date, the Company has a total number of 379,023,983 Shares in issue. The Subscription Shares (i.e. a total of 169,354,839 Shares) to be allotted and issued under the Subscription represent:

(1) approximately 44.7% of the total number of issued Shares as at the Latest Practicable Date;

(2) approximately 30.9% of the issued Shares of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming there are no other changes to the total issued share capital of the Company from the Latest Practicable Date to the Subscription Completion); and

(3) approximately 28.8% of the issued Shares of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming all the Options have been exercised at or prior to the Subscription Completion and there are no other changes to the total issued share capital of the Company from the Latest Practicable Date to the Subscription Completion).

Based on the closing price of the Shares of HK$0.69 per Share on 27 January 2021, the Subscription Shares have a market value of approximately HK$116.9 million. Based on the nominal value of HK$0.1 per Share, the aggregate nominal value of the Subscription Shares is HK$16,935,483.9.

Ranking of the Subscription Shares

The Subscription Shares, when issued and fully paid, shall rank pari passu in all respects with the Shares already in issue at the date of allotment and in particular will rank in full for all dividends and all other distributions declared, made or paid at any time after the date of allotment and issue.

Conditions precedent to the Subscription Completion

Subscription Completion shall be conditional upon the following Subscription Conditions having been satisfied:

(1) the passing of an ordinary resolution by the Listing Rules Independent Shareholders at the general meeting of the Company for approving the Specific Mandate and the allotment and issue of the Subscription Shares by the Company in accordance with the applicable law (including the GEM Listing Rules);

(2) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Subscription Shares on the Stock Exchange and such approval and permission remaining in full force and effect;

(3) the passing of an ordinary resolution by the Shareholders at the general meeting of the Company for approving the Increase in Authorised Share Capital;

(4) all necessary governmental approvals, consents, filings and reports for the Subscription Completion having been obtained or duly filed (as applicable) by the Company;

(5) all necessary governmental, shareholders' and the third parties' approvals, consents, filings and reports for the Subscription Completion having been obtained or duly filed (as applicable) by the Subscriber; and

(6) the transactions contemplated by the Acquisition Agreement having become unconditional in accordance with its terms (other than any condition relating to the Subscription Agreement having become unconditional).

Pursuant to the Subscription Agreement, the Subscription Conditions are not capable of being waived by the Company or the Subscriber. In respect of condition (4), save for the approval of the Listing Rules Independent Shareholders and the Stock Exchange set out in conditions (1) and (2), the Company does not foresee any other mandatory governmental approvals, consents, filings and reports for the Subscription Completion. In respect of condition (5), the Subscriber does not foresee necessary governmental, shareholders' and the third parties' approvals, consents, filings and reports required for the Subscription Completion.

Consideration for the Subscription Shares

The total consideration for the Subscription Shares payable in cash by the Subscriber shall be approximately HK$105 million. The Subscriber intends to fund the consideration payable under the Subscription Agreement with its internal resources.

Subscription Completion

The Subscription Completion shall take place within ten Business Days after the satisfaction of all the Subscription Conditions (or such other date as the Subscriber and the Company may mutually agree in writing).

In the event that the Subscription Completion does not take place by the Subscription Long Stop Date, the Company and the Subscriber shall then consult each other and discuss a later date for the satisfaction of the Subscription Conditions and the Subscription Completion as the Company and the Subscriber may agree in writing. In the event that the Company and the Subscriber cannot agree to a later date, either the Company or the Subscriber shall be entitled to terminate the Subscription Agreement by written notice to the other party and the Subscription Agreement and all rights and obligations of the Company and the Subscriber thereunder shall cease and terminate save for accrued rights and obligations of the Company and the Subscriber under the Subscription Agreement.

Subscription Price

The Subscription Price of HK$0.62 per Subscription Share represents:

(i) a discount of approximately 10.1% to the closing price of HK$0.69 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 11.9% to the average closing price of HK$0.704 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 11.8% to the average closing price of HK$0.703 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 11.5% to the average closing price of HK$0.7 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day;

(v) a discount of approximately 28.8% over the audited consolidated net asset value of the Company of approximately HK$0.87 per Share as at 31 December 2019 (based on the audited consolidated net asset value attributable to the Shareholders as at 31 December 2019 (the date to which the latest audited financial results of the Group were made up) divided by 379,023,983 Shares in issue as at the Latest Practicable Date);

(vi) a discount of approximately 20.3% over the unaudited consolidated net asset value attributable to the Shareholders of the Company of approximately HK$0.778 per Share as at 30 June 2020 (the "**Unaudited NAV per Share**") (based on the unaudited consolidated net asset value attributable to the Shareholders as at 30 June 2020 divided by 379,023,893 Shares in issue as at the Latest Practicable Date); and

(vii) a discount of approximately 38.6% to the closing price of HK$1.01 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price was determined after arm's length negotiations between the Company and the Subscriber with reference to the prevailing market price of the Shares, the recent trading volume of the Shares and the prospects of the Group.

Evaluation of the Subscription Price

(i) Historical price analysis

To assess the fairness and reasonableness of the Subscription Price, we set out the following analyses which include reviews on both the historical price of the Shares.

Set out below is a chart reflecting movements in the closing prices of the Shares as quoted on the Stock Exchange and Hang Seng Index (the "**HSI**") during the twelve-month period (i.e. the period from 1 March 2020 to the Latest Practicable Date) (the "**Review Period**"):

Source: Stock Exchange (www.hkex.com.hk)

As shown in the chart above, the closing price of the Shares ranged between HK$0.23 per Share and HK$1.6 per Share during the Review Period and the Shares had been traded below the Unaudited NAV per Share of approximately HK$0.778 per Share for most of the time during the Review Period.

After the Company published the profit warning announcement for annual results of the Company for the year ended 31 December 2019 on 4 March 2020, the closing price of the Shares gradually decreased from HK$0.65 per Share on 4 March 2020 to HK$0.51 per Share on 23 March 2020. Subsequently, the closing price of the Shares increased to HK$0.87 per Share on 22 April 2020. As advised by the Directors, the Company is not aware of any specific reason for the increase in closing price to HK$0.87 per Share on 22 April 2020. The closing price of the Shares gradually decreased after the Company announced the proposed consolidation of Shares to the lowest price of HK$0.23 per Share on 25 August 2020. The closing price of the Shares was on an upward trend after the announcement of placing of new Shares on 24 September 2020 and further increased to HK$0.80 per Share after the release of the third quarter results announcement on 6 November 2020. After the publication of the Joint Announcement on 28 January 2021 and up to the Latest Practicable Date, the closing price of the Shares bounced from HK$0.68 on 28 January 2021 (being the date of publication of the Joint Announcement) to a high of HK$1.60 on 16 February 2021 and fell down to HK$1.01 on the Latest Practicable Date. As advised by the Directors, the Company is not aware of any specific reason for the above fluctuation of closing price of the Shares during the period between the date of Joint Announcement and the Latest Practicable Date. We noted that, except for the significant fluctuation of the closing price of the Shares due to the reasons above during the Review Period, the movement of the closing price of the Shares was generally consistent with that of the HSI.

Further, the Subscription Price of HK$0.62 per Share (i) is within the range of the closing price between HK$0.23 per Share and HK$1.6 per Share and higher than the average closing price of the Share of HK$0.57 per Share during the Review Period; (ii) represents a premium of approximately 169.6% over the lowest closing price of HK$0.23 per Share, a premium of approximately 8.8% over the average closing price of approximately HK$0.57 and a discount of approximately 61.3% to the highest closing price of HK$1.6; (iii) is higher than the closing price of 138 trading days out of 250 trading days during the Review Period; and (iv) also represents a premium of approximately 138.5% over the placing price of the Previous Placing of approximately HK$0.26 per Share.

We noted that, the Board has also compared the proposed terms of the Subscription with the Previous Placing, in which the placing price of the Previous Placing was concluded at (i) approximately 17.5% discount to the closing price of the Shares on the date of signing of the placing agreement of the Previous Placing; (ii) approximately 18.5% discount to the average of closing prices of the Shares for the last five consecutive trading days immediately preceding the date of the placing agreement of the Previous Placing; and (iii) approximately 15.6% discount to the average of closing prices of the Shares for the last ten consecutive trading days immediately preceding the date of the placing agreement of the Previous Placing. On the other hand, the discounts implied by the Subscription Price to the Share's average closing price during the corresponding periods are all less than those offered to the independent third parties under the Previous Placing.

(ii) Liquidity analysis

Set out below are the number of trading days and the percentage of the Shares' average daily trading volume as compared to the then total number of issued Shares as at the end of the period/month over the twelve-month periods prior to the Last Trading Day:

Period/month	Total volume of the Shares traded (Note 2) (Shares)	Number of trading days (days)	Average daily volume (Note 2) (Shares)	Number of issued Shares as at the end of the period/month (Note 2) (Shares)	Approximately % of average daily trading volume to the then total number of issued Shares as at the end of the period/month (Note 3)
2020					
January	2,940,560	20	147,028	315,859,983	0.05%
February	1,599,920	20	79,996	315,859,983	0.03%
March	2,879,000	22	130,864	315,859,983	0.04%
April	797,360	19	41,966	315,859,983	0.01%
May	1,112,960	20	55,648	315,859,983	0.02%
June	1,888,440	21	89,926	315,859,983	0.03%
July	4,092,280	22	186,013	315,859,983	0.06%
August	1,952,740	21	92,988	315,859,983	0.03%
September	2,723,626	22	123,801	315,859,983	0.04%
October	2,758,532	18	153,252	379,023,983	0.04%
November	1,714,315	21	81,634	379,023,983	0.02%
December	1,955,060	22	88,866	379,023,983	0.02%
2021					
January (Note 1)	6,435,200	18	357,511	379,023,983	0.09%

Source: Stock Exchange (www.hkex.com.hk)

Notes:

1. For the period from 1 January 2021 to the Last Trading Day.

2. Number of Shares has been adjusted for the share consolidation.

3. Based on the total number of issued Shares as at end of the period/month.

As illustrated in the table above, the average daily trading volume of the Shares has been generally thin over the twelve-month periods prior to the Last Trading Day. The highest average daily volume was approximately 357,511 Shares in January 2021, representing approximately 0.09% of the number of issued Shares. We also notice that the average daily trading volume of the Shares was thin during the period from 1 January 2020 to the Last Trading Day, with all months less than 0.1% to the then total number of issued Shares as at the end of their respective month. Given the relatively low trading liquidity of the Shares, we consider that it is reasonable for the Subscription Price to be set at a discount to the prevailing historical closing prices of the Shares. To assess the fairness and reasonableness of the level of discount implied by the Subscription Price, we further performed comparable analysis as below.

(iii) Comparable issues analysis

In order to further assess the fairness and reasonableness of the Subscription Price, after considered the nature of the Subscription, we have identified an exhaustive list of five comparable transactions (the "**Comparable Issue(s)**") in relation to subscription/placing involving issue of new ordinary shares to connected person under specific mandate by companies listed on the GEM during the Review Period. We considered that approximately one year prior to the date of the Joint Announcement is an appropriate benchmark to reflect the recent market practice and conditions of the general prevailing market on the GEM of the Stock Exchange, and the adopted time span can cover sufficient sample of comparable subscription/placing to reflect the prevailing market trend.

We have further studied the latest financial reports of the issuers of the Comparable Issues as well as the Company and understand that, all of the issuers of the Comparable Issues and the Company (i) recorded net loss for their latest financial year prior to the respective date of subscription/placing announcement; and (ii) had a cash level which was insufficient or marginally sufficient to satisfy the use of proceeds as disclosed in their respective subscription or placing announcements. We further note that the proceeds of four Comparable Issues, out of a total of five, were used for business development which is similar to the Use of Proceeds. Accordingly, the investors and the relevant issuers under the four Comparable Issues should maintain a perspective similar to the Subscriber and the Company when determining the relevant issue prices under the four Comparable Issues, notwithstanding that their businesses are different. The proceeds of the remaining Comparable Issue was used to repay debt which is totally different from the Use of Proceeds. Based on the above reasons, we shortlisted the four Comparable Issues (the "**Shortlisted Comparable Issues**"), which we consider are the relevant and meaningful comparables of the Subscription.

	Company name (Stock code)	Business sectors	Date of announcement	Market capitalization at the date of the announcement	Net loss for the latest financial year prior to the respective date of announcement of subscription/ placing [Note 1]	Bank balance and cash as at latest balance sheet date prior to the respective date of announcement of subscription/ placing [Note 1]	Net proceeds	Issue size	Premium/ (discount) of subscription price over/ (to) the closing price of the shares on last trading day/the date of corresponding agreement	the average closing price of the shares for the last five consecutive trading days immediately prior and including the last trading day/the date of corresponding agreement	the average closing price of the shares for the last ten consecutive trading days immediately prior and including the last trading day/the date of corresponding agreement	the average closing price of the shares for the last 30 consecutive trading days immediately prior and including the last trading day/the date of corresponding agreement	Dilution effect [(Note)]
1	Sinopharm Tech Holdings Limited (8156.HK)	Internet plus supply chain	2 April 2020	HK$936.8 million	HK$45.6 million	HK$6.7 million	HK$159.7 million	800,000,000 shares	(12.3)%	(15.3)%	(14.7)%	(24.4)%	(16.3)%
2	Creative China Holdings Limited (8368.HK)	Movies and entertainment	9 April 2020	HK$159.7 million	HK$1.6 million	HK$13.8 million	HK$9.7 million	90,909,090 shares	8.9%	6.8%	9.7%	18.8%	(5.4)%
3	M Resources Group Limited (8186.HK)	Forestry and agricultural	28 April 2020	HK$16.7 million	HK$15.1 million	HK$4.2 million	HK$3.9 million	59,000,000 shares	(39.1)%	(41.7)%	(41.9)%	(48.7)%	(28.9)%
4	Cornerstone Technologies Holdings Limited (8391.HK)	Commercial printing and financial printing	15 December 2020	HK$230.7 million	HK$16.3 million	HK$ 26.3 million	HK$47.1 million	119,250,000 shares	(16.7)%	(17.9)%	(22.0)%	(33.0)%	(19.9)%
								Maximum	8.9%	6.8%	9.7%	18.8%	(5.4)%
								Minimum	(39.1)%	(41.7)%	(41.9)%	(48.7)%	(28.9)%
								Median	(14.5)%	(16.6)%	(18.3)%	(28.7)%	(18.1)%
								Average	(14.8)%	(17.0)%	(17.2)%	(21.8)%	(17.6)%
	The Company	System applications & IT consulting	28 January 2021	HK$257.7 million	HK$34.7 million	HK$45.7 million	HK$103.4 million	169,354,839 Subscription Shares	(10.1)%	(11.9)%	(11.8)%	(11.5)%	(30.9)%

Source: Stock Exchange (www.hkex.com.hk)

Note:

1. The dilution effect is calculated by dividing the change of percentage of shares held by public shareholder immediately after the subscription/placing by the percentage of shares held by public shareholder as at the date of the announcement.

2. For the purpose of this table, conversion of RMB into HK$ in relation to the respective financial figures of the Shortlisted Comparable Issues denominated in RMB (if applicable and if any) is calculated at the approximate exchange rate of RMB1 to HK$1.2. This exchange rate is for illustration purpose only and does not constitute a representation that any amounts have been, could have been, or may be exchanged at this or any other rate at all.

As illustrated in the table above, we noted that the discounts implied by the Subscription Price on the Last Trading Day, the last five, 10 and 30 consecutive trading days immediately prior and including the Last Trading Day are all within the range and less than the corresponding median and average discounts of the Shortlisted Comparable Issues during the corresponding periods.

Besides the comparison of the Subscription Price, we further noted from the above table that the dilution effect of the Subscription is approximately 30.9%, being calculated by the change of percentage of shares held by public Shareholders immediately after the Subscription by the percentage of shares held by public Shareholders as at the date of the Joint Announcement, is higher than the average of that of the Shortlisted Comparable Issues of approximately 17.6%. Based on our further study on the Shortlisted Comparable Issues, we have compared the size of the net proceeds to the market capitalization of the respective issuer of the Shortlisted Comparable Issues and noted that their net proceeds accounted for an average of approximately 16.7% to the market capitalization of the respective issuer of the Amended Comparable Issues, while the net proceeds from the Subscription accounted for approximately 40.1% to the market capitalization of the Company as at the date of the Joint Announcement. Despite, the Subscription will cause relatively high dilution to the Shareholders, taking into account (i) the proceeds from the Subscription to be entirely utilized for the Acquisition Consideration; (ii) the turnaround from a net loss of approximately RMB1.1 million in 2019 to a net profit of approximately RMB7.9 million recorded by the Target since its incorporation in 2019; and (iii) the favourable government policies towards the data centre business and the growth of internet consumption according to recent statistics released by PRC government as disclosed in the section headed "(iii) Reasons and benefits for the Subscription" in this letter, which justified the rationale of the Use of Proceeds, we considered that the relatively higher dilution effect of the Subscription is acceptable.

Based on the above, we consider that the Subscription Price is reasonable compared to those in the Shortlisted Comparable Issues.

Having considered that (i) the Subscription Price is within the range of the historical closing price and above the average closing price during the Review Period; (ii) low trading liquidity of the Shares during the Review Period; (iii) the discounts implied by the Subscription Price during above relevant periods are within the range of the Shortlisted Comparable Issues, and less than the corresponding median and average discounts of the Shortlisted Comparable Issues; and (iv) the Use of Proceeds will be entirely utilized on the Acquisition of the Target which achieved turnaround results and contributed net profit to the Group in a year after its incorporation, despite the Subscription will cause relatively high dilution to the Shareholders, we are of the view that the Subscription Price is fair and reasonable and in the interest of the Company and the Listing Rules Independent Shareholders.

3. Use of Proceeds

The gross proceeds of the Subscription will be approximately HK$105 million. After deducting all related professional fees and other related expenses, the net proceeds of the Subscription are estimated to be approximately HK$103.4 million. Taking into account that the Use of Proceeds is entirely for the payment of the Acquisition Consideration payable to the Seller under the Acquisition, we further assess the principal terms of the Acquisition Agreement to justify the fairness and reasonableness of the Use of Proceeds.

On 28 January 2021 (after trading hours of the Stock Exchange), the Purchaser, a wholly-owned subsidiary of the Company, and the Sellers entered into the Acquisition Agreement, pursuant to which the Purchaser has conditionally agreed to purchase and the Sellers have conditionally agreed to sell the Sale Interest (representing 49% equity interest of the Target) for a cash consideration of RMB88.2 million (equivalent to approximately HK$105.8 million) in accordance with the terms and conditions of the Acquisition Agreement. Set out below is a summary of the principal terms of the Acquisition Agreement.

Date:

28 January 2021

Parties:

(1) 樂透互娛信息技術(深圳)有限公司 (Loto Interactive Information Technology (Shenzhen) Limited) (as the Purchaser)

(2) 深圳市誠佑科技有限公司 (Shenzhen Chengyou Technology Co., Ltd.), as the Seller A

(3) Mr. Guo Xiaoquan (郭筱荃), as the Seller B

Each of the Sellers and the ultimate beneficial owners of Seller A are third parties independent of the Company and its connected persons (as defined in the GEM Listing Rules). Each of the Sellers and the ultimate beneficial owners of Seller A are not a Shareholder and does not hold any Shares in the Company.

The Acquisition Consideration for the Sale Interest is RMB88.2 million (equivalent to approximately HK$105.8 million) in cash. The Acquisition Consideration shall be payable by the Purchaser to the Sellers in the following manner:

(a) a refundable first payment of RMB52.92 million (equivalent to approximately HK$63.5 million) or 60% of the Acquisition Consideration shall be paid to the Sellers in cash within five Business Days after the Acquisition Completion; and

(b) the remaining balance in the sum of RMB35.28 million (equivalent to approximately HK$42.3 million) or 40% of the Acquisition Consideration shall be paid to the Sellers in cash within five Business Days following the date on which the industry and commercial registration relating to the transfer of the Sale Interest from the Sellers to the Purchaser having been completed.

The Acquisition Consideration will be funded by the net proceeds raised by the Company through the Subscription.

For details of the Acquisition, please refer to the section headed "The Acquisition" in the Letter from the Board in the Circular.

Evaluation of the Acquisition Consideration

As disclosed in the Letter from the Board, the Acquisition Consideration was arrived at after arm's length negotiations between the parties to the Acquisition Agreement and primarily determined with reference to, among other things, (a) the historical business operation and financial performance of the Target; (b) the future business prospects of the Target; (c) trading multiples of the P/E Ratio and the P/B Ratio of an exhaustive list of three industry comparable companies in the market, for details, please refer to section headed "Basis of the Acquisition Consideration" of the Letter from the Board; (d) the net asset value attributable to the Sale Interest in the amount of approximately RMB76.9 million (equivalent to approximately HK$92.3 million) as at 31 December 2020; and (e) the benefits to be derived by the Group upon the Acquisition Completion as described under the section headed "Reasons for and benefits of the Acquisition" in the Letter from the Board. For the Acquisition Consideration, we listed out the comparable companies analysis and comparable transaction analysis as below:

(i) Comparable companies analysis

We have conducted analysis on price-to-earning ratio (the "**P/E Ratio**") and price-to-book value ratio (the "**P/B Ratio**"), being two commonly adopted and used benchmarks for appraising the valuation of a company given the P/E Ratio takes into consideration the profitability of the subject company, while the P/B Ratio takes into account the net asset of the subject company. We have conducted our P/E Ratio and P/B Ratio analysis on companies listed on the Stock Exchange, which are principally engaged in the data centre services business which contributed over 50% of the revenue and recorded net profit for the latest annual financial results. We have identified one company listed on the Stock Exchange fulfilled the above criteria. In order to enlarge the sample size, we have extended our scope to cover the companies listed on the Shenzhen Stock Exchange and Shanghai Stock Exchange in the PRC and identified two companies that fulfilled the above criteria. We have identified an exhaustive list of three comparable companies (the "**Industry Comparables**") which met the said criteria.

We compared the respective P/E Ratio and P/B Ratio of the Industry Comparables based on their closing price on the Last Trading Day.

	Company name (Stock code)	Closing price on Last Trading Day *HK$*	Market capitalization *HK$ million*	Latest published net profit attributable to shareholders prior to Last Trading Date *HK$ million*	Latest published net assets attributable to shareholders prior to Last Trading Date *HK$ million*	P/E Ratio *(times)*	P/B Ratio *(times)*
1	SUNeVision Holdings Ltd ("**SUNeVision**") (1686.HK)	7.26	16,957.7	694.3	4,311.3	24.4	3.9
2	Guangdong Aofei Data Technology Co., Ltd. ("**Aofei**") (300738.SZ)	44.26	9,383.4	124.6	951.1	75.3	9.9
3	Shanghai AtHub Co., Ltd ("**AtHub**") (603881.SH)	70.68	16,606.1	132.4	3,438.8	125.4	4.8
					Maximum	125.4	9.9
					Minimum	24.4	3.9
					Median	75.3	4.8
					Average	75.1	6.2
		The Target	105.8	9.5	188.2	22.7 *(Note 1)*	1.1 *(Note 2)*

Source: Stock Exchange (www.hkex.com.hk)

Notes:

1. The implied P/E Ratio of the Target was calculated by the Acquisition Consideration divided by the net profit of the Target for the year ended 31 December 2020 after adjusted by the Sale Interest.

2. The implied P/B Ratio of the Target was calculated by the Acquisition Consideration divided by the net assets of the Target as at 31 December 2020 after adjusted by the Sale Interest.

3. For the purpose of this table, conversion of RMB into HK$ in relation to the respective financial figures of the Industry Comparables and the Target denominated in RMB (if applicable and if any) is calculated at the approximate exchange rate of RMB$1 to HK1.2. This exchange rate is for illustration purpose only and does not constitute a representation that any amounts have been, could have been, or may be exchanged at this or any other rate at all.

As illustrated in the table above, the P/E Ratio of the Industry Comparables ranged from approximately 24.4 times to approximately 125.4 times with a median of approximately 75.3 times and an average of approximately 75.1 times; the P/B Ratio of the Industry Comparables ranged from approximately 3.9 times to approximately 9.9 times with a median of approximately 4.8 times and an average of approximately 6.2 times. Moreover, we observed from the table that the P/E Ratio and the P/B Ratio of above A share companies (i.e. Aofei and AtHub) are generally higher than those of above Hong Kong listed company (i.e. SUNeVision). In terms of the P/E Ratio, Aofei's and AtHub's are higher than SUNeVision's by approximately 2.1 times and 4.1 times respectively. In terms of the P/B Ratio, Aofei's and AtHub's are higher than SUNeVision's by approximately 1.5 times and 23.1% respectively. Based on the above noticeable difference on the ratios, we consider that Aofei and AtHub may not be directly comparable to the Target whose 49% issued share is being acquired by the Company which is a Hong Kong listed company. On the other hand, we are of the view that SUNeVision is considered relatively more comparable to the Target.

After excluding Aofei and AtHub from the Industry Comparables, we noted that the implied P/E Ratio of the Target is approximately 22.7 times which is below the P/E Ratio of SUNeVision. The implied P/B Ratio of the Target is approximately 1.1 times which is also below the P/B Ratio of SUNeVision.

Since SUNeVision is publicly traded while the Sale Interest is not, we are of the view that discount for lack of marketability is necessary to adjust the P/E Ratio and P/B Ratio of the Sale Interest in respect of the discount for lack of marketability for comparison purpose. With reference to "Discount for Lack of Marketability, Job Aid for IRS Valuation Professionals", published by Internal Revenue Service in 2009, discount for lack of marketability is estimated as the percentage difference between the private placement price per share and the market trading price per share. The adopted discount rate for lack of marketability of 30.8% is used based on the aforesaid study with analysis of observed transactions with revenue of relevant targets ranging from US$10 million (equivalent to approximately HK$78.0 million) to US$30 million (equivalent to approximately HK$234.0 million), whereas the Target's revenue for the year ended 31 December 2020 is approximately RMB145.9 million (equivalent to approximately HK$175.1 million). Therefore, the implied P/E Ratio of the Target after application of discount rate is approximately 15.7 times and the implied P/B Ratio of the Target after application of discount rate is approximately 0.8 time which are lower than those of SUNeVision.

(ii) Comparable transactions analysis

In addition to our analysis on the Industry Comparables, we have conducted an analysis on the similar transactions conducted by other companies listed on the Stock Exchange using the following selection criteria: (i) acquisition or disposal the target enterprises which are principally engaged in data centre service business; (ii) the target recorded over 50% of revenue from data centre service business; and (iii) the transactions were announced by the listed issuers during the Review Period. We have identified only one comparable transaction during the Review Period, thus we have extended the research coverage to four years (i.e. from 1 January 2017 up to and including the Last Trading Day (the "**Extended Review Period**")).

As illustrated in our analysis on the Comparable Transactions, which were selected based on the selection criteria, in particular, one of the selection criteria is whether the transactions on the acquisition or disposal of target enterprises are principally engaged in data centre service business. We consider that it is more meaningful to identify relevant P/E Ratio and P/B Ratio of target companies comparable to the Target based on historical transactions publicly disclosed in the Stock Exchange, hence we did not take into account whether the purchaser or the seller is listed on the Main Board or GEM as one of the selection criteria in our analysis.

On the other hand, the GEM companies were selected in our Comparable Issue analysis, which is to assess the fairness and reasonableness of the subscription price of shares issued by the listed companies. Due to the fact that the Company is listed on GEM, and GEM stocks are generally more volatile and illiquid than Main Board stocks, hence we consider to identify comparable issues of GEM companies only as the Comparable Issues for our analysis on the Subscription Price.

Based on the Extended Review Period, we have identified four comparable transactions (the "**Transaction Comparables**") which meet the aforesaid criteria, and these Transaction Comparables are representative and exhaustive. Set out below are the relevant information of the Transaction Comparables:

	Company name (Stock code)	**Date of announcement**	**Consideration** *HK$ million*	**Net profit of the target** *HK$ million*	**Net assets of the target** *HK$ million*	**P/E Ratio** *(times)*	**P/B Ratio** *(times)*
1	Yuxing Infotech Investment Holdings Limited (8005.HK)	26 June 2017	335.4 *(Note 1)*	26.8	317.8	12.5	1.1
2	Chinney Alliance Group Limited (385.HK)	12 January 2018	1.2	(1.4)	(1.5)	N/A *(Note 2)*	N/A *(Note 3)*
3	Zhi Sheng Group Holdings Limited (8370.HK)	21 October 2019	37.2	2.9	(11.0)	12.9	N/A *(Note 3)*
4	Grandshores Technology Group Limited (1647.HK)	26 June 2020	59.9	1.3	56.0	45.4	1.1
					Maximum	45.4	1.1
					Minimum	12.5	1.1
					Median	12.9	1.1
					Average	23.6	1.1
	The Target		105.8	9.5	188.2	22.7 *(Note 4)*	1.1 *(Note 5)*

Source: Stock Exchange (www.hkex.com.hk)

Notes:

1. The consideration was USD43 million, conversion of USD into HK$ is calculated at the approximate exchange rate if USD1 to HK$7.8. This exchange rate is for illustration purpose only and does not constitute a representation that any amounts have been, could have been, or may be exchanged at this or any other rate at all.

2. The target of the Transaction Comparable #2 recorded net loss in the latest financial year prior to the date of relevant transaction announcement.

3. The target of the Transaction Comparable #2 and #3 recorded net liabilities as at the end of relevant financial period.

4. The implied P/E Ratio of the Target was calculated by the Acquisition Consideration divided by the net profit of the Target for the year ended 31 December 2020 after adjusted by the Sale Interest.

5. The implied P/B Ratio of the Target was calculated by the Acquisition Consideration divided by the net assets of the Target as at 31 December 2020 after adjusted by the Sale Interest.

6. For the purpose of this table, conversion of RMB into HK$ in relation to the respective financial figures of the Transaction Comparables and the Target denominated in RMB (if applicable and if any) is calculated at the approximate exchange rate of RMB$1 to HK1.2. This exchange rate is for illustration purpose only and does not constitute a representation that any amounts have been, could have been, or may be exchanged at this or any other rate at all.

As illustrated in the table above, the P/E Ratio of the Transaction Comparables ranged from approximately 12.5 times to approximately 45.4 times with a median of approximately 12.9 times and an average of approximately 23.6 times. The P/B Ratio of the Transaction Comparables was approximately 1.1 times. As the Transaction Comparables, being similar to the Sale Interest, are not readily marketable, we consider that the marketable interest value of the Transaction Comparables is not necessary to adjust for discount for lack of marketability under this comparison.

We noted that the implied P/E Ratio of the Target is approximately 22.7 times which is (i) within the range of the P/E Ratio of the Transaction Comparables; (ii) lower than the average of the P/E Ratio of the Transaction Comparables; and (iii) higher than the median of the P/E Ratio of the Transaction Comparables. The implied P/B Ratio of the Target is approximately 1.1 times which is the same as the average and median of the P/B Ratio of the Transaction Comparables.

Based on above assessments on the principal terms of the Acquisition Agreement, we are of the view that the Use of Proceeds is justifiable.

4. Potential dilution effect on the shareholding of the Company

For illustrative purpose, set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon Subscription Completion but before the Offers are made (assuming none of the Options have been exercised at or prior to the Subscription Completion); and (iii) Immediately upon Subscription Completion but before the Offers are made (assuming all of the Options have been exercised at or prior to the Subscription Completion).

Shareholders	As at the Latest Practicable Date		Immediately upon Subscription Completion but before the Offers are made (assuming none of the Options have been exercised at or prior to the Subscription Completion)		Immediately upon Subscription Completion but before the Offers are made (assuming all of the Options have been exercised at or prior to the Subscription Completion)	
	Number of Shares	*(approximately) %*	*Number of Shares*	*(approximately) %*	*Number of Shares*	*(approximately) %*
The Offeror and parties acting in concert with it						
The Offeror	127,871,432	33.74	297,226,271	54.20	297,226,271	50.61
Ms. Zhang Jing	137,200	0.04	137,200	0.03	3,704,000	0.63
Mr. Yan Hao	–	–	–	–	3,300,000	0.56
Ms. Huang Lilan	–	–	–	–	2,000,000	0.34
Mr. Yuan Qiang	–	–	–	–	6,200,000	1.06
Mr. Law	184,000	0.05	184,000	0.03	184,000	0.03
Independent non-executive Directors						
Dr. Lu Haitian	–	–	–	–	400,000	0.07
Mr. Lin Sen	–	–	–	–	400,000	0.07
Mr. Huang Jian	–	–	–	–	200,000	0.03
Individual Shareholders under the Irrevocable Undertakings (other than the parties acting in concert with the Offeror)						
Ms. Mak Lam	15,160,000	4.00	15,160,000	2.76	15,160,000	2.58
Mr. Li Qi	15,160,000	4.00	15,160,000	2.76	15,160,000	2.58
Mr. Huang Jian	6,316,000	1.67	6,316,000	1.15	6,316,000	1.08
Other public Shareholders	214,195,351	56.51	214,195,351	39.06	237,032,151	40.35
Total	**379,023,983**	**100.00**	**548,378,822**	**100.00**	**587,282,422**	**100.00**

Notes:

1. Given each of Ms. Zhang Jing, Ms. Huang Lilan and Mr. Yuan Qiang holds positions in the Subscriber and that Mr. Yan Hao and Ms. Huang Lilan are executive Directors of the Company who is privy to the discussion and negotiation of the Subscription with the Offeror, they are presumed to be parties acting in concert with the Offeror.

2. Mr. Law is a former director, chairman and chief executive officer of the Offeror and is presumed as a party acting in concert with the Offeror.

3. Certain percentage figures included in this table have been subject to rounding adjustments. Figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

As shown in the table above, the existing public Shareholders' shareholdings will be diluted from approximately 66.18% as at the Latest Practicable Date to approximately 45.73% immediately upon the Subscription Completion but before the Offers are made (assuming none of the Options have been exercised at or prior to the Subscription Completion).

Taking into account (i) the benefits of the Subscription as discussed under the section headed "1. Background to and reasons for the Subscription and the Acquisition – Reasons and benefits for the Subscription and the Acquisition" in this letter; and (ii) the Subscription Price is fair and reasonable so far as the Company and the Listing Rules Independent Shareholders are concerned as discussed above, we are of the view that the dilution effect on the shareholding of existing public Shareholders in the Company is acceptable so far as the Company and the Listing Rules Independent Shareholders are concerned.

5. Possible financial effect of the Subscription and Acquisition

Earnings

Upon Acquisition Completion, the Target will become wholly-owned subsidiary of the Company and the Group will be entitled to the entire profit of the Target. As set out in the accountants' report on the Target in Appendix II to the Circular, the Target recorded revenue and net profit for the year ended 31 December 2020 of approximately RMB145.9 million and RMB7.9 million respectively. As such, we consider that the Acquisition is expected to have a positive effect on the net profit of the Group upon Acquisition Completion as the Group will be entitled to the entire profit of the Target, instead of sharing of profit to non-controlling interest of the Target.

Net assets

As stated in the 2020 Interim Report, the net assets of the Group as at 30 June 2020 was approximately HK$372.9 million. According to the unaudited pro forma financial information of the Enlarged Group set out in Appendix V to the Circular, assuming the Subscription and the Acquisition had been completed on 30 June 2020, the net assets of the Enlarged Group as at 30 June 2020 would be approximately HK$370.5 million, representing a slight decrease by approximately HK$2.4 million when compared to the net assets of the Group as at 30 June 2020. Furthermore, according to the Letter from the Board, the registered capital of the Target is RMB180 million, among which RMB150 million has been paid up. Upon Acquisition Completion, the Group will be liable to fulfil its payment obligation to pay up the unpaid capital of the Target. As the Target will become a wholly-owned subsidiary of the Company upon Acquisition Completion, the liability for such unpaid capital to the Target will not have impact to the net asset of the Enlarged Group. As such, the Subscription and the Acquisition are expected to have an overall slightly negative impact to the net assets value of the Group.

Liquidity

As stated in the 2020 Interim Report, the net current assets of the Group were approximately HK$71.5 million. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to the Circular, assuming completion of the Subscription Completion and the Acquisition Completion had taken place on 30 June 2020, the pro forma net current assets the Enlarged Group would be approximately HK$69.1 million, representing a slight decrease of approximately HK$2.4 million when compared to the net current assets of the Group as at 30 June 2020. As such, the Subscription and the Acquisition are expected to have a slightly negative impact to the liquidity of the Group.

Although the Subscription and the Acquisition would bring slightly negative impact to the net assets and liquidity of the Group, the Subscription and the Acquisition would bring positive impact to the Group's earnings. Assuming that the Target continues to contribute positively to the Group in future, we are of the view that the Subscription and the Acquisition are beneficial to the Group from the financial point of the view.

Shareholders should note that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Enlarged Group will be upon the Subscription Completion and the Acquisition Completion.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons, in particular that:

(i) the rationale under the Subscription is in line with the principal business of the Group;

(ii) the positive historical financial performance of the Target and the prospect of the data centre industry in the PRC;

(iii) the discounts implied by the Subscription Price to the Share's average closing price during the last five, 10 and 30 consecutive trading days immediately prior and including the Last Trading Day are all within the range and generally less than the corresponding median and average discounts of the Shortlisted Comparable Issues during the corresponding periods;

(iv) the Subscription Price is above the average closing price of the Share during the Review Period and the placing price of the Previous Placing;

(v) the overall benefits of the Acquisition and Subscription to the Company as mentioned in section headed "1. Background to and reasons for the Subscription and the Acquisition – Reasons and benefits for the Subscription and the Acquisition" in this letter outweigh the relatively high dilution impact than those of the Shortlisted Comparable Issues; and

(vi) the Use of Proceeds is justifiable based on our assessments on the principal terms of the Acquisition Agreement, taking into account that the implied P/E Ratio and P/B Ratio of the Target are lower than/close to the average of those of the Industry Comparables and the target of the Transaction Comparables,

we consider that although the entering into the Subscription Agreement is not in the ordinary and usual course of business of the Group, the terms of the Subscription Agreement and the transactions contemplated thereunder are on normal commercial terms and fair and reasonable so far as the Listing Rules Independent Shareholders are concerned, and the entering into the Subscription Agreement is in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the Listing Rules Independent Shareholders, and advise the Listing Rules Independent Board Committee to recommend the Listing Rules Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Octal Capital Limited
Alan Fung
Managing Director

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 28 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

1. FINANCIAL SUMMARY

The financial information of the Group for each of the three financial years ended 31 December 2017, 2018 and 2019, the three months ended 31 March 2020, the six months ended 30 June 2020 and the nine months ended 30 September 2020 are set out in the following documents which have been published on both the GEM website at www.hkgem.com and the Company's website at www.lotoie.com:

- the annual report of the Company for the year ended 31 December 2017 published on 28 March 2018 (pages 47 to 119);

  https://www1.hkexnews.hk/listedco/listconews/gem/2018/0328/gln20180328367.pdf

- the annual report of the Company for the year ended 31 December 2018 published on 28 March 2019 (pages 53 to 119);

  https://www1.hkexnews.hk/listedco/listconews/gem/2019/0328/gln20190328065.pdf

- the annual report of the Company for the year ended 31 December 2019 published on 30 March 2020 (pages 56 to 143);

  https://www1.hkexnews.hk/listedco/listconews/gem/2020/0330/2020033001180.pdf

- the first quarter report of the Company for the three months ended 31 March 2020 published on 14 May 2020 (pages 1 to 7);

  https://www1.hkexnews.hk/listedco/listconews/gem/2020/0514/2020051401539.pdf

- the interim report of the Company for the six months ended 30 June 2020 published on 13 August 2020 (pages 9 to 25); and

  https://www1.hkexnews.hk/listedco/listconews/gem/2020/0813/2020081300872.pdf

- the third quarter report of the Company for the nine months ended 30 September 2020 published on 12 November 2020 (pages 6 to 11).

  https://www1.hkexnews.hk/listedco/listconews/gem/2020/1112/2020111200571.pdf

2. STATEMENT OF INDEBTEDNESS

At the close of business on 31 January 2021, being the latest practicable date prior to the printing of this circular and for the purpose of ascertaining the information contained in this statement of indebtedness, the Enlarged Group had the following outstanding indebtedness.

In accordance with requirements of HKFRS 16 "Leases", leases have been recognised in the form of an asset (for the right-of-use assets) and a financial liability (for the payment obligations) in the Group's consolidated statement of financial position. As at 31 January 2021, the Group had lease liabilities of approximately HK$6.38 million relating to land and premises leased by the Group as lessee.

Save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, the Enlarged Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities as at the close of business on 31 January 2021.

3. WORKING CAPITAL STATEMENT

The Directors, after due and careful consideration, are of the opinion that, taking into consideration of the financial resources available to the Enlarged Group including the internally generated funds and the proceeds from the Subscription, the Enlarged Group will have sufficient working capital for at least 12 months from the date of publication of this circular.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group as at 31 December 2019, being the date to which the latest published audited accounts of the Group were made up.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in (i) provision of data analysis and storage services, (ii) distribution of mobile gaming and (iii) money lending business in Hong Kong.

The Group currently operates three big data centres in Sichuan, the PRC to provide comprehensive services including premises, hardware support, power supply, ancillary supervision and management services to our clients. The Group currently operates three big data centres in Sichuan, the PRC, which in aggregate have a gross area of over 18,000 square meters, with a total operation capacity of providing data analysis and storage services for up to 225,000 data processors at the same time. During the year ended 31 December 2019, the big data centres services generated a revenue of approximately HK$62.5 million, accounting for approximately 96.7% of the Group's revenue. Since mid of 2020, the Target has commenced operation of the Group's third big data center service and further contributed to the income of the Group. The big data services continued to drive the financial performance of the Group as evidenced by the significant increase of the revenue of the Group by eleven fold for the nine months ended 30 September 2020 as compared with that of 2019.

Apart from the core big data business, in line with the Group's strategy for developing leisure and entertainment business, the Group is in cooperation with various reputable companies in the online game industry to distribute online mobile games. As at the end of the year ended 31 December 2019, the Group witnessed an increase in revenue of HK$1.4 million as compared to the corresponding period in 2018.

In order to leverage its corporate expertise and resources to broaden its income source, an indirect wholly-owned subsidiary of the Company, Might Winner Limited, has obtained a money lender's license in January 2020.

The Group is committed to becoming an influential local enterprise among the big data centre service industry, which is expected to be a sunrise industry. At the same time, the Group believes that, under the new political and economic environment, it shall actively seek changes, adhere to the spirit of innovation, and leverage its core experience and corporate resources to achieve long-term benefits for the Group and its shareholders. The Group is confident that with the concerted efforts of the Group, it will be able to open up a brand-new world and achieve outstanding results.

The following is the text of a report received from the independent reporting accountants, ZHONGHUI ANDA CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of inclusion in this circular.

中汇 ZHONGHUI

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF LOTO INTERACTIVE LIMITED

Introduction

We report on the historical financial information of Ganzi Changhe Hydropower Consumption Service Co., Ltd. (the "**Target Company**") set out on pages App II-4 to App II-24, which comprises the statements of financial position of the Target Company as at 31 December 2019 and 2020, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the period from 25 April 2019 (the "**date of incorporation**") to 31 December 2019 and the year ended 31 December 2020 (the "**Relevant Periods**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information forms an integral part of this report, which has been prepared for inclusion in the investment circular of the Company dated 11 March 2021 in connection with the proposed acquisition of the remaining 49% equity interest in the Target Company.

Directors' responsibility for the Historical Financial Information

The directors of the Target 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 2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of 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 (the "**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.

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 2 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 purposes of the accountants' report, a true and fair view of the Target Company's financial position as at 31 December 2019 and 2020 and of the Target Company's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page 25 have been made.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Wan Ho Yuen
Audit Engagement Director
Practising Certificate Number: P04309
Hong Kong, 11 March 2021

HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The directors of the Target Company have prepared the financial statements of the Target Company for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA (the "**Underlying Financial Statements**"). We have performed our independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB' 000) except when otherwise indicated.

FINANCIAL INFORMATION

A. STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the period from 25 April 2019 to 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Revenue	*6*	–	145,932
Cost of sales and service rendered		–	(120,355)
Gross profit		–	25,577
Other income and gains	*7*	11	8
Administrative expenses		(1,076)	(15,356)
Finance costs	*8*	(1)	(5)
(Loss)/profit before tax		(1,066)	10,224
Income tax expense	*9*	–	(2,300)
(Loss)/profit and total comprehensive (loss)/income for the period/year	*10*	(1,066)	7,924

B. STATEMENTS OF FINANCIAL POSITION

		As at 31 December	
	Notes	**2019**	**2020**
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*12*	63,531	151,952
Right-of-use assets	*13*	211	94
		63,742	152,046
CURRENT ASSETS			
Trade receivables	*14*	–	821
Prepayments, deposits and other receivables	*15*	10,180	22,559
Amount due from a fellow subsidiary	*16*	5,974	–
Cash and cash equivalents	*17*	4,996	56
		21,150	23,436
CURRENT LIABILITIES			
Trade payables	*18*	–	395
Accruals and other payables	*19*	323	7,029
Tax payable		–	2,300
Lease liability	*20*	115	120
Amount due to the intermediate holding company	*21*	–	2,020
Amount due to the immediate holding company	*21*	2,020	–
Amount due to fellow subsidiaries	*21*	–	6,217
Amount due to a shareholder	*21*	–	543
		2,458	18,624
NET CURRENT ASSETS		18,692	4,812
TOTAL ASSETS LESS CURRENT LIABILITIES		82,434	156,858
NET ASSETS		82,434	156,858
Capital and Reserves			
Paid-in capital	*22*	83,500	150,000
Reserves		(1,066)	6,858
TOTAL EQUITY		82,434	156,858

C. STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital	**Reserves**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 25 April 2019	–	–	–
Paid-in capital	83,500	–	83,500
Loss and total comprehensive loss for the period	–	(1,066)	(1,066)
At 31 December 2019 and 1 January 2020	83,500	(1,066)	82,434
Paid-in capital	66,500	–	66,500
Profit and total comprehensive income for the year	–	7,924	7,924
At 31 December 2020	150,000	6,858	156,858

D. STATEMENTS OF CASH FLOWS

	For the period from 25 April 2019 to 31 December 2019	Year ended 31 December 2020
	RMB'000	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before tax	(1,066)	10,224
Adjustments for:		
Depreciation	4	16,092
Depreciation of right-of-use assets	24	117
Finance costs	1	5
Operating cash flows before working capital changes	(1,037)	26,438
Change in trade receivables	–	(821)
Change in prepayments, deposits and other receivables	(10,180)	(12,379)
Change in trade payables	–	395
Change in accruals and other payables	323	6,706
Cash (used in)/generated from operations	(10,894)	20,339
Lease interest paid	(1)	–
NET CASH (USED IN)/FROM OPERATING ACTIVITIES	(10,895)	20,339
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(63,535)	(104,513)
NET CASH USED IN INVESTING ACTIVITIES	(63,535)	(104,513)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advance from the intermediate holding company/ immediate holding company	2,020	–
(Repayment to)/advance from fellow subsidiaries	(5,974)	12,191
Advance from a shareholder	–	543
Repayment of lease liabilities	(120)	–
Proceeds from paid-in capital	83,500	66,500
NET CASH GENERATED FROM FINANCING ACTIVITIES	79,426	79,234
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	4,996	(4,940)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	–	4,996
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4,996	56

NOTES TO FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Target Company was incorporated in the People's Republic of China (the "**PRC**") with limited liability. The address of its registered office and its principal place of business is 66 Jinshui Village, GuZan Town, Kangding, Garzê Tibetan Autonomous Prefecture, Sichuan Province, the PRC.

The principal activity of the Target Company is providing data analysis, storage services and ancillary administrative and consulting services.

In the opinion of the directors of the Target Company, as at 31 December 2020, Zhejiang Keyinghuancai Information Technology Co., Ltd., a company incorporated in the PRC, is the immediate parent; Loto Interactive Limited, a company incorporated in the Cayman Islands, is the ultimate parent.

2. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared in accordance with the accounting policies set out in Note 3 below which conform with HKFRSs. In addition, the Historical Financial Information includes the applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

3. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of The Stock Exchange and by the Hong Kong Companies Ordinance.

HKFRSs comprise Hong Kong Financial Reporting Standards ("**HKFRS**"); Hong Kong Accounting Standards ("**HKAS**"); and Interpretations. The Historical Financial Information has been prepared under the historical cost convention.

The current period Historical Financial Information cover a twelve months period ended 31 December 2020 and the comparative Historical Financial Information cover a nine months period ended 31 December 2019. The comparative amounts are therefore not entirely comparable.

The preparation of Historical Financial Information in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to the Historical Financial Information, are disclosed in note 4 to the Historical Financial Information.

The significant accounting policies applied in the preparation of the Historical Financial Information are set out below.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Company and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	20%-75%
Machinery and equipment	20%-33%
Furniture, fixtures and equipment	20%-50%
Motor vehicles	10%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

Leases

The Target Company as lessee

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Target Company. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal annual rate is as follow:

Land use right	50%

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Target Company's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised as expenses in profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below US$5,000.

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Target Company becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Target Company transfers substantially all the risks and rewards of ownership of the assets; or the Target Company neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets of the Target Company are classified as financial assets at amortised cost.

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

– the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

– the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

Loss allowances for expected credit losses

The Target Company recognises loss allowances for expected credit losses on financial assets at amortised cost. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Target Comapny measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("**lifetime expected credit losses**") for trade receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables) has not increased significantly since initial recognition, the Target Company measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Target Company's cash management are also included as a component of cash and cash equivalents.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Target Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Target Company are recorded at the proceeds received, net of direct issue costs.

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Target Company recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

– the customer simultaneously receives and consumes the benefits provided by the Target Company's performance;

– the Target Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

– the Target Company's performance does not create an asset with an alternative use to the Target Company and the Target Company has an enforceable right to payment for performance completed to date.

If a performance obligation is satisfied over time, revenue is recognised by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the product or service.

Other revenue

Interest income is recognised using the effective interest method.

Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the Relevant Periods.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Target Company contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Target Company and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Target Company to the funds.

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Target Company can no longer withdraw the offer of those benefits and when the Target Company recognises restructuring costs and involves the payment of termination benefits.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Target Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the Relevant Periods.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Target Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Target Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Target Company intends to settle its current tax assets and liabilities on a net basis.

Related parties

A related party is a person or entity that is related to the Target Company.

(A) A person or a close member of that person's family is related to the Target Company if that person:

- (i) has control or joint control over the Target Company;
- (ii) has significant influence over the Target Company; or
- (iii) is a member of the key management personnel of the Target Company or of a parent of the Target Company.

(B) An entity is related to the Target Company if any of the following conditions applies:

- (i) The entity and the Target Company 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 Target Company or an entity related to the Target Company. If the Target Company is itself such a plan, the sponsoring employers are also related to the Target Company.

(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 Target Company or to a parent of the Target Company.

Impairment of assets

At the end of each reporting period, the Target Company reviews the carrying amounts of its tangible and intangible assets except receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Target Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of 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.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Target Company has a present 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 expenditures 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 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 is remote.

Events after the reporting period

Events after the reporting period that provide additional information about the Target Company's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the Historical Financial Information. Events after the reporting period that are not adjusting events are disclosed in the notes to the Historical Financial Information when material.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Property, plant and equipment and depreciation

The Target Company determines the estimated useful lives, residual values and related depreciation charges for the Target Company's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Target Company will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the present value of estimated future cash flows. Where the future cash flows are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of future estimate cash flows, a material impairment loss may arise.

5. FINANCIAL RISK MANAGEMENT

The Target Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and interest risk. The Target Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Company's financial performance.

(a) Credit risk

The carrying amount of the cash and cash equivalents, trade and other receivables and amount due from a fellow subsidiary included in the statement of financial position represents the Target Company's maximum exposure to credit risk in relation to the Target Company's financial assets.

The Target Company has no significant concentrations of credit risk.

It has policies in place to ensure that sales are made to customers with an appropriate credit history. Amount due from a fellow subsidiary are closely monitored by the directors.

The credit risk on cash and cash equivalents is limited because the counterparties are banks with high credit-ratings.

The Target Company considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following information is used:

– internal credit rating;

– actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations; and

– significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers.

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Target Company. The Target Company normally categorises a loan or receivable for write off when a debtor fails to make contractual payments greater than 360 days past due. Where loans or receivables have been written off, the Target Company, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

The Target Company uses two categories for non-trade loan receivables which reflect their credit risk and how the loan loss provision is determined for each of the categories. In calculating the expected credit loss rates, the Target Company considers historical loss rates for each category and adjusts for forward looking data.

Category	**Definition**	**Loss provision**
Performing	Low risk of default and strong capacity to pay	12 month expected losses
Non-performing	Significant increase in credit risk	Lifetime expected losses

	Related party	**Total**
	RMB'000	*RMB'000*
At 31 December 2019		
Loans to	5,974	5,974
Provision for loss allowance	–	–
Carrying amounts	5,974	5,974
At 31 December 2020		
Loans to	–	–
Provision for loss allowance	–	–
Carrying amounts	–	–

All of these loans are considered to have low risk and under the 'Performing' category because they have a low risk of default and have strong ability to meet their obligations.

Expected credit loss rate

2019	0%
2020	0%

	Related party	**Total**
	RMB'000	*RMB'000*
Loss allowance at 25 April 2019	–	–
Increase in provision in 2019	–	–
Loss allowance at 31 December 2019	–	–
Increase in provision in 2020	–	–
Loss allowance at 31 December 2020	–	–

(b) Liquidity risk

The Target Company's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis, based on undiscounted cash flows, of the Target Company's financial liabilities is as follows:

	Less than 1 year	**Total**
	RMB'000	*RMB'000*
At 31 December 2019		
Accruals and other payables	323	323
Amount due to the immediate holding company	2,020	2,020
	2,343	2,343
At 31 December 2020		
Trade payables	395	395
Accruals and other payables	7,029	7,029
Amount due to the intermediate holding company	2,020	2,020
Amount due to fellow subsidiaries	6,217	6,217
Amount due to a shareholder	543	543
	16,204	16,204

(c) Interest rate risk

As the Company has no significant interest-bearing assets and liabilities, the Target Company's operating cash flows are substantially independent of changes in market interest rates.

(d) **Categories of financial instruments**

	At 31 December	
	2019	**2020**
	RMB'000	*RMB'000*
Financial assets:		
Financial assets at amortised cost:		
Cash and cash equivalents	4,996	56
Trade receivables	–	821
Financial assets included in prepayments, deposits and other receivables	10,063	2,136
Amount due from a fellow subsidiary	5,974	–
Total:	21,033	3,013
Financial liabilities:		
Financial liabilities at amortised cost:		
Trade payables	–	395
Financial liabilities included in accruals and other payables	323	7,029
Amount due to the intermediate holding company	–	2,020
Amount due to the immediate holding company	2,020	–
Amount due to fellow subsidiaries	–	6,217
Amount due to a shareholder	–	543
Total:	2,343	16,204

(e) **Fair values**

The carrying amounts of the Target Company's financial assets and financial liabilities as reflected in the statement of financial position approximate their respective fair values.

6. **REVENUE**

	For the period from 25 April 2019 to 31 December 2019	Year ended 31 December 2020
	RMB'000	*RMB'000*
Revenue from contracts with customers:		
– Provision of big data centre services	–	145,932

The Target Company is mainly engaged in the operation of big data center service in the PRC. Revenue represents services fees and/or rental income charged on the users for provision of big data centre services and use of storage places.

Service fee income is recognised over time when the service is rendered and there is no unfulfilled obligation that could affect the customer's acceptance of the service.

The Target Company primarily operates in the PRC. All of the Target Company's revenue was generated in the PRC and all of the Target Company's non-current assets are located in the PRC.

7. OTHER INCOME AND GAINS

	For the period from 25 April 2019 to 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Interest income	11	8

8. FINANCE COSTS

	For the period from 25 April 2019 to 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Lease interest	1	5

9. INCOME TAX EXPENSES

	For the period from 25 April 2019 to 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Current tax – PRC enterprise income tax	–	2,300

Pursuant to the PRC Corporate Income Tax Law effective on 1 January 2008, the Target Company is subject to corporate income tax ("**CIT**") at a statutory rate of 25% on their respective taxable income for the Relevant Period.

The reconciliation between the income tax expenses and the product of (loss)/profit before tax multiplied by the PRC enterprise income tax rate is as follows:

	For the period from 25 April 2019 to 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
(Loss)/profit before tax	(1,066)	10,224
Tax at the domestic income tax rate of 25%	(267)	2,556
Tax effect of expenses that are not deductible	–	18
Tax effect of temporary differences not recognised	(7)	–
Tax effect of tax losses not recognised	274	–
Tax effect of utilisation of tax losses not previously recognised	–	(274)
Income tax expense	–	2,300

10. (LOSS)/PROFIT FOR THE YEAR

The Target Company's (loss)/profit for the year is stated after charging/ (crediting) the following:

	For the period from 25 April 2019 to 31 December 2019 *RMB'000*	Year ended 31 December 2020 *RMB'000*
Cost of sales and service rendered	–	120,355
Depreciation	4	53
Staff costs including directors' emoluments		
– Salaries, bonus and allowances	345	4,260
– Retirement benefits scheme contributions	31	115
	376	4,375

11. DIVIDENDS

The Directors do not recommend the payment of any dividend for each of the period/year of the Relevant Period.

12. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress *RMB'000*	Leasehold improvements *RMB'000*	Machinery and equipment *RMB'000*	Furniture, fixtures and equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Cost						
At 25 April 2019	–	–	–	–	–	–
Additions	63,453	–	–	82	–	63,535
At 31 December 2019 and 1 January 2020	63,453	–	–	82	–	63,535
Additions	103,967	154	176	110	106	104,513
Transfer	(167,420)	5,503	161,917	–	–	–
At 31 December 2020	–	5,657	162,093	192	106	168,048
Accumulated depreciation						
At 25 April 2019	–	–	–	–	–	–
Charged for the period	–	–	–	4	–	4
At 31 December 2019 and 1 January 2020	–	–	–	4	–	4
Charged for the year	–	639	15,403	41	9	16,092
At 31 December 2020	–	639	15,403	45	9	16,096
Carrying amount						
At 31 December 2019	63,453	–	–	78	–	63,531
At 31 December 2020	–	5,018	146,690	147	97	151,952

13. LEASES AND RIGHT-OF-USE ASSETS

Disclosures of lease-related items:

	2019	2020
	RMB'000	*RMB'000*
At 31 December:		
Right-of-use assets		
– Land use right	211	94

The maturity analysis, based on undiscounted cash flows, of the Target Company's lease liabilities is as follows:

	2019	2020
– Less than 1 year	120	120
Period/year ended 31 December:		
Depreciation charge of right-of-use assets		
– Land use right	24	117
Lease interests	1	5
Total cash outflow for leases	121	–

14. TRADE RECEIVABLES

	As at 31 December	
	2019	2020
	RMB'000	*RMB'000*
Trade receivables	–	821

An aging analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	As at 31 December	
	2019	2020
	RMB'000	*RMB'000*
Within 30 days	–	821

The Target Company applies the simplified approach under HKFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

	Current	Total
At 31 December 2020		
Weighted average expected loss rate	0%	
Receivable amount (RMB'000)	821	821
Loss allowance (RMB'000)	–	–

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2019	**2020**
	RMB'000	*RMB'000*
Other receivables	43	6
Other tax assets	–	14,687
Deposits for the construction in progress	10,000	–
Utility deposits	20	2,130
Prepayments	117	5,736
	10,180	22,559

16. AMOUNT DUE FROM A FELLOW SUBSIDIARY

The advance is unsecured, interest-free and have no fixed repayment terms.

17. CASH AND CASH EQUIVALENTS

As at 31 December 2019 and 2020, all the cash and cash equivalents of the Target Company are denominated in RMB.

18. TRADE PAYABLES

The aging analysis of trade payables, based on the date of receipt of services, is as follows:

	As at 31 December	
	2019	**2020**
	RMB'000	*RMB'000*
Within 30 days	–	395

19. ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2019	**2020**
	RMB'000	*RMB'000*
Property, plant and equipment's consideration payables	–	4,000
Other payables	166	2,295
Accruals	157	734
	323	7,029

20. LEASE LIABILITIES

	Lease payments as at 31 December		Present value of lease payments as at 31 December	
	2019	**2020**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	120	120	115	120
	120	120		
Less: Future finance charges	(5)	–		
Present value of lease liabilities	115	120	115	120
Less: Amount due for settlement within 12 months (shown under current liabilities)			(115)	(120)
Amount due for settlement after 12 months			–	–

At 31 December 2019 and 31 December 2020, the average effective borrowing rate was 5.4%. Interest rates are fixed at the contract dates and thus expose the Target Company to fair value interest rate risk.

21. AMOUNT DUE TO THE INTERMEDIATE HOLDING COMPANY/IMMEDIATE HOLDING COMPANY/FELLOW SUBSIDIARIES/A SHAREHOLDER

The advances are unsecured , interest-free and have no fixed repayment terms.

22. PAID-IN CAPITAL

	2019	**2020**
	RMB'000	*RMB'000*
Paid-in capital:		
At 31 December	83,500	150,000

23. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

The following table shows the Target Company's changes in liabilities arising from financing activities during the Relevant Periods:

	Lease liability	Amount due to the intermediate holding company	Amount due to the immediate holding company	Amount due to fellow subsidiaries	Amount due to a shareholder	Total liabilities from financing activities
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 25 April 2019	–	–	–	–	–	–
Changes in cash flows	(120)	2,020	–	–	–	1,900
Non-cash changes						
– additions	234	–	–	–	–	234
– interest charged	1	–	–	–	–	1
At 31 December 2019 and 1 January 2020	115	2,020	–	–	–	2,135
Changes in cash flows	–	–	–	6,217	543	6,760
Non-cash changes						
– additions	–	–	–	–	–	–
– interest charged	5	–	–	–	–	5
– reclassification	–	(2,020)	2,020	–	–	–
At 31 December 2020	120	–	2,020	6,217	543	8,900

24. CAPITAL COMMITMENTS

The Target Company's capital commitments at the end of the Relevant Periods are as follows:

	As at 31 December	
	2019	2020
	RMB'000	*RMB'000*
Property, plant and equipment contracted, but not provided for	66,500	–

25. CONTINGENT LIABILITIES

As at 31 December 2019 and 2020, the Target Company did not have any significant contingent liabilities.

26. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 31 December 2020.

The following is the text of a letter received from the auditors of the Company, Zhonghui ANDA CPA Limited, addressed to the Directors and prepared for the purpose of inclusion in this circular.

中汇 ZHONGHUI

11 March 2021

The Board of Directors
Loto Interactive Limited

Dear Sirs,

We have performed our work on the principal accounting policies adopted and the calculations used in the preparation of the unaudited net assets of Ganzi Changhe Hydropower Consumption Service Co., Ltd. (the "**Target Company**") as at 31 December 2020, the unaudited net loss or profit before tax and net loss or profit after tax of the Target Company for the period from date of incorporation to 31 December 2019 and the year ended 31 December 2020 (the "**Updated Selected Financial Information**"), prepared by the directors of Loto Interactive Limited (the "**Company**", the Company and its subsidiaries collectively referred to as the "**Group**") for inclusion in the joint supplemental announcement of the Company dated 11 February 2021 in connection with the proposed acquisition of the remaining 49% equity interest of the Target Company by the Group. We understand that the Updated Selected Financial Information is required to be reported on under Rule 10 of the Hong Kong Code on Takeovers and Mergers. Unless otherwise defined, terms used herein shall have the same meanings as those defined in the announcement of the Company dated 28 January 2021.

Directors' responsibilities

The Updated Selected Financial Information has been compiled by the directors of the Company based on the unaudited management accounts of the Target Company prepared by the directors of the Target Company. The Updated Selected Financial Information was prepared on a basis consistent with the accounting policies adopted by the Group as set out in the audited consolidated financial statements of the Group for the year ended 31 December 2019 and the unaudited interim consolidated financial statements of the Group for the six months ended 30 June 2020. This responsibility includes designing, implementing and maintaining internal controls relevant to the selection and application of appropriate accounting policies and the calculations in the preparation of the Updated Selected Financial Information that is free from material misstatement; applying appropriate accounting policies adopted by the Group as set out in the audited consolidated financial statements of the Group for the year ended 31 December 2019 and the unaudited interim consolidated financial statements of the Group for the six months ended 30 June 2020; and making estimates that are reasonable in the circumstances.

The directors of the Company are solely responsible for the compilation of the Updated Selected Financial Information.

Our independence and quality control

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

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

Reporting Accountants' Responsibilities

It is our responsibility to report, as required by Rule 10 of the Hong Kong Code on Takeovers and Mergers, on whether, so far as the accounting policies and calculations are concerned, the Updated Selected Financial Information has been properly compiled in accordance with the bases adopted by the directors of the Company as set out under the paragraph headed "Directors' responsibilities" of this report and has been prepared on a basis consistent, in all material respects, with the accounting policies adopted by the Group as set out in the audited consolidated financial statements of the Group for the year ended 31 December 2019 and the unaudited interim consolidated financial statements of the Group for the six months ended 30 June 2020.

We conducted our work in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" ("**HKSAE 3000 (Revised)**") issued by the HKICPA.

Our work consisted primarily of procedures such as a) obtaining an understanding of the basis of preparation and the principal accounting policies adopted for compiling the Updated Selected Financial Information through inquires primarily of persons responsible for financial and accounting matters, b) obtaining an understanding of the internal controls relevant to the selection and application of appropriate accounting policies and the calculations in the preparation of the Updated Selected Financial Information, c) comparing the principal accounting policies adopted in the preparation of the Updated Selected Financial Information with those adopted by the Group as set out in the audited consolidated financial statements of the Group for the year ended 31 December 2019 and the unaudited interim consolidated financial statements of the Group for the six months ended 30 June 2020, d) checking solely the arithmetical calculations and the compilation of the Updated Selected Financial Information, and such other procedures that we considered necessary in the circumstances in accordance with HKSAE 3000 (Revised). Our work would not enable us to, and we do not, provide any assurance on the design or operational effectiveness of internal control relating to the preparation of the Updated Selected Financial Information.

Our reasonable assurance engagement does not constitute an audit or review conducted in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA. Accordingly, we do not express an audit or review opinion on the Updated Selected Financial Information.

Opinion

In our opinion, based on the foregoing, so far as the accounting policies and calculations are concerned, the Updated Selected Financial Information has been properly compiled in accordance with the bases adopted by the directors of the Company as set out under the paragraph headed "Directors' responsibilities" of this report and has been prepared on a basis consistent, in all material respects, with the accounting policies adopted by the Group as set out in the audited consolidated financial statements of the Group for the year ended 31 December 2019 and the unaudited interim consolidated financial statements of the Group for the six months ended 30 June 2020.

Yours faithfully,
ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Hong Kong

The following is the text of a letter received from the independent financial adviser of the Company, Octal Capital Limited, addressed to the Directors and prepared for the sole purpose of inclusion in this circular.

八方 金融有限公司
OCTAL Capital Limited

Octal Capital Limited
801-805, 8/F, Nan Fung Tower
88 Connaught Road Central
Hong Kong

11 March 2021

The Board of Directors
Units 813 & 815, Level 8
Core F, Cyberport 3
100 Cyberport Road
Hong Kong

Dear Sir or Madam,

MAJOR TRANSACTION RELATING TO THE ACQUISITION OF THE REMAINING 49% EQUITY INTEREST OF THE TARGET

We refer to the major transaction of Loto Interactive Limited (the "**Company**") in relation to the acquisition of 49% of the equity interest of 甘孜州長河水電消納服務有限公司 (Ganzi Changhe Hydropower Consumption Service Co., Ltd.). Details of the aforesaid transaction are set out in the joint announcement of the Company and 500.com Limited dated 28 January 2021 (the "**Announcement**") and the joint supplemental announcement of the Company and 500.com Limited dated 11 February 2021 (the "**Supplemental Announcement**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Announcement and the Supplemental Announcement unless otherwise stated.

We also refer to the unaudited net loss before and after taxation of the Target for the period since incorporation and up to 31 December 2019, the unaudited net profit before and after taxation of the Target for the year ended 31 December 2020 and the unaudited net asset value of the Target as at 31 December 2020 (the "**Updated Selected Financial Information**"), as disclosed in the Supplemental Announcement, for which the Board is solely responsible. We note that the Updated Selected Financial Information is regarded as a profit forecast under Rule 10 of the Takeovers Code and is required to be reported on in accordance with Rule 10 of the Takeovers Code.

In respect of the Updated Selected Financial Information, we have obtained and reviewed the Updated Selected Financial Information including the unaudited management accounts of Target for the period since incorporation and up to 31 December 2019 and for the year ended 31 December 2020 and other relevant information and documents, which you as the Directors are solely responsible for. We also discussed with you and the senior management of the Company the information and documents provided by you which formed the key bases upon the Updated Selected Financial Information has been made. We have discussed with you and the senior management the bases adopted by the Directors upon which the Updated Selected Financial Information has been calculated and the accounting policies and calculations adopted in arriving at the Updated Selected Financial Information, in particular, as to whether the Updated Selected Financial Information have been prepared on a basis consistent in all material respects with the accounting policies and calculations normally adopted by the Group as set out in the annual report of the Group for the year ended 31 December 2019 and the interim report of the Group for the six months ended 30 June 2020. We have also considered the report on the Updated Selected Financial Information dated 11 March 2021 issued by Zhonghui ANDA CPA Limited ("**Zhonghui**") to you. Zhonghui is of the opinion that, so far as the accounting policies and calculations are concerned, the Updated Selected Financial Information has been properly compiled in accordance with the bases adopted by the Directors as set out under the paragraph headed "Directors' responsibilities" for the Updated Selected Financial Information of Zhonghui's report, and has been prepared on a basis consistent, in all material respects, with the accounting policies adopted by the Group for the audited consolidated financial statement of the Group for the year ended 31 December 2019 and the unaudited interim consolidated financial statements of the Group for the six months ended 30 June 2020.

Based on the above, we are satisfied that the Updated Selected Financial Information, for which you as the Directors are solely responsible, has been prepared by the Directors after due care and consideration.

For the purpose of this letter, we have relied on and assumed the accuracy and completeness of all information provided to us and/or discussed with the Group. We have not assumed any responsibility for independently verifying the accuracy and completeness of such information or undertaken any independent evaluation or appraisal of any of the assets or liabilities of the Group. Save as provided in this letter, we do not express any other opinion or views on the Updated Selected Financial Information. The Directors remain solely responsible for the Updated Selected Financial Information.

Yours faithfully,
For and on behalf of
Octal Capital Limited
Alan Fung

Set out below is the management discussion and analysis of the Target for the period since its incorporation in April 2019 and up to 31 December 2019 and for the year ended 31 December 2020 (the "**Relevant Periods**").

1. BUSINESS REVIEW

The Target is a company established in the PRC with limited liability on 25 April 2019 and its principal business activity is data processing and provision of application software services. For further details of the Target, please refer to the section headed "*Information about the parties to the Acquisition – The Target*" in the Letter from the Board in this circular.

The Target completed the construction of the big data centre in late June 2020 and has commenced operation since then. The big data centre of the Target has a gross area of approximately 10,500 square meter and an operation capacity of providing data analysis and storage services for up to 136,000 data processors at the same time, accounting for approximately 60% of total production capacity of the Group in terms of number of data processors. The utilization rate of big data centre has been on an increasing trend since commencement of operation and reached to approximately 90% at September 2020. As the customers of the Target are mainly engaged in cryptocurrency mining business, and due to the recent price surge of bitcoin, the demand for the big data centre services remained at a high level. To satisfy the increasing demand, the number of staff of the Target increased from 4 to 48 as at 31 December 2020.

2. FINANCIAL REVIEW

Set out below is certain financial information of the Target for the Relevant Period:

Revenue

The Target has completed its big data centre construction and commenced operation in late June 2020. Revenue of nil and approximately RMB145.9 million (equivalent to approximately HK$175.1 million) was recorded for the period since its incorporation in April 2019 and up to 31 December 2019 and for the year ended 31 December 2020, respectively.

Cost of sales and service rendered

Cost of sales and service rendered comprise electricity cost, operating cost, depreciation of big data centre and other maintenance cost. For the period since its incorporation in April 2019 and up to 31 December 2019 and for the year ended 31 December 2020, the cost of sales and service rendered of the Target amounted to nil and approximately RMB120.4 million (equivalent to approximately HK$144.5 million), respectively.

Gross profit/loss

For the period since its incorporation in April 2019 and up to 31 December 2019 and for the year ended 31 December 2020, the Target recorded nil and a gross profit of approximately RMB25.6 million (equivalent to approximately HK$30.7 million) with the gross profit margin of nil and 17.5%, respectively.

The increase of gross profit for the year ended 31 December 2020 compared with no revenue generated for the period since its incorporation in April 2019 and up to 31 December 2019 was mainly due to the completion of construction and commencement of operation of its big data centre since late June 2020.

Other income and gains

Other income and gains of the Target comprises bank interest income. For the period since its incorporation in April 2019 and up to 31 December 2019 and for the year ended 31 December 2020, other income and gains of the Target amounted to approximately RMB11,000 (equivalent to approximately HK$13,200) and RMB8,000 (equivalent to approximately HK$9,600), respectively.

General and administrative expenses

General and administrative expenses mainly include staff cost, depreciation of right-of-use assets, consulting expense, travelling expense, office expense and other general and administrative expenses. For the period since its incorporation in April 2019 and up to 31 December 2019 and for the year ended 31 December 2020, the general and administrative expenses of the Target amounted to approximately RMB1.1 million (equivalent to approximately HK$1.3 million) and RMB15.4 million (equivalent to approximately HK$18.5 million), respectively.

The increase of general and administrative expenses for the year ended 31 December 2020 compared with the period since its incorporation in April 2019 and up to 31 December 2019 was mainly attributable to the expansion of the big data centre services, which led to an increase of the number of staff and related operating expense.

Finance costs

The finance costs of the Target comprise lease interest. For the period since its incorporation in April 2019 and up to 31 December 2019 and for the year ended 31 December 2020, the finance costs of the Target amounted to approximately RMB1,000 (equivalent to approximately HK$1,200) and RMB5,000 (equivalent to approximately HK$6,000), respectively.

The increase of finance cost for the year ended 31 December 2020 compared with the period since its incorporation in April 2019 and up to 31 December 2019 was mainly due to the increase of lease of office.

Income tax expense

The Target is subject to corporate income tax at a statutory rate of 25% on their respective taxable income for the Relevant Period. For the period since its incorporation in April 2019 and up to 31 December 2019 and for the year ended 31 December 2020, the income tax expense of the Target amounted to nil and approximately RMB2.3 million (equivalent to approximately HK$2.8 million), respectively.

Net loss/profit

For the period since its incorporation in April 2019 and up to 31 December 2019 and for the year ended 31 December 2020, the Target recorded a net loss of approximately RMB1.1 million (equivalent to approximately HK$(1.3) million) and a net profit of approximately RMB7.9 million (equivalent to approximately HK$9.5 million), respectively, with a net loss/profit margin of nil and 5.4%, respectively.

The increase in net profit for the year ended 31 December 2020 comparing with that for the year ended 31 December 2019 was primarily due to (1) the commencement of the big data centre of the Target; and (2) high demand for cryptocurrency mining business because of the recent price surge of bitcoin.

3. LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Cash and cash equivalents

The Target financed working capital requirements primarily from shareholders' paid-in capital.

As at 31 December 2019 and 2020, the total cash and cash equivalents of the Target were approximately RMB5.0 million (equivalent to approximately HK$6.0 million) and RMB0.1 million (equivalent to approximately HK$0.1 million) respectively. The cash and cash equivalents were all denominated in RMB.

Borrowings

The Target had no bank borrowings other than amounts due to related parties. The total amount due to related parties of the Target as at 31 December 2019 and 2020, was approximately RMB2.0 million (equivalent to approximately HK$ (2.4) million) and RMB8.8 million (equivalent to approximately HK$ (10.6) million), respectively, which is interest free in nature.

Gearing ratios

The gearing ratio of the Target (i.e. total borrowings (other than amounts due to related parties) divided by shareholders' funds) was nil as at 31 December 2019 and 2020.

4. SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS AND DISPOSALS

There was no significant investment, material acquisitions or disposals of the Target in the period since its incorporation in April 2019 and up to 31 December 2019 and the year ended 31 December 2020.

5. CHARGE ON ASSETS

As at 31 December 2019 and 2020, the Target did not have any charge over its assets.

6. CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

The Target's capital commitments at the end of 31 December 2019 and 2020 were as follows:

	2020	**2019**
	RMB$'000	*RMB$'000*
	(Audited)	(Audited)
Property, plant and equipment contracted, but not provided for	–	66,500

At each of 31 December 2019 and 2020, the Target did not have any significant contingent liabilities.

7. FUNDING AND TREASURY POLICIES AND EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Target has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Relevant Periods. To manage the liquidity risk, the management closely monitors the Target's liquidity position and maintains sufficient cash, the availability of funding through an adequate amount of shareholders' paid-in capital, borrowings from related parties and the ability to settle the payables of the Target.

The Target mainly operates in the PRC and all of its expenses are also denominated in RMB. As a result, the Target is not exposed to material foreign exchange risk. Therefore, no hedging is carried out by the Target to mitigate any currency risk.

8. STAFF AND REMUNERATION POLICY

As at 31 December 2020, the Target had a total of 48 full-time employees. Remuneration for employees for years ended 31 December 2019 and 2020 amounted to approximately RMB0.4 million (equivalent to approximately HK$0.5 million) and RMB4.4 million (equivalent to approximately HK$5.3 million), respectively. The remuneration packages provided by the Target to its employees are in line with the market level of pay in the industry.

9. FUTURE PLANS

The Target is committed to become the industry benchmark of big data centre services, in terms of scale, qualification, stability of power system, or environmental protection. Upon the Acquisition Completion, the Target will further strengthen marketing and promotion to attract new users and build up its own brand name in the next one to two years, make further investment to optimize the service content including but not limited to accelerating the development of other value-added services to attract more high-quality customers in three to five years and strive to increase the capacity of the big data centre in the long run, which would bring more considerable revenue to the Group. The Group will strive to seek changes, adhere to the spirit of innovation, and leverage on its core experience and corporate resources to achieve long-term benefits for the Group and its shareholders.

A. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The accompanying unaudited pro forma statement of assets and liabilities of the Group (the "**Statement**") has been prepared to illustrate the effect of the acquisition of Ganzi Changhe Hydropower Consumption Service Co., Ltd (the "**Acquisition**"), assuming the transaction had been completed as at 30 June 2020, might have affected the financial position of the Group.

The Statement is prepared based on the unaudited consolidated statement of financial position of the Group as at 30 June 2020 as extracted from the interim report of the Group for the six-month period ended 30 June 2020 and the financial information of the Target Company as set out in note 2 of the Statement after making certain proforma adjustments resulting from the Acquisition.

The Statement is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the Statement, it may not give a true picture of the actual financial position of the Group that would have been attained had the Acquisition actually occurred on 30 June 2020. Furthermore, the Statement does not purport to predict the Group's future financial position.

The Statement should be read in conjunction with the financial information of the Group as set out in Appendix I of the Circular, the financial information of the Target Company as set out in Appendix II of the Circular and other financial information included elsewhere in the Circular.

(i) Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group as at 30 June 2020

	Unaudited consolidated statement of assets and liabilities of the Group	Pro forma adjustments			Unaudited pro forma statement of assets and liabilities of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1, 2	*Note 3(i)*	*Note 3(ii)*	*Note 3(iii)*	
NON-CURRENT ASSETS					
Property, plant and equipment	252,203				252,203
Right-of-use assets	2,323				2,323
Goodwill	10,996				10,996
Intangible assets	2,504				2,504
Investments in associates	2,713				2,713
Equity investments at fair value through other comprehensive income	1,620				1,620
Loan receivables	30,000				30,000
Total non-current assets	302,359				302,359
CURRENT ASSETS					
Trade and other receivables	105,964				105,964
Bank balances and cash	45,713	105,000	(105,800)	(1,600)	43,313
Total current assets	151,677				149,277
CURRENT LIABILITIES					
Trade and other payables	74,299				74,299
Amount due to the holding Company	199				199
Lease liabilities	2,436				2,436
Tax payable	3,278				3,278
Total current liabilities	80,212				80,212

	Unaudited consolidated statement of assets and liabilities of the Group	Pro forma adjustments			Unaudited pro forma statement of assets and liabilities of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1, 2	*Note 3(i)*	*Note 3(ii)*	*Note 3(iii)*	
NON-CURRENT LIABILITIES					
Lease liabilities	484				484
Deferred tax liabilities	456				456
Total non-current liabilities	940				940
Net assets	372,884				370,484
CAPITAL AND RESERVES					
Share capital	31,586	1,694			33,280
Reserves	263,397	103,306	(27,965)	(1,600)	337,138
Equity attributable to owners of the Company	294,983	105,000	(27,965)	(1,600)	370,418
Non-controlling interests	77,901		(77,835)		66
Total capital and reserves	372,884				370,484

B. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP:

1 The amounts are extracted from the unaudited consolidated statement of financial position of the Group as at 30 June 2020 as set out in the interim report of the Group for the six-month period ended 30 June 2020.

2 The colomn represents the inclusion of assets and liabilities of the Target Company as at 30 June 2020, since the Target Company is an indirect 51%-owned subsidiary of the Group as at 30 June 2020.

The following pro forma adjustments have been made to the unaudited pro forma consolidated statement of financial position, assuming the Share Subscription and Acquisition had taken place on 30 June 2020.

3 The adjustment represents (i) the estimated gross proceeds from the Share Subscription of 169,354,839 Shares (the "**Subscription Share(s)**") at a placing price of HK$0.62 per Subscription Share of approximately HK$105,000,000; (ii) the difference to be recognised in the equity attributable to the owners of the Company upon the Acquisition Completion of approximately HK$27,965,000 (detail described as below); and (iii) the estimated related professional fees and other related expenses (collectively referred to as the "**Transaction Costs**") of approximately HK$1,600,000. It is assumed that the Transaction Costs will be settled by cash.

Financial Position of the Target Company as at 30 June 2020:	*HK$'000*
Net assets	158,846
Carrying amount of 49% non-controlling interests at 30 June 2020 (before the Acquisition)	77,835

	HK$'000
Fair value of acquisition consideration to be paid	105,800
Decrease in non-controlling interests in net assets at 30 June 2020	(77,835)
Difference to be recognised in the equity attributable to the owners of the Company upon the Acquisition Completion	27,965

Since the carrying value of 49% non-controlling interest of the Target Company may be different from this Unaudited Pro Forma Financial Information, the final amount to be recognised in the equity may be different from the amount presented above.

4 Save as set out above, the Unaudited Pro Forma Financial Information does not take into account any trading results or other transactions of the Group and the Target Company subsequent to the date of the financial statements as included in the Unaudited Pro Forma Financial Information.

C. ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountant, ZHONGHUI ANDA CPA Limited, Certified Public Accountants, Hong Kong.

中汇 ZHONGHUI

11 March 2021

The Board of Directors
Loto Interactive Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of pro forma financial information of Loto Interactive Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company for illustrative purposes only. The pro forma financial information consists of the pro forma adjusted consolidated assets and liabilities as at 30 June 2020 as set out on pages 1 to 4 of the investment circular issued by the Company. The applicable criteria on the basis of which the directors have compiled the pro forma financial information are described in Part A.

The pro forma financial information has been compiled by the directors to illustrate the effect of the Acquisition on the Group's assets and liabilities as at 30 June 2020 as if the transaction had been taken place at 30 June 2020. As part of this process, information about the Group's assets and liabilities has been extracted by the directors from the Group's consolidated financial statements as included in the interim report for the six-month period ended 30 June 2020.

Directors' Responsibility for the Pro Forma Financial Information

The directors are responsible for compiling the pro forma financial information in accordance with paragraph 13 of Appendix 1B and paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "**GEM Listing Rules**" and with reference to Accounting Guideline ("**AG**") 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

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

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 31 (7) of Chapter 7 of the GEM Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the pro forma financial information in accordance with paragraph 31 of Chapter 7 of the GEM Listing Rules and with reference to AG 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2020 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

– The related pro forma adjustments give appropriate effect to those criteria; and

– The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We make no comments regarding the reasonableness of the amount of net proceeds from the Share Subscription, the application of those net proceeds, or whether such use will actually take place as described under "Use of proceeds and the reasons and benefits for the Subscription" set out on page 14 of the investment circular.

Opinion

In our opinion:

(a) the pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

Yours faithfully,

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Hong Kong

The following are the biographical details of the Directors who will retire as required by the articles of association of the Company and the GEM Listing Rules and are proposed to be re-elected at the EGM. Save as disclosed below, there is no other matter concerning the re-election of the retiring Directors that needs to be brought to the attention of the Shareholders, nor is there other information that is required to be disclosed pursuant to the requirements of Rule 17.50(2)(h) to (v) of the GEM Listing Rules.

MR. YAN HAO

Mr. Yan Hao, aged 42, is an executive Director and the chief executive officer appointed on 1 September 2020. He was an independent non-executive Director from 10 July 2017 to 7 August 2020. He was also the chairman of the Remuneration Committee and a member of the Nomination Committee of the Company from 10 July 2017 to 7 August 2020. Mr. Yan is currently a lawyer of Junzejun Law Offices. Mr. Yan currently serves as an arbitrator for the World Intellectual Property Organization, the Hong Kong International Arbitration Centre, the Shenzhen Court of International Arbitration, and the Guangzhou Arbitration Commission, respectively, as well as a panellist of the Asian Domain Name Dispute Resolution Centre. Mr. Yan obtained a bachelor of laws from Wuhan University in 2001, a master of laws from the University of Hong Kong in 2003 and a master of laws from Stanford University in 2016. Mr. Yan is qualified to practice law in the PRC and is also a registered foreign lawyer in Hong Kong.

Save as disclosed above, Mr. Yan confirms that (i) he has not held any directorships in any public companies the securities of which are listed on any securities market in Hong Kong or overseas during the past three years; (ii) he does not hold any other position with the Company or any of its subsidiaries; and (iii) he does not have any relationships with any Directors, senior management, substantial shareholders or controlling shareholders (each as respectively defined in the GEM Listing Rules) of the Company.

As at the Latest Practicable Date, Mr. Yan has personal interests of 3,300,000 Options granted under the 2012 Share Option Scheme. Save as disclosed above, Mr. Yan does not have, and is not deemed to have, any interests or short positions in any shares, underlying shares or interests in debentures of the Company and its associated corporations within the meaning of Part XV of the SFO.

Mr. Yan has entered into a letter of appointment with the Company as an executive Director and a service contract with the Company as the chief executive officer of the Company, each for a term of three years commenced from 1 September 2020. He is subject to rotation and re-election at general meeting of the Company in accordance with the articles of association of the Company. Mr. Yan is entitled to a director's fee of HK$250,000 per annum and an additional remuneration of HK$1,500,000 per annum in his capacity as the chief executive officer of the Company. Mr. Yan is entitled to a discretionary bonus payment in such amount and payable at such time as shall be determined by the Board in its absolute discretion for his directorship in the Company, which was recommended by the Company's remuneration committee and determined by the Board with reference to his duties and responsibilities as well as his qualifications, experience and the prevailing market conditions.

MR. HUANG JIAN

Mr. Huang Jian, aged 56, is an independent non-executive Director appointed on 7 August 2020. He is also the chairman of the remuneration committee and a member of the nomination committee of the Company. He is the co-founder of Shenzhen Eerduosi Garment Co., Ltd. (深圳市鄂爾多斯服裝有限公司) and currently serves as its vice-chairman. He is also the founder of Shenzhen Jieyitang Culture Co., Ltd. (深圳皆一堂文化有限公司) in 2012 and currently serves as its chairman of the board. Mr. Huang worked at Beijing China Resources Group from 1989 to 1992 and served as the vice general manager of the retail business group of Hong Kong China Resources Group from 1992 to 2001. Mr. Huang co-founded Shenzhen Eerduosi Garment Co., Ltd. (深圳市鄂爾多斯服裝有限公司) in 2002 and founded Shenzhen Jieyitang Culture Co., Ltd. (深圳皆一堂文化有限公司) in 2012. Mr. Huang studied in the Department of Chemistry of Xiamen University and obtained his bachelor's degree in 1985. He further obtained a Master of Business Administration degree from Xiamen University in 1989.

Save as disclosed above, Mr. Huang confirms that (i) he has not held any directorships in any public companies the securities of which are listed on any securities market in Hong Kong or overseas during the past three years or other major appointments and professional qualification; (ii) he does not hold any other position with the Company or any of its subsidiaries; and (iii) he does not have any relationships with any Directors, senior management, substantial shareholders or controlling shareholders (each as respectively defined in the GEM Listing Rules) of the Company.

As at the Latest Practicable Date, Mr. Huang has personal interests of 200,000 Options granted under the 2012 Share Option Scheme. Save as disclosed above, Mr. Huang does not have, and is not deemed to have, any interests or short positions in any shares, underlying shares or interests in debentures of the Company and its associated corporations within the meaning of Part XV of the SFO.

Mr. Huang has entered into a letter of appointment with the Company for a term of two years commencing from 7 August 2020 and expiring on 6 August 2022, which will be automatically renewed for consecutive term(s) of two years, subject to retirement by rotation and re-election at annual general meeting pursuant to the articles of association of the Company. Mr. Huang is entitled to a director's fee of HK$250,000 per annum which was recommended by the remuneration committee of the Company and determined by the Board with reference to his duties and responsibilities as well as his qualifications, experience and the prevailing market conditions.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(A) Directors and Chief Executive

As at the Latest Practicable Date, the interests and short positions held by the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which are required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Long Positions in the Shares and underlying Shares

(a) Ordinary shares of the Company

Name of Director	Number of Shares held *(Note 2)*	Approximate percentage of total issued Shares *(Note 1)*
Ms. Zhang Jing	137,200	0.04%

(b) Options granted by the Company

Name of Director	Number of underlying Shares held pursuant to the Options *(Notes 2 and 3)*	Approximate percentage of total issued Shares *(Note 1)*
Ms. Zhang Jing	3,566,800	0.94%
Mr. Yan Hao	3,300,000	0.87%
Ms. Huang Lilan	2,000,000	0.53%
Mr. Yuan Qiang	6,200,000	1.64%
Dr. Lu Haitian	400,000	0.11%
Mr. Lin Sen	400,000	0.11%
Mr. Huang Jian	200,000	0.05%

Notes:

1. As at the Latest Practicable Date, the total number of issued Shares of the Company was 379,023,983.

2. This represents interests held by the relevant Director as beneficial owner.

3. Details of the Options held by each Director are as follows:

Director	Number of Options	Date of Grant	Exercise Price	Exercise Period in Tranches
Ms. Zhang Jing	466,800	1 April 2019	HK$1.10	from 1 April 2019 to 31 March 2029 from 1 April 2020 to 31 March 2029 from 1 April 2021 to 31 March 2029
	3,100,000	10 August 2020	HK$0.26	from 10 August 2020 to 9 August 2030 from 10 August 2021 to 9 August 2030 from 10 August 2022 to 9 August 2030
Mr. Yan Hao	200,000	1 April 2019	HK$1.10	from 1 April 2019 to 31 March 2029 from 1 April 2020 to 31 March 2029 from 1 April 2021 to 31 March 2029
	3,100,000	10 August 2020	HK$0.26	from 10 August 2020 to 9 August 2030 from 10 August 2021 to 9 August 2030 from 10 August 2022 to 9 August 2030

Director	Number of Options	Date of Grant	Exercise Price	Exercise Period in Tranches
Ms. Huang Lilan	1,000,000	1 April 2019	HK$1.10	from 1 April 2019 to 31 March 2029 from 1 April 2020 to 31 March 2029 from 1 April 2021 to 31 March 2029
	1,000,000	10 August 2020	HK$0.26	from 10 August 2020 to 9 August 2030 from 10 August 2021 to 9 August 2030 from 10 August 2022 to 9 August 2030
Mr. Yuan Qiang	3,100,000	1 April 2019	HK$1.10	from 1 April 2019 to 31 March 2029 from 1 April 2020 to 31 March 2029 from 1 April 2021 to 31 March 2029
	3,100,000	10 August 2020	HK$0.26	from 10 August 2020 to 9 August 2030 from 10 August 2021 to 9 August 2030 from 10 August 2022 to 9 August 2030
Dr. Lu Haitian	200,000	1 April 2019	HK$1.10	from 1 April 2019 to 31 March 2029 from 1 April 2020 to 31 March 2029 from 1 April 2021 to 31 March 2029
	200,000	10 August 2020	HK$0.26	from 10 August 2020 to 9 August 2030 from 10 August 2021 to 9 August 2030 from 10 August 2022 to 9 August 2030
Mr. Lin Sen	200,000	1 April 2019	HK$1.10	from 1 April 2019 to 31 March 2029 from 1 April 2020 to 31 March 2029 from 1 April 2021 to 31 March 2029
	200,000	10 August 2020	HK$0.26	from 10 August 2020 to 9 August 2030 from 10 August 2021 to 9 August 2030 from 10 August 2022 to 9 August 2030

Director	Number of Options	Date of Grant	Exercise Price	Exercise Period in Tranches
Mr. Huang Jian	200,000	10 August 2020	HK$0.26	from 10 August 2020 to 9 August 2030 from 10 August 2021 to 9 August 2030 from 10 August 2022 to 9 August 2030

(i) ***Long Positions in the shares and underlying shares of associated corporation of the Company – 500.com Limited (a listed holding company of the Company)***

(a) *ADS of 500.com Limited*

Name of Director	Number of ADS held *(Note 2)*	Approximate percentage of total issued and outstanding shares of 500.com Limited *(Note 1)*
Ms. Zhang Jing	3,481	0.01%
Ms. Huang Lilan	5,151	0.01%
Mr. Yuan Qiang	84,266	0.16%

(b) *ADS Options granted by 500.com Limited*

Name of Director	Number of underlying shares held pursuant to ADS Options *(Notes 2&3)*	Approximate percentage of total issued and outstanding shares of 500.com Limited *(Note 1)*
Ms. Zhang Jing	49,200	0.09%
Ms. Huang Lilan	15,500	0.03%

Notes:

1. As at the Latest Practicable Date, the total number of issued and outstanding shares of 500.com Limited was 53,677,415.

2. This represents interests held by the relevant Director as beneficial owner.

3. Details of the ADS Options held by Ms. Zhang Jing and Ms. Huang Lilan are as follows:

Director	Number of ADS Options	Date of Grant	Exercise Price	Exercise Period
Ms. Zhang Jing	19,200	8 April 2011	US$2.00	from 8 April 2015 to 7 April 2021
	5,000	19 June 2014	US$10.00	from 19 June 2015 to 19 June 2021
	10,000	19 June 2014	US$10.00	from 19 June 2016 to 19 June 2021
	15,000	19 June 2014	US$10.00	from 19 June 2017 to 19 June 2021
Ms. Huang Lilan	167	19 June 2014	US$10.00	from 19 June 2015 to 19 June 2021
	2,000	19 June 2014	US$10.00	from 19 June 2016 to 19 June 2021
	8,333	19 June 2014	US$10.00	from 19 June 2017 to 19 June 2021
	5,000	19 June 2014	US$10.00	from 19 June 2018 to 19 June 2021

Save as disclosed above, as at the Latest Practicable Date, none of the directors, chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules.

(B) Substantial Shareholders

As at the Latest Practicable Date, to the best knowledge of the Company, the persons or entities (other than the Directors or chief executives of the Company) who had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, 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 the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital are as follows:

(i) Long Positions in the Shares

Name	Capacity	Number of Shares held/ interested in	Approximate percentage of total issued Shares
500.com Limited	Beneficial owner	297,226,271 *(Note)*	78.42%

Note:

These Shares include 169,354,839 Subscription Shares that the Subscriber has agreed to subscribe for pursuant to the Subscription Agreement.

As at the Latest Practicable Date, save as disclosed above, the Directors and the chief executive of the Company were not aware of any other persons or entities (other than the Directors or chief executives of the Company) who had interests or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, 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 meeting of any member of the Group.

As at the Latest Practicable Date, each of Ms. Zhang Jing, Ms. Huang Lilan and Mr. Yuan Qiang are senior management of 500.com Limited and 500.com Limited has interest in the Shares which fell to be disclosed under Divisions 2 and 3 of Part XV of the SFO, details of which are set out above. Save as disclosed in this paragraph, none of the Directors was a director or employee of a company which has an interest in the Shares and underlying Shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' INTERESTS IN ASSETS OR CONTRACTS OR ARRANGEMENT SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries since 31 December 2019, the date to which the latest published audited of the Company were made up.

As at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement which is significant in relation to the business of the Enlarged Group.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has any existing or proposed service contracts, excluding contract expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation), between any of the Directors and any member of the Group.

5. COMPETITION AND CONFLICT OF INTERESTS

As at the Latest Practicable Date, none of the Directors or controlling Shareholders or any of their respective close associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group.

6. QUALIFICATIONS AND CONSENT OF EXPERTS

The followings are the qualifications of the experts which have given their opinions or advice which are contained in this circular:

Name	Qualification
Octal Capital Limited	a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
ZHONGHUI ANDA CPA Limited	Certified Public Accountants

As at the Latest Practicable Date, each of the experts was not interested in any Shares or shares in any member of the Group nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of the experts did not have any direct or indirect interest in any asset which had been, since 31 December 2019, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased, or are proposed to be acquired or disposed of by or leased to any member of the Group.

Each of the experts has given and has not withdrawn their written consents to the issue of this circular with the inclusion of their letters and reference to their names in the form and context in which they respectively appear.

The letters and recommendations given by the Independent Financial Adviser and ZHONGHUI ANDA CPA Limited are given as of the date of this circular for incorporation herein.

7. MATERIAL CONTRACTS

In the two years immediately preceding the date of this circular and up to the Latest Practicable Date, the following contracts, not being contracts entered into in the ordinary course of business, were entered into by the Company or any of its subsidiaries which are or may be material:

(a) the joint venture agreement entered into between the Purchaser and the Seller A on 14 June 2019 relating to the formation of a joint venture company in which the Purchaser shall beneficially own 51% by contributing RMB76,500,000 to its registered capital and the Seller A shall beneficially own 49% by contributing RMB73,500,000 to its registered capital;

(b) the convertible note agreement entered into between the Purchaser and 深圳芯行科技有限公司 (Shenzhen Chipchain Technologies Co., Ltd.) (the "**Debtor**") on 19 June 2019, pursuant to which the Purchaser agreed to grant to the Debtor, a note in the principal amount of RMB10,000,000 for a term of six (6) months, during which the Purchaser is entitled to convert the note into 3.33% of the equity interest in the Debtor;

(c) the joint venture agreement entered into between Interactive Lab Limited ("**Interactive Lab**"), a wholly-owned subsidiary of the Company, and Bee Computing (HK) Limited ("**Bee Computing**") on 23 January 2020 relating to the formation of a joint venture company, in which Interactive Lab shall beneficially own 51% by contributing US$2,000,000 to its total share capital and Bee Computing shall beneficially own 49% by contributing US$1,922,000 to its total share capital in the form of contribution of technology;

(d) the placing agreement entered into between the Company and Founder Securities (Hong Kong) Limited (the "**Placing Agent**") on 24 September 2020, pursuant to which the Company has conditionally agreed to place, through the Placing Agent, on a best efforts basis, up to 63,168,000 Shares to not less than six independent placees at the placing price of HK$0.26 per Share;

(e) the repurchase agreement entered into between Interactive Lab and Bee Computing on 12 January 2021, pursuant to which Bee Computing shall repurchase the shares of Happy Technology Limited held by Interactive Lab, being 51% of the entire issued share capital of the Happy Technology Limited, at the total repurchase price in the amount of US$2 million;

(f) the Subscription Agreement; and

(g) the Acquisition Agreement.

8. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claim of material importance and, so far as the Directors are aware, no litigation or claim of material importance was pending or threatened against any member of the Group.

9. GENERAL

(a) The registered office of the Company is at P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands and the principal place of business of the Company in Hong Kong is at Units 813 & 815, Level 8, Core F, Cyberport 3, 100 Cyberport Road, Hong Kong.

(b) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

(c) The company secretary of the Company is Ms. Chow Chiu Man, Mandy, a chartered secretary, a chartered governance professional and an associate of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute in the United Kingdom.

(d) The compliance officer of the Company appointed is Mr. Yan Hao, who is qualified to practice law in the PRC and is also a registered foreign lawyer in Hong Kong.

(e) The Company has an audit committee, which was established for the purposes of reviewing and providing supervision over the Company's financial reporting process and overseeing the Group's risk management and internal controls. It also reviews the effectiveness of the audit process and risk evaluation. The audit committee of the Company comprises two independent non-executive Directors, namely Mr. Lin Sen (chairman of the audit committee), Dr. Lu Haitian and one non-executive Director, namely Mr. Yuan Qiang.

Mr. Lin Sen, aged 44, was appointed as an independent non-executive Director on 10 July 2017. From June 2017 to April 2019, he served as the chief financial officer of 7Road Holdings Limited (stock code: 797), a company listed on the Main Board of the Stock Exchange. From November 2006 to January 2017, Mr. Lin served as the chief financial officer of Palm Commerce Information Technology (China) Co., Ltd.) (掌信彩通信息科技（中國）有限公司) ("**Palm Commerce**"), which is a lottery service provider in the PRC. Palm Commerce is currently a subsidiary of Telling Telecommunication Holding Co., Ltd. (天音通信控股股份有限公司) (SHE stock code: 000829), a company listed on the Shenzhen Stock Exchange. From February 2001 to July 2006, Mr. Lin served as manager of PricewaterhouseCoopers International Limited. Mr. Lin obtained a bachelor's degree in international business administration from Central University of Finance and Economics (中央財經大學) in 1998 and an executive MBA from China Europe International Business School (中歐國際工商管理學院) in 2011. In 2010, Mr. Lin became a registered accountant in the PRC.

Dr. Lu Haitian, aged 41, was appointed as an independent non-executive Director on 10 July 2017. He is currently a professor in law at the School of Accounting and Finance and the director of Chinese Mainland Affairs at The Hong Kong Polytechnic University. He served at the School of Accounting and Finance in The Hong Kong Polytechnic University first as a visiting lecturer in law from September 2005 to June 2007 and later as an assistant professor in law from June 2007 to June 2012, associate professor in law from July 2012 to June 2018, and the associate dean (external relations and development) in the Faculty of Business from January 2018 to January 2020. Dr. Lu has more than 15 years of experience in accounting and law. He obtained a bachelor of international economic law from Nanjing University in 2001, a master of laws from The University of Liverpool in 2002, and a Ph.D. in law from National University of Singapore in 2007. Dr. Lu is currently an independent non-executive director of K. H. Group Holdings Limited (stock code: 1557), a company listed on the Main Board of the Stock Exchange.

Mr. Yuan Qiang, aged 47, was appointed as a non-executive Director on 2 January 2018. He is currently the chief financial officer of 500.com Limited. Mr. Yuan was the senior vice president of finance of 500.com Limited from July 2016 to December 2017, the vice president of finance of 500.com Limited from June 2014 to July 2016 and the financial director of 500.com Limited from March 2013 to June 2014. Mr. Yuan served as the financial manager of a subsidiary of 500.com Limited from January 2001 to March 2013. Mr. Yuan has more than 15 years of experience in accounting, financial control, corporate finance and mergers & acquisitions. Mr. Yuan obtained a bachelor's degree in financial management from Zhongnan University of Finance and Economics.

(f) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Units 813 & 815, Level 8, Core F, Cyberport 3, 100 Cyberport Road, Hong Kong during normal business hours up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the Subscription Agreement;

(c) the Acquisition Agreement;

(d) the letter from the Listing Rules Independent Board Committee, the text of which is set out in this circular;

(e) the letter from the Independent Financial Adviser, the text of which is set out in this circular;

(f) the annual reports of the Company for the two financial years ended 31 December 2018 and 2019;

(g) the accountants' report of the Target from ZHONGHUI ANDA CPA Limited, the text of which is set out in Appendix II to this circular;

(h) the letters from ZHONGHUI ANDA CPA Limited and the Independent Financial Adviser on the unaudited required financial information of the Target, the text of which is set out in Appendix III to this circular;

(i) the report from ZHONGHUI ANDA CPA Limited in respect of the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix V to this circular;

(j) the written consent letters of ZHONGHUI ANDA CPA Limited and the Independent Financial Adviser referred to in the section headed "6. Qualifications and Consent of Experts" in this Appendix;

(k) the material contracts referred to in the paragraph headed "7. Material Contracts" in this Appendix; and

(l) this circular.

乐透互娱
LOTO INTERACTIVE

Loto Interactive Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8198)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting of Loto Interactive Limited (the "**Company**") will be held at Units 813 & 815, Level 8, Core F, Cyberport 3, 100 Cyberport Road, Hong Kong on Friday, 26 March 2021 at 11:00 a.m. (the "**EGM**") for the purpose of considering and, if thought fit, passing the following resolutions:

ORDINARY RESOLUTIONS

1. "**THAT** subject to and conditional upon (i) the granting of approval by the Listing Committee of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") of the listing of, and permission to deal in, the Subscription Shares (as defined in paragraph (a) of this resolution below); and (ii) the passing of the resolution numbered 2 below:

   (a) the subscription agreement (the "**Subscription Agreement**") dated 28 January 2021 entered into between the Company as issuer and 500.com Limited (the "**Subscriber**") as subscriber in relation to the proposed subscription of 169,354,839 shares of HK$0.1 each in the share capital of the Company (each a "**Subscription Share**", and collectively, the "**Subscription Shares**") at the price of HK$0.62 per Subscription Share (a copy of the Subscription Agreement marked "A" and signed by the chairman of the EGM for identification purpose has been tabled at the meeting) be and are hereby approved, ratified and confirmed and any one director of the Company (the "**Director**") be and is hereby authorised to approve any changes and amendments thereto as he/she may consider necessary, desirable or appropriate;

   (b) the Directors be and are hereby granted a specific mandate to exercise all the powers of the Company to allot and issue the Subscription Shares, subject to and in accordance with the terms and conditions set out in the Subscription Agreement; and

   (c) all other transactions contemplated under the Subscription Agreement be and are hereby approved and any one Director be and is hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps as the Director in his/her discretion may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Subscription Agreement, or any of the transactions contemplated under the Subscription Agreement and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents, which are not fundamentally different from those as provided under the Subscription Agreement) as are, in the opinion of the Director, in the interests of the Company and its shareholders as a whole.

2. **THAT** subject to and conditional upon the passing of the resolution numbered 1 above:

   (a) the acquisition agreement (the "**Acquisition Agreement**") dated 28 January 2021 entered into by and among 樂透互娛信息技術(深圳)有限公司 (Loto Interactive Information Technology (Shenzhen) Limited) as purchaser and 深圳市誠佑科技有限公司 (Shenzhen Chengyou Technology Co., Ltd.) and Mr. Guo Xiaoquan (郭筱荃) as sellers in relation to the acquisition of 49% of the equity interest of 甘孜州長河水電消納服務有限公司 (Ganzi Changhe Hydropower Consumption Service Co., Ltd.) (a copy of the Acquisition Agreement marked "B" and signed by the chairman of the EGM for identification purpose has been tabled at the meeting) be and are hereby approved, ratified and confirmed and any one director of the Company (the "**Director**") be and is hereby authorised to approve any changes and amendments thereto as he/she may consider necessary, desirable or appropriate; and

   (b) all other transactions contemplated under the Acquisition Agreement be and are hereby approved and any one Director be and is hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps as the Director in his/her discretion may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Acquisition Agreement, or any of the transactions contemplated under the Subscription Agreement and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents, which are not fundamentally different from those as provided under Acquisition Agreement) as are, in the opinion of the Director, in the interests of the Company and its shareholders as a whole.

3. **THAT** the authorised share capital of the Company be increased from HK$55,000,000 divided into 550,000,000 shares of the Company of HK$0.1 each (the "**Shares**") to HK$65,000,000 divided into 650,000,000 Shares by the creation of 100,000,000 additional Shares (the "**Proposed Increase in Authorised Share Capital**"), which will, upon issue and being fully paid, rank pari passu in all respects with the existing Shares in issue; and any one Director be and is hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps as the Director in his/her discretion may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Proposed Increase in Authorised Share Capital.

4. THAT

(a) to re-elect Mr. Yan Hao as an executive Director; and

(b) to re-elect Mr. Huang Jian as an independent non-executive Director."

By Order of the Board
Loto Interactive Limited
Yan Hao
Chief Executive Officer and Executive Director

Hong Kong, 11 March 2021

Registered office:
P.O. Box 31119
Grand Pavilion, Hibiscus Way
802 West Bay Road
Grand Cayman, KY1-1205
Cayman Islands

Head office and principal place of business in Hong Kong:
Units 813 & 815, Level 8
Core F, Cyberport 3
100 Cyberport Road l
Hong Kong

Notes:

1. A shareholder entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.

2. Where there are joint holders of any Share, any one of such joint holders may vote at the EGM, either personally or by proxy, in respect of such Share as if he was solely entitled thereto, but if more than one of such joint holders be present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Share shall alone be entitled to vote in respect thereof.

3. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of attorney or authority, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not less than 48 hours before the time appointed for holding the EGM (or any adjournment thereof).

4. For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed on Friday, 26 March 2021, on which no share transfers will be registered. In order to be eligible to attend and vote at the EGM, all transfer forms accompanied by relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Thursday, 25 March 2021.

5. Completion and return of the form of proxy will not preclude a shareholder from attending the EGM and voting in person at the EGM or any adjournment thereof if he so desires. If a shareholder attends the EGM after having deposited the form of proxy, his form of proxy will be deemed to have been revoked.

6. Article 66 of the Company's articles of association sets out the procedure by which shareholders of the Company may demand a poll at general meetings.

   According to Rule 17.47(4) of the GEM Listing Rules, any voting of the shareholders of the Company at the EGM will be taken by way of a poll and an announcement of the voting results will be made after the EGM. Accordingly, the resolutions will be taken by way of a poll at the EGM.

7. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.

PRECAUTIONARY MEASURES FOR THE EGM

Please see page 1 of the EGM Circular for measures being taken to try to prevent and control the spread of the Novel Coronavirus (COVID-19) at the EGM, including:

- compulsory temperature checks and health declarations
- recommended wearing of surgical face masks
- no distribution of corporate gifts and refreshments

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the meeting venue. The Company encourages attendees to wear face masks and reminds Shareholders that they may appoint the Chairman of the meeting as their proxy to vote on the relevant resolution(s) at the EGM as an alternative to attending the EGM in person.