
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult 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.

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Loto Interactive Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8198)

CONTINUING CONNECTED TRANSACTIONS SERVICE AGREEMENT RELATING TO THE BIG DATA CENTRE SERVICES AND NOTICE OF EXTRAORDINARY GENERAL MEETING

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



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 6 to 20 of this circular. A letter from the Independent Board Committee is set out on pages 21 to 22 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 23 to 43 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 Monday, 8 November 2021 at 11:00 a.m. is set out on pages EGM-1 to EGM-2 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.

22 October 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 this 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

DEFINITIONS

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
“ADS”	American depositary share(s) of BIT Mining
“ADS Options”	options granted by BIT Mining to subscribe for ADS
“Annual Caps”	the proposed maximum aggregate annual value for the transaction contemplated under the Service Agreement for a period of 36 months commencing from the Effective Date and expiring on the Last Date
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Big Data Centre Services”	has the meaning ascribed to it under the paragraph headed “Provision of Big Data Centre Services” in the Letter from the Board of this circular
“BIT Mining”	BIT Mining Limited (formerly known as 500.com Limited), the controlling shareholder, as defined in the GEM Listing Rules, of the Company and 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 “BTCM”
“BIT Mining Group”	BIT Mining and/or any of its wholly-owned subsidiaries and Controlling company(ies)
“Board”	the board of Directors
“Changhe Hydropower”	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, an indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date
“Chongqing Yusheng”	重慶宇盛信息技術有限公司 (Chongqing Yusheng Information Technology Co., Ltd.), a company established in the PRC with limited liability, an indirect wholly-owned subsidiary of BIT Mining
“Company”	Loto Interactive Limited, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on GEM (stock code: 8198)

DEFINITIONS

“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Controlling company(ies)”	collectively, company(ies) in which a party holds any interest
“Director(s)”	the director(s) of the Company
“Effective Date”	the date of the Independent Shareholders’ approval of the Service Agreement
“EGM”	the extraordinary general meeting (or any adjournment thereof) of the Company to be convened for the purpose of considering and, if thought fit, approving the Service Agreement, the transaction contemplated thereunder and the Annual Caps
“Fixed Hourly Service Rate”	has the meaning ascribed to it under the paragraph headed “Services Fees and Pricing Policy” in the Letter from the Board of this circular
“GEM”	GEM operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, from time to time
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, namely Dr. Lu Haitian, Mr. Lin Sen and Mr. Huang Jian, established to advise the Independent Shareholders as to whether the Service Agreement and the Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole
“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, being the independent financial adviser appointed for the purpose of advising the Independent Board Committee and the Independent Shareholders in respect of the Service Agreement, the transactions contemplated thereunder and the Annual Caps

DEFINITIONS

“Independent Shareholders”	the Shareholders other than (i) BIT Mining and its associates and (ii) all other parties (if any) who are involved in or interested in the Service Agreement and the transactions contemplated thereunder
“Independent Third Party(ies)”	any person or company and its ultimate beneficial owner(s), to the best of the Company’s knowledge, information and belief, are third parties independent of the Company and its connected persons
“KW/h”	kilowatt per hour
“Last Date”	the last date of the 36-months’ period (commencing from the Effective Date)
“Latest Practicable Date”	18 October 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Options”	the outstanding share options granted by the Company pursuant to the 2012 Share Option Scheme
“PRC”	the People’s Republic of China (which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan)
“Service Agreement”	the service agreement for provision of big data centre services (大數據綜合服務合同) dated 13 September 2021 entered into between the Company, for itself and also as agent of its wholly-owned subsidiaries and Controlling companies, and BIT Mining, for itself and also as agent of its wholly-owned subsidiaries and Controlling companies, pursuant to which the Company, its wholly-owned subsidiaries and Controlling companies, will provide the Big Data Centre Services to BIT Mining, its wholly-owned subsidiaries and Controlling companies, for the Term
“Service Provider”	collectively, the Company, its wholly-owned subsidiaries and Controlling companies, as the case may be
“Service Receiver”	collectively BIT Mining, its wholly-owned subsidiaries and Controlling companies, as the case may be

DEFINITIONS

“Services Framework Agreement”	Services Framework Agreement dated 24 March 2021, as supplemented by the supplemental agreement dated 31 March 2021, entered into among Changhe Hydropower, Chongqing Yusheng and BIT Mining (for itself and on behalf of its subsidiaries), pursuant to which Changhe Hydropower will provide big data centre services to Chongqing Yusheng and BIT Mining (for itself and on behalf of its subsidiaries) for a term commencing from 4 May 2021 and expiring on 31 December 2023 (both dates inclusive)
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the ordinary share(s) of HK\$0.1 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed to it under the GEM Listing Rules
“substantial shareholder”	has the meaning ascribed to it under the GEM Listing Rules
“Term”	the period of 36 months commencing from the Effective Date and expiring on the Last Date (both dates inclusive)
“%”	per cent

In this circular, translated English names of Chinese entities for which no official English translation exists are unofficial translations for identification purposes only, and in the event of any inconsistency between the Chinese names and their English translation, the Chinese names shall prevail.

LETTER FROM THE BOARD



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. Yang Xianfeng*

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

22 October 2021

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS SERVICE AGREEMENT RELATING TO THE BIG DATA CENTRE SERVICES

INTRODUCTION

Reference is made to the announcement of the Company dated 13 September 2021 in relation to the entering into of the Service Agreement. Pursuant to the requirements under the GEM Listing Rules, the Company will seek the Independent Shareholders' approval in relation to the Service Agreement, the transactions contemplated thereunder and the Annual Caps for the period from the Effective Date to the Last Date at the EGM.

LETTER FROM THE BOARD

The purposes of this circular are to provide you with (i) a letter from the Board containing further details of the Service Agreement, the transactions contemplated thereunder and the proposed Annual Caps; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Service Agreement, the transactions contemplated thereunder and the proposed Annual Caps; (iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Service Agreement, the transactions contemplated thereunder and the proposed Annual Caps; (iv) notice of convening the EGM; and (v) other information as required under the GEM Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

On 13 September 2021, the Company entered into the Service Agreement with BIT Mining, pursuant to which the Company, for itself and also as agent of its wholly-owned subsidiaries and Controlling companies, will provide the Big Data Centre Services to BIT Mining, for itself and also as agent of its wholly-owned subsidiaries and Controlling companies, for a term commencing from the Effective Date and expiring on the Last Date (both dates inclusive).

Set out below are the summary of the principal terms of the Service Agreement:

The Service Agreement

Date: 13 September 2021

Parties involved: (i) the Company;
(ii) BIT Mining

BIT Mining is a company incorporated in the Cayman Islands with limited liability. BIT Mining is principally engaged in, among other things, full industry chain of cryptocurrency mining.

As at the Latest Practicable Date, the single largest beneficial owner of BIT Mining is Mr. Law Man San Vincent (“**Mr. Law**”), who holds approximately 55.14% voting right in BIT Mining. Mr. Law is also a director of BIT Mining.

As at the Latest Practicable Date, BIT Mining is a controlling shareholder of the Company and is interested in 327,868,805 Shares, representing approximately 59.79% of the total issued share capital of the Company. Accordingly, BIT Mining is a substantial shareholder and a connected person of the Company pursuant to the GEM Listing Rules.

Term: the period of 36 months commencing from the Effective Date and expiring on the Last Date (both dates inclusive)

LETTER FROM THE BOARD

Condition Precedent

The Service Agreement is conditional upon the Independent Shareholders' approval of the Service Agreement, transactions contemplated thereunder and the Annual Caps at the EGM. The Service Agreement will be effective from the date of passing of the respective resolution approving the Service Agreement.

Provision of Big Data Centre Services

Pursuant to the Service Agreement, the Company, its wholly-owned subsidiaries and Controlling companies, as the case may be, are responsible for providing comprehensive big data centre services to BIT Mining, its wholly-owned subsidiaries and Controlling companies, as the case may be, in the big data centre(s), from time to time, operated by the Company, its wholly-owned subsidiaries and Controlling companies. The integrated services provided under the Service Agreement include on-site custody of the data processors, broadband network technology support, management of security monitoring server, troubleshooting and assistance in the maintenance of the data processors (collectively the “**Big Data Centre Services**”).

As at the Latest Practicable Date, the Group currently expects that the following big data centres operated by the Company or its subsidiaries will provide the Big Data Centre Services to the Service Receiver under the Service Agreement:

- i. the big data centre in Kazakhstan operated by a joint venture company, a subsidiary of the Company (for details, please refer to the announcement of the Company dated 6 September 2021 and 28 September 2021), which is expected to be in operation in or about December 2021; and
- ii. the big data centre in Hong Kong operated by the Company, which is almost in the finalisation stage and expected to be in operation in the fourth quarter of 2021.

The above list might subject to change from time to time during the Term.

LETTER FROM THE BOARD

Services Fee and Pricing Policy

In consideration of the provision of the Big Data Centre Services, the total service fee to be charged by the Service Provider for the Big Data Centre Services is determined by arm's length negotiations based on normal commercial terms and calculated based on the following pricing formula:

$$\begin{array}{rcl} & & \text{Number of data processors operated by customer} \\ & & \times \\ \text{Big Data Centre} & = & \text{Utility consumption rates of electricity consumed} \\ \text{Services fee} & & \text{by each model type of data processors} \\ & & \times \\ & & \text{Fixed Hourly Service Rate} \\ & & \times \\ & & \text{Number of operating hours per month} \end{array}$$

The Group has a standard pricing strategy for determination of the applicable fixed hourly service rates for the provision of the Big Data Centre Services which is applicable to all customers (including BIT Mining and its associates):

- (i) the number of data processors operated by the customers and the type of the model of data processors which will have different computing power and in turn determine the corresponding utility consumption rates; The utility consumption rate is expected to be approximately in the range of 0.1 KW/h to 8 KW/h.
- (ii) cost factors including (a) the prevailing power price, which might vary due to the nature of the power, during the relevant service period; (b) the aggregated processing capacity taken up by the data processors, and (c) the labour costs, operating costs and overheads associated with the provision and maintenance of the Big Data Centre Services including but not limited to climate control, uninterrupted electricity supply, high speed internet connection, on-site maintenance technicians and security surveillance, etc.; and
- (iii) competition factor such as the prevailing market price of the service fee charged by big data centres within the same region for comparable services at the corresponding time.

The Group has adopted the same formula for calculation of service fee charged to the Independent Third Parties for the same services.

LETTER FROM THE BOARD

Initially, the Group will assess the aforementioned cost factors to ensure the Fixed Hourly Service Rates will outweigh its costs at minimum. Then, the Group will weigh in (i) the prevailing market price of the service fees charged by big data centres within the same region for comparable services at the corresponding time; and (ii) the background, bargaining power and track record of the customers. For instance, the Group will offer a lower Fixed Hourly Service Rate to a reputable customer with large market capitalization, strong assets base, good payment and settlement record who opts for bulk service order with high total utility consumption. After an integrated assessment of the aforementioned factors, a fixed service fee for every KW/h of electricity to be consumed by data processors per hour (the “**Fixed Hourly Service Rates**”) for the Big Data Centre Services will be determined which is applicable to all model types of data processors under the same service agreement for the relevant customer. In general, the Group will factor into a gross profit margin ranging from 20% to 30% in determining the Fixed Hourly Service Rates. The Fixed Hourly Service Rates are expected to be approximately in the range of HK\$0.1 to HK\$10.

The finance department of the Group is responsible to monitor the power price, labour and operating costs from time to time and report to the chief financial officer for any material change. The business unit staff of the Group will monitor, collect and evaluate the market data, including but not limited to the prevailing market price for comparable services from time to time. Both departments will then report their findings to the general manager regularly, who is responsible to perform a thorough cost and pricing analysis and make recommendation on adjustment of the Fixed Hourly Service Rates from time to time when necessary. All recommendation on price adjustment is subject to the final review and approval by the chief executive officer.

Internal Control

The Group has adopted the following internal control procedures for the continuing connected transactions of the Company:

- (a) Before entering into a continuing connected transaction, the finance department of the Group will review and ensure that the pricing is fair and reasonable by reference to:
 - the prevailing market price of the same or substantially similar services with comparable service scope and quality offered by the Group to its customers. The business unit staff of the Group has substantial experience and industry knowledge in the area of big data centre services. In order to ascertain the prevailing market price, they will attend industry seminars (if feasible) from time to time to (i) keep abreast of the latest industry development including pricing trend and fluctuation; and (ii) approach potential customers and collect market data. Often in the course of discussion and negotiation with potential customers, these customers will compare the fee quotation obtained from the Group’s competitors with an aim to bargain with the Group for the best available terms on an arm’s length basis. Hence, the business unit staff of the Group can grasp a general understanding on the prevailing market price from discussion with its potential customers and further evaluate and analyze the price trend leveraging on their substantial experience and industry knowledge.

LETTER FROM THE BOARD

- the historical price offered to Independent Third Parties by checking against the historical service fee of similar services and comparable general terms offered by the Group to its customers who are Independent Third Parties. The finance department also performed evaluation and assessment to ensure that the terms offered to the Service Receiver under the Service Agreement are no more favourable than those provided to independent customers under similar conditions.
- (b) In case the pricing terms under the relevant continuing connected transactions agreement are applied for the first time or the pricing terms are different from those used previously, the Board will engage an independent financial adviser to review the relevant terms.
- (c) The finance department is responsible for regularly monitoring the utilisation of the annual caps which require, among other things, the submission of monthly reports on the accumulated actual transaction amounts of the transactions to the Company's chief financial officer, the company secretary and the internal auditor, in order to ensure that the accumulated actual transaction amounts would not exceed the annual cap for the relevant year. The company secretary shall promptly liaise with the business team as and when the annual cap has been 80% utilised to agree and implement measures to control and avoid exceeding any of the annual caps. The contracting parties understand and agree that they must abide by the GEM Listing Rules when fulfilling their obligations under any of the terms of continuing connected transaction agreement, including but not limited to the annual caps. The contracting parties shall temporarily suspend the performance of its relevant contractual obligations specified in such agreement until the Company is able to comply with the GEM Listing Rules (including obtaining a revised annual cap for the transactions contemplated under the continuing connected transaction agreement).
- (d) The finance department of the Company will consult with the Group's chief financial officer in respect of continuing connected transaction compliance issues, who will report to the audit committee of the Company and also provide a confirmation to the audit committee that the continuing connected transactions of the Company which are subject to the annual review and disclosure requirements under the GEM Listing Rules have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole; and that the Group's internal control procedures applicable to continuing connected transactions are adequate and effective to ensure that such transactions were so conducted. The audit committee will consider this accordingly.
- (e) The Company's external auditors will review the continuing connected transactions (which are subject to the annual review and disclosure requirements under the GEM Listing Rules) annually to check and confirm, among others, whether the pricing terms have been adhered to and whether the relevant caps have been exceeded.

LETTER FROM THE BOARD

- (f) The independent non-executive Directors will review the continuing connected transactions of the Company (which are subject to the annual review and disclosure requirements under the GEM Listing Rules) annually to check and confirm whether such continuing connected transactions are conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole, and whether the internal control procedures put in place by the Company are adequate and effective to ensure that such continuing connected transactions were conducted in accordance with the pricing policies set out in such relevant agreements.

Payment Term

The abovementioned service fee shall be charged on a monthly basis and shall be paid by the Service Receiver to the Service Provider within ten (10) days after receipt of the invoice by the Service Receiver for the service fee incurred in the previous calendar month.

Prior to the placement of the data processors by the Service Receiver, the Service Receiver shall pre-pay a security deposit, which is equivalent to the services fee for an estimated thirty (30) days period for the agreed number of data processors, to the Service Provider. If the number of data processors actually placed by the Service Receiver exceeds the agreed quantity, the said security deposit will be increased proportionally.

Upon the expiry of the Term, provided that the Service Receiver has fully settled all outstanding service fee incurred during the Term, the Service Provider will return the service fee security deposit in full, without interest, to the Service Receiver within one month from the date of expiry of the Term.

The Group has offered the same payment term to the Independent Third Parties for the same services.

LETTER FROM THE BOARD

Proposed Annual Caps

The table below sets out the proposed Annual Caps under the Service Agreement for the period commencing from the Effective Date to 31 December 2021, the two years ending 31 December 2022 and 2023 and the period commencing from 1st January 2024 to the Last Date:

	From the Effective Date to 31 December 2021	From 1 January 2022 to 31 December 2022	From 1 January 2023 to 31 December 2023	From 1 January 2024 to the Last Date
Annual cap	HK\$10,142,000	HK\$83,160,000	HK\$153,144,000	HK\$114,858,000

In any event, the Term under the Service Agreement will not exceed 36 months.

Basis of Determination for the Annual Caps

The Annual Caps are determined by reference to the following factors:

- (i) the prevailing market prices charged by other big data centres within the same region for comparable services to those provided under the Service Agreement at the corresponding time;
- (ii) the estimation of the number and model types of data processors to be deployed by the Service Receiver during the Term determined with reference to the number of data processors of various model types:
 - (a) already owned by the Service Receiver, all of which are currently in operation by the Service Receiver and would be relocated to the big data centres operated by the Service Provider throughout the Term; and
 - (b) recently acquired by the Service Receiver pending delivery or agreed to be acquired by the Service Receiver in principle pursuant to executed framework agreement subject to availability;
- (iii) a stable fixed hourly service rate throughout the Term; and
- (iv) a stable number of operating hours of data processors per month. The data processors generally operate on a 24/7 basis in order to maximize their performances;

In respect of the number of data processors operated by customers, as at the Latest Practicable Date, it is expected that 3,000 data processors will be placed by BIT Mining Group in the Kazakhstan new centre from December 2021 to September 2024. From January 2023 onwards and up to September 2024, it is currently expected that an additional 6,000 data processors will be placed by BIT Mining Group in the Kazakhstan new centre. In total, there are expected to be 9,000 data processors placed by BIT Mining Group in the Kazakhstan new centre by September 2024.

LETTER FROM THE BOARD

For the new centres in Hong Kong, as at the Latest Practicable Date, it is expected that 600 data processors will be placed by BIT Mining Group in the first Hong Kong new centre from October 2021 to September 2024. From January 2022 onwards and up to September 2024, it is currently expected that 400 data processors will be placed by BIT Mining Group in the second Hong Kong new centre.

The proposed Annual Caps to be sought for the period commencing from the Effective Date to 31 December 2021 amounts to HK\$10,142,000, which only cover about a quarter of a year, with an increase of approximately 719.96% to HK\$83,160,000 for the year ending 31 December 2022, and a further increase of approximately 84.16% to HK\$153,144,000 for the year ending 31 December 2023. The proposed annual cap to be sought for the period commencing from 1 January 2024 to the Last Date is HK\$114,858,000, which will not cover a full year. In determining the proposed Annual Caps, the Company has discussed with BIT Mining in relation to its procurement plan for the data processors. The Company has also discussed with BIT Mining about its deployment plan of the data processors and understands that BIT Mining plans to place all data processors in the big data centres operated by the Group. The expected increase for the year of 2022 is due to the estimated increase in the number of data processors to be deployed by BIT Mining as advised by BIT Mining, which are expected to be gradually deployed in the big data centres operated by the Group in 2022 and the adjustment in accordance with the period as the first period and the last period does not cover a full year.

During the Term, the Group believes the Fixed Hourly Service Rates are expected to be stable and remain at the same level. The Company considers that the power price has a material impact to the operating costs of its big data centre. The Company does not expect any material fluctuation in the power price during the Term under the Service Agreement. The Board considers that the variable factors for the determination of the Fixed Hourly Service Rates are (a) the prevailing power price, which might vary due to the nature of the power and locations (i.e. Hong Kong and Kazakhstan under the Service Agreement), during the relevant service period; and (b) the labour costs, operating costs and overheads associated with the provision and maintenance of the Big Data Centre Services. Therefore, the Company expects that the Fixed Hourly Service Rate shall remain the same for the Term. Moreover, in order to maintain its competitiveness in the market and the business relationships with its customers, the Directors plan to maintain the Fixed Hourly Service Rate at the same level by continuously reviewing and sourcing the most competitive power prices from relevant suppliers and labour costs in order to keep the costs at the lowest possible rate.

Taking into account that (i) the proposed Annual Caps are arrived at after due and careful assessment by the Directors after consideration of the projected deployment of the data processors on a prudent approach; (ii) the above-mentioned methods and procedures comprise necessary components of an internal control system with designated department and responsible officer, clear approval process and monitoring system and explicit assessment criteria which can ensure that the transactions will be executed in compliance with the pricing principles stipulated, the Directors (excluding (i) the independent non-executive Directors whose opinion, after considering the advice of the Independent Financial Adviser, are contained in this circular and (ii) Ms. Zhang Jing, Mr. Yang Xianfeng and Ms. Huang Lilan who are regarded as interested and have abstained from voting in respect of the Board resolutions for approving the Service Agreement) considered that the proposal Annual Caps are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

Should the actual annual amount exceed the above Annual Caps, the Company will revise the Annual Caps in compliance with the relevant requirements under Chapter 20 of the GEM Listing Rules.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Group is principally engaged in (i) provision of data analysis and storage services; (ii) proprietary cryptocurrency mining; and (iii) money lending business in Hong Kong.

In the year of 2021, Changhe Hydropower, Chongqing Yusheng and BIT Mining (for itself and on behalf of its subsidiaries) entered into the Services Framework Agreement, pursuant to which Changhe Hydropower will provide big data centre services to Chongqing Yusheng and BIT Mining (for itself and on behalf of its subsidiaries) for a term commencing from 4 May 2021 and expiring on 31 December 2023 (both dates inclusive). The Services Framework Agreement was duly approved by the then independent shareholders of the Company on 4 May 2021. For details of the Services Framework Agreement, please refer to the Company's circular dated 19 April 2021.

Reference is made to the Company's announcement dated 20 June 2021 whereby the Company has announced that Changhe Hydropower has suspended its operation of the big data centre in Sichuan Province, the PRC due to the suspension of power supply. As disclosed in the Company's announcement dated 18 October 2021, the Group's third big data centre in Sichuan Province, which is operated by Chengdu Keying Interactive Information Technology Limited (成都科盈互動信息科技有限公司) ("**Subsidiary C**") will be closed. The Company has made provision for the closure and demolition of the aforementioned big data centre operated by the Subsidiary C resulting in provision of impairment of fixed assets as disclosed in the said announcement. As a result, Changhe Hydropower is not able to continue to provide the services in accordance with the Services Framework Agreement. In light of that, the Company has negotiated with the Service Receiver on an arm's length basis and on normal commercial terms in entering into the Service Agreement. The Company has further disclosed in the Company's announcement dated 18 October 2021 that the Company has made provision of impairment of fixed assets caused by the Group's plan to relocate the machinery and equipment of the two big data centres, operated by Ganzi Changhe Hydropower Consumption Service Co., Ltd. (甘孜州長河水電消納服務有限公司) and Sichuan Lecai Yuntian Network Technology Co., Ltd. (四川省樂彩雲天網絡科技有限公司), for the construction of big data centres in the other regions. Since the big data centre operated by Subsidiary C has not been operating since the start of this year, the Board believes the closure of the said big data centre and the provision of impairment, save and except the provision of impairment as disclosed in the Company's announcement dated 18 October 2021, will not have material adverse impact on the Group's operations and financial conditions. Since the big data centre operated by Subsidiary C has not been operating since the start of this year and the transactions contemplated under the Service Agreement are new, separate and independent from the transactions contemplated under the Services Framework Agreement, the Board also believes the closure of the said big data centre and the said provision of impairment will not have any material impact on the Service Agreement. As disclosed in the Company's announcement dated 13 October 2021, the Services Framework Agreement has been terminated.

The Directors are further of view that the Big Data Centre Services are provided in the ordinary and usual course of business of the Group and will generate stable income, reinforce the Group's revenue stream and cash flow, and facilitate the future development plan of the Group. Moreover, the Group considers BIT Mining to be a reputable and reliable customer as it is a company listed on the New York Stock Exchange.

LETTER FROM THE BOARD

During the Term, the Directors estimated that the aggregate processing capacity of BIT Mining's data processors will represent between approximately 9% to 30% of the aggregate processing capacity of the big data centres of the Group.

Nevertheless, the Directors consider that there will not be any material reliance on BIT Mining for the following reasons:

1. Self-sustained business operation of the Big Data Centre Service

Over the past two years, the Company has had 29 customers in total in its provision of Big Data Centre Services. After the commencement of the operation of the new centres, the Group can solicit new and/or existing customers to subscribe for the Big Data Centre Service. Since the Company has built up amicable relationships with its existing customers over time, many have expressed preliminary interest in potentially relocating to the new centres in the future and continuing to work with the Company if the chance arises.

Reference is made to the Company's announcement dated 28 September 2021, where it was disclosed that the New JV Partner (as defined therein) is an experienced service provider that runs data centres located in Kazakhstan. As at the Latest Practicable Date, the New JV Partner is currently in the final stages of negotiations with intended new customers of the new centres, who will enter into formal, legal binding agreements with the New JV Company. The JV Company was incorporated in Kazakhstan on 1 October 2021 and has not yet commenced operation.

The Company currently anticipates that the new centre in Kazakhstan will commence operation in December 2021. For the two new centres in Hong Kong, the Company anticipates that one will commence operation in October 2021 and the other will commence operation in January 2021.

2. Competitive service fee provided by big data centres

The Group believes the big data centres operated by the Group will offer more competitive pricing in relation to the provision of the Big Data Centre Services as compared to big data centres operated by other competitors. Accordingly, the Group can attract more new customers.

3. Well established infrastructure and compliant operation of the Big Data Centre

The global big data centre industry is currently under a relatively early development stage. The Group will choose its locations with well-established infrastructure and compliant operation for set up of its big data centres. As at the Latest Practicable Date, the Group has determined the location for its data centre in Kazakhstan, which is specifically in the Uralsk region and holds a termless licence for purchasing and selling electricity all around Kazakhstan. As disclosed in the announcement dated 28 September 2021, this is the region in which the New JV Partner has built up its experience and therefore, a loyal customer base, which is anticipated to bring business into the Kazakhstan new centre and the Company will be able to benefit from the JV Partner's local knowledge and expertise.

LETTER FROM THE BOARD

The Group's prior experience and expertise in this industry has enhanced quality assurance for stable and long-term operations of the data processors and increased the reliability of the Group's Big Data Centre Services, which is anticipated to improve its market reputation and continuously attract more potential customers.

4. Diversification

The Group is currently engaged in (i) provision of data analysis and storage services; (ii) proprietary cryptocurrency mining; and (iii) money lending business in Hong Kong. Although the revenue from the other businesses is not material for the time being, the Group anticipates to gradually develop its other businesses in time. In light of the continuous diversification of the Company's business segments, the level of reliance on BIT Mining being a customer is likely to be limited.

5. Non-exclusivity of the Service Agreement

The Service Agreement is not exclusive, and hence the Group will have the flexibility to enter into agreements with other customers.

In the event that there is any possibility on reliance on BIT Mining and/or any of its associates in the future, the Company may consider taking the following measures:

- (i) enter into long term binding contract with other customers;
- (ii) expand its customer base;
- (iii) promote its other existing businesses; and
- (iv) explore and expand into other feasible businesses, if appropriate.

Based on the above, the Directors are of the view that there is a complementary and mutual beneficial relationship between the Company and BIT Mining under the Service Agreement. While the Company can secure BIT Mining, a reputable and reliable customer with bulk purchase, for stable income, BIT Mining can also benefit from the Group's high quality and qualified Big Data Centre Services.

Based on the latest information currently available to the Company, the Company estimates that the expected revenue derived from the provision of Big Data Centre Services to BIT Mining, its wholly-owned subsidiaries and Controlling companies for the Term would not exceed 30% of the total revenue of the Group. It is emphasised that the above information is a preliminary assessment by the Directors which is subject to changes from time to time as and when the business of the Group progresses. The Company will keep monitoring the revenue contribution from BIT Mining as well as strive to diversify the Group's income sources via expanding its customer base in order to prevent any possible issue of over-reliance. Accordingly, the Company believes that the transactions contemplated under the Service Agreement with BIT Mining will not cause any business dependence or reliance issue for the Company.

LETTER FROM THE BOARD

As advised by the legal adviser of Kazakhstan, mining and hashrate rent-out activities operated by the Kazakhstan new centre are not prohibited in Kazakhstan. Further, the legal adviser of Hong Kong has informed the Company that currently they are not aware of any legal restrictions or requirements on licensing or qualifications with respect to the operations of Hong Kong new centre. As at the Latest Practicable Date, the Directors are not aware of any disadvantages in relation to or in connection with the provision of the Big Data Centre Services to BIT Mining as contemplated under the Service Agreement.

The Directors (other than (i) the independent non-executive Directors whose opinion, after considering the advice of the Independent Financial Adviser, are contained in this circular and (ii) Ms. Zhang Jing, Mr. Yang Xianfeng and Ms. Huang Lilan, who are regarded as interested and have abstained from voting in respect of the Board resolutions for approving the Service Agreement (including the Annual Caps) and the transactions contemplated thereunder)) considered that: (i) the provision of the Big Data Centre Services are within the principal business activities of the Group; (ii) the transactions under the Service Agreement with BIT Mining will not cause any business dependence or reliance issue for the Company; (iii) the terms and conditions of the Service Agreement (including the Annual Caps) were negotiated between the parties on an arm's length basis and are on normal commercial terms, which are fair and reasonable; (iv) the entering into of the Service Agreement and the transactions contemplated thereunder adhere to the business strategy of the Company and (v) the Service Agreement will bring stable income, reinforce the Group's revenue stream and cash flow and facilitate the future development plan of the Group which would be to the benefit and interest of the Group and its Shareholders as a whole. Moreover, the Group considers BIT Mining, being a company listed on the New York Stock Exchange, is a reputable and reliable customer, whom has the ability to take up the data processing capacity of the Group in bulk and enhance the Group's economies of scale. Accordingly, they are of the view that the transactions contemplated under the Service Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

GEM LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, BIT Mining is a controlling shareholder of the Company and is interested in 327,868,805 Shares, representing approximately 59.79% of the total issued share capital of the Company. Accordingly, BIT Mining is a substantial shareholder and a connected person of the Company pursuant to the GEM Listing Rules and the transactions contemplated under the Service Agreement will constitute continuing connected transactions of the Company pursuant to Chapter 20 of the GEM Listing Rules.

As one or more of the applicable percentage ratios (as set out in Rule 19.07 of the GEM Listing Rules) in respect of the Annual Caps under the Service Agreement for the respective period of the Term is more than 25%, the transactions contemplated under the Service Agreement constitute continuing connected transactions of the Company and are subject to the reporting, announcement, circular, annual review and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

BIT Mining and its associates will abstain from voting on the resolution(s) approving the Service Agreement, the transactions contemplated thereunder and the Annual Caps at the EGM. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save and except BIT Mining and its associate(s), no other Shareholder has any material interest in the Service Agreement. Accordingly, apart from BIT Mining and its associate(s), no other Shareholder is required to abstain from voting at the EGM in respect of the resolutions relating to the Service Agreement.

LETTER FROM THE BOARD

Ms. Zhang Jing, Mr. Yang Xianfeng and Ms. Huang Lilan are regarded as interested and had abstained from voting in respect of the Board resolutions for approving the Service Agreement (including the Annual Caps) and the transactions contemplated thereunder. Save as disclosed hereinabove, none of the Directors had abstained from voting on the Board resolutions approving the Service Agreement and the Annual Caps.

EXTRAORDINARY GENERAL MEETING

A notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular for the purpose of considering and, if thought fit, passing the ordinary resolution in relation to the transactions contemplated under the Service Agreement.

BIT Mining and its associates will abstain from voting on the resolution(s) approving the Service Agreement, the transactions contemplated thereunder and the Annual Caps at the EGM. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save and except BIT Mining and its associate(s), no other Shareholder has any material interest in the Service Agreement. Accordingly, apart from BIT Mining and its associate(s), no other Shareholder is required to abstain from voting at the EGM in respect of the resolutions relating to the Service Agreement. Pursuant to Rule 17.47(4) of the GEM Listing Rules, any vote of shareholders at a general meeting must be taken by poll. The ordinary resolution to be proposed at the EGM will be determined by way of poll by the Independent Shareholders. The chairman of the meeting will therefore demand a poll for every resolution put to the vote of the EGM in accordance with the articles of association of the Company. The results of the poll shall be deemed to be the resolution of the general meeting in which the poll was demanded or required and the poll results will be published on the websites of the Stock Exchange and the Company after the EGM.

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/she 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 EGM 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 EGM or any adjournment thereof (as the case may be) should he so wish.

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 21 to 22 of this circular which contains the recommendation from the Independent Board Committee to the Independent Shareholders and the letter from the Independent Financial Advisor set out on pages 23 to 43 of this circular which contains its advice to the Independent Shareholders.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors (excluding Ms. Zhang Jing, Mr. Yang Xianfeng and Ms. Huang Lilan who are regarded as interested and had abstained from voting in respect of the Board resolutions for approving the Service Agreement (including the Annual Caps) and the transactions contemplated thereunder), consider that the Service Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms offered by the Group to BIT Mining are fair and reasonable and no more favourable than those of Independent Third Parties and in the interests of the Company and the Shareholders as a whole, and the proposed Annual Caps for the transactions contemplated under the Service Agreement are fair and reasonable.

Accordingly, the Board (including the Independent Board Committee having taken into account the advice of the Independent Financial Adviser) recommends the Independent Shareholders and the Shareholders (as the case may be) to vote in favour of the ordinary resolution 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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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



Loto Interactive Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8198)

22 October 2021

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS SERVICE AGREEMENT RELATING TO THE BIG DATA CENTRE SERVICES

We refer to the circular issued by the Company dated 22 October 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.

As we have no interests in the relevant continuing connected transaction between BIT Mining and the Company contemplated under the Service Agreement, we have been appointed by the Board as the members of the Independent Board Committee to consider, and to advise the Independent Shareholders as to the fairness and reasonableness of, the terms of the Service Agreement, the transactions contemplated thereunder and the proposed Annual Caps for the period from the Effective Date to the Last Date (both dates inclusive) and to recommend how the Independent Shareholders should vote at the EGM. Octal Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board, as set out on pages 6 to 20 of the Circular, and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its advice in respect of the terms of the Service Agreement, the transactions contemplated thereunder and the proposed Annual Caps for the period from the Effective Date to the Last Date (both dates inclusive), as set out on pages 23 to 43 of the Circular. 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.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the principal factors and reasons considered by the Independent Financial Advisor and its conclusion and advice, we are of the opinion that the transactions contemplated under the Service Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group, and that the terms of the transactions contemplated under the Service Agreement and the respective proposed Annual Caps for the period from the Effective Date to the Last Date (both dates inclusive) are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the transactions contemplated under the Service Agreement and the respective Annual Caps of such transactions for the period from the Effective Date to the Last Date (both dates inclusive).

Yours faithfully,
For and on behalf of

Independent Board Committee

Lu Haitian
Independent
non-executive Director

Lin Sen
Independent
non-executive Director

Huang Jian
Independent
non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



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

22 October 2021

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS SERVICE AGREEMENT RELATING TO THE BIG DATA CENTRE SERVICES

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the Service Agreement and the transactions contemplated thereunder, together with the Annual Caps under the Service Agreement, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 22 October 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 given to them under the definitions section of the Circular.

The Board announced that, on 13 September 2021, the Company entered into the Service Agreement with BIT Mining, pursuant to which the Company, for itself and also as agent of its wholly-owned subsidiaries and Controlling companies, will provide the Big Data Centre Services to BIT Mining, for itself and also as agent of its wholly-owned subsidiaries and Controlling companies, for a term commencing from the Effective Date and expiring on the Last Date (both dates inclusive).

As at the Latest Practicable Date, BIT Mining is a controlling shareholder of the Company and is interested in 327,868,805 Shares, representing approximately 59.79% of the total issued share capital of the Company. Accordingly, BIT Mining is a substantial shareholder and a connected person of the Company pursuant to the GEM Listing Rules and the transactions contemplated under the Service Agreement will constitute continuing connected transactions of the Company pursuant to Chapter 20 of the GEM Listing Rules.

As one or more of the applicable percentage ratios (as set out in Rule 19.07 of the GEM Listing Rules) in respect of the Annual Caps under the Service Agreement for the respective period of the Term is more than 25%, the transactions contemplated under the Service Agreement constitute continuing connected transactions of the Company and are subject to the reporting, announcement, circular, annual review and Independent Shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in relation to the Service Agreement and the Annual Caps.

We, Octal Capital Limited, have been appointed, with approval of the Independent Board Committee, as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the transactions contemplated under the Service Agreement and the Annual Caps in this regard. We are not connected with the Directors, chief executive and substantial shareholders of the Company or the Group or the BIT Mining or any of their respective subsidiaries or associates and do not have any shareholding, directly or indirectly, in any member of the Group or 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 and therefore is considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. During the last two years, we were engaged as the independent financial adviser to the Company in respect of (i) the connected transaction in relation to the share subscription under specific mandate (details of which are set out in the circular of the Company dated 11 March 2021); (ii) the continuing connected transaction in relation to the services framework agreements relating to the big data centre services (details of which are set out in the circular of the Company 19 April 2021); and (iii) the unconditional mandatory cash offers by BOCOM International Securities Limited for and on behalf of BIT Mining (details of which are set out in the composite document of the Company dated 28 May 2021) (the “**Previous Engagements**”). Under the Previous Engagements, we were required to express our opinion on and give recommendation to the independent board committee of the Company comprising all the independent non-executive Directors and independent Shareholders in respect of the relevant transactions. Apart from normal professional fees payable to us in connection with this appointment and the Previous Engagements, no arrangement exists whereby we will receive any fees or benefits from the Group or BIT Mining or any of their respective subsidiaries or associates that could reasonably be regarded as relevant to our independence.

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 Service Agreement 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 management of the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information, among other things, (i) the Service Agreement; (ii) the annual reports of the Company for each of the two years ended 31 December 2019 and 31 December 2020; (iii) the relevant documents in relation to the Service Agreement and the Annual Caps; (iv) internal control policies of the Group in governing continuing connected transactions and relevant internal assessments conducted by the Group in relation to the Service Agreement; (v) other information as set out in the Circular; and (vi) relevant market and industry information available from public sources, and we have also discussed with the Company in relation to the basis and assumptions employed by the Company in preparing the Annual Caps and compared such basis and assumptions with historical practices of the Group in the provision of Big Data Centre Services, 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 management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group and BIT Mining and their respective subsidiaries or associates nor have we carried out any independent verification of the information supplied.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the Service Agreement and the Annual Caps under the Service Agreement, we have considered the following principal factors and reasons:

1. Background of and reasons for entering into of the Service Agreement

Background information of the Group

The Group is principally engaged in (i) provision of data analysis and storage services; (ii) proprietary cryptocurrency mining; and (iii) money lending business in Hong Kong.

Financial information of the Group

Set out below is a summary of the consolidated financial information of the Company for the years ended 31 December 2019 (“FY2019”) and 2020 (“FY2020”) and for the six months ended 30 June 2020 (“1H2020”) and 2021 (“1H2021”) as extracted from the annual report of the Group for FY2020 (the “2020 Annual Report”) and the interim report of the Group for 1H2021 (the “2021 Interim Report”), respectively:

Summary of statements of profit or loss and other comprehensive income

	For the year ended		For the six months ended	
	31 December		30 June	
	2019	2020	2020	2021
	(audited)	(audited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue				
– Big data centre services	62,425	379,658	127,707	170,044
– Online game business	2,020	1,017	247	344
– Lottery business	111	30	30	–
– Money lending business	–	2,250	750	1,500
Total Revenue	64,556	382,955	128,734	171,888
Gross profit/(loss)	13,319	40,742	4,388	(9,560)
(Loss)/profit for the year/period attributable to				
– Owners of the Company	(33,618)	(46,767)	(30,116)	(31,571)
– Non-controlling interests	(1,153)	3,512	(2,249)	(5,628)
(Loss) for the year/period	(34,771)	(43,255)	(32,365)	(37,199)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Summary of statements of financial position

	As at 31 December		As at 30 June
	2019 (audited) <i>HK\$'000</i>	2020 (audited) <i>HK\$'000</i>	2021 (unaudited) <i>HK\$'000</i>
Non-current assets	194,232	318,869	288,197
Current assets	217,683	135,670	163,660
Total assets	411,915	454,539	451,857
Non-current liabilities	1,723	3,236	2,518
Current liabilities	67,445	41,593	61,212
Total liabilities	69,168	44,829	63,730
Net assets	342,747	409,710	388,127
Net assets attributable to the owners of the Company	329,871	318,666	388,406

Summary of statements of cash flows

	For the year ended		For the six months ended	
	31 December		30 June	
	2019 (audited) <i>HK\$'000</i>	2020 (audited) <i>HK\$'000</i>	2020 (unaudited) <i>HK\$'000</i>	2021 (unaudited) <i>HK\$'000</i>
Net cash (used in)/generated from operating activities	(11,267)	(37,468)	(24,429)	10,339
Net cash used in investing activities	(108,094)	(94,136)	(88,247)	(105,855)
Net cash generated from financing activities	16,185	79,726	61,422	100,554
Cash and bank balances	95,030	44,252	45,713	51,060

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Comparison between FY2020 and FY2019

The Group recorded total revenue of approximately HK\$383.0 million for FY2020, representing a substantial increase of approximately HK\$318.4 million or 4.9 times as compared to that for FY2019. The increase in revenue was primarily attributable to the increment of the big data centre services segment amounted to approximately HK\$317.2 million for FY2020 contributed by the big data centres of the Group, partially offset by the decrease in revenue contributed by the online game business and lottery business of the Group. The Group has suspended the lottery business in the PRC in the first quarter of 2020 due to the sluggish demand from the lottery market. The increase in revenue and gross profit during FY2020 was offset by (i) the increase of administrative expenses in FY2020, primarily due to the commencement of operation of the third big data centre of the Company in Sichuan Province in late June 2020; and (ii) the expenses in relation to the disposal of the Group's lottery business in FY2020 was absent in FY2019. As a result, the net loss attributable to owners of the Company increased by approximately HK\$13.1 million or 39.1%.

As at 31 December 2020, the Group recorded net assets value attributable to the owners of the Company ("NAV") of approximately HK\$318.7 million, representing a decrease of approximately HK\$11.2 million or 3.4% as compared to that as at 31 December 2019. The decrease in NAV was mainly due to (i) the decrease in cash and cash equivalents; and (ii) the decrease in loan receivables, which was partially offset by (i) the increase in property, plant and equipment for the big data centre services; and (ii) the increase in prepayments, deposits and other receivables.

The Group's net cash used in operating activities increased from approximately HK\$11.3 million for FY2019 to HK\$37.5 million for FY2020. 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 31 December 2020, the Group's cash and bank balances amounted to approximately HK\$44.3 million, representing a decrease of approximately HK\$50.7 million or 53.4% compared to that as at 31 December 2019. The decrease in cash and bank balances was mainly due to (i) cash granted to a borrower under the money lending business of the Group amounted to approximately HK\$30.0 million; (ii) capital contribution to a joint venture of the Company amounted to approximately HK\$15.5 million; and (iii) prepayment of purchasing products from a connected party amounted to approximately HK\$15.5 million which was offset by the cash flow generated from the big data centre services.

Comparison between 1H2021 and 1H2020

The Group recorded total revenue of approximately HK\$171.9 million for 1H2021, representing an increase of approximately HK\$43.2 million or 33.5% as compared to that for 1H2020. The increase in revenue was primarily attributable to the increment of the big data centre services segment amounted to approximately HK\$42.3 contributed by the big data centres of the Group. However, the Group recorded gross loss of approximately HK\$9.6 million during 1H2021. The gross loss of the Group was mainly resulted from the low water season which affected the availability of hydropower production and the aforementioned suspension of power to subsidiaries operating the big data centres. The aforementioned factors led to an increase of net loss of the Group from approximately HK\$32.4 million for 1H2020 to approximately HK\$37.2 million for 1H2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at 30 June 2021, the Group recorded NAV of approximately HK\$388.4 million, representing an increase of approximately HK\$69.7 million or 21.9% as compared to that as at 31 December 2020. The increase in NAV was mainly due to (i) the increase of the trade receivables; and (ii) the increase of the equity interest of Changhe Hydropwer by the Group after the completion of the acquisition of its 49% equity interest on 31 March 2021, partially offset by (i) the decrease of property, plant and equipment as a result of depreciation; and (ii) the increase of accruals and other payables.

The Group's net cash generated from operating activities amounted to approximately HK\$10.3 million for 1H2021 compared to the net cash used in operating activities amounted to approximately HK\$24.4 million for 1H2020, representing an increase of approximately HK\$34.8 million. The increase in net cash generated from operating activities was mainly due to the increase in revenue generated from the big data centres. As at 30 June 2021, the Group's cash and bank balances amounted to approximately HK\$51.1 million, representing an increase of approximately HK\$6.8 million or 15.4% compared to that as at 31 December 2020. The increase in cash and bank balances was mainly due to the (i) increase in cash generated from operating activities; and (ii) proceeds received from the issuance of new shares to BIT Mining, offset by the payment for acquisition of non-controlling interest in non-wholly owned subsidiaries.

In addition, with reference to the announcement of the Company dated 18 October 2021 (the “**Business Update and Profit Warning Announcement**”), based on preliminary review of the latest unaudited consolidated management accounts of the Group for the nine-month period ended 30 September 2021 and the information available, the Group is expected to record an unaudited consolidated net loss of HK\$180 million to HK\$185 million for the nine-month period ended 30 September 2021 as compared to an unaudited consolidated net loss of approximately HK\$25.6 million for the nine-month period ended 30 September 2020. The increase in consolidated net loss was primarily attributable to (i) the suspension from power supply for the three big data centres, which led to decrease in revenue of the big data centre services in the third quarter of 2021; (ii) the closure and demolition of the aforementioned big data centre operated by the subsidiary of the Group namely Chengdu Keying Interactive Information Technology Limited (成都科盈互動信息科技有限公司) (“**Subsidiary C**”) resulting in provision of impairment of fixed assets; and (iii) the provision of impairment of fixed assets caused by the Group's plan to relocate the machinery and equipment of the two big data centres, operated by Ganzi Changhe Hydropower Consumption Service Co., Ltd. (甘孜州長河水電消納服務有限公司) and Sichuan Lecai Yuntian Network Technology Co., Ltd. (四川省樂彩雲天網絡科技有限公司), for the construction of big data centres in the other regions.

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Background information of BIT Mining

BIT Mining (formerly known as “500.com Limited” prior to the change of English name on 8 April 2021) 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 and will be traded under the ticker symbol “BTCM” at the opening of trading on 20 April 2021. BIT Mining and its subsidiaries (collectively, “**BIT Mining Group**”) is committed to becoming a leading cryptocurrency mining enterprise. Since announcing its entry into the cryptocurrency industry in December 2020, BIT Mining has entered into definitive agreements to (i) purchase cryptocurrency mining machines; (ii) increase holdings of the Company; (iii) acquire the entire mining pool business of Bitdeer Technologies Holding Company, operated under BTC.com, including the domain name BTC.com and the cryptocurrency wallet of BTC.com; and (iv) acquire Bee Computing (HK) Limited, a 7-nanometer mining machine manufacturer, to unfurl an approach to the full industry chain of cryptocurrency mining.

Background of and reasons for entering into of the Service Agreement

In 2021, Changhe Hydropower, Chongqing Yusheng and BIT Mining (for itself and on behalf of its subsidiaries) have entered into the Services Framework Agreement, pursuant to which Changhe Hydropower will provide big data centre services to Chongqing Yusheng and BIT Mining (for itself and on behalf of its subsidiaries) for a term commencing from 4 May 2021 and expiring on 31 December 2023 (both dates inclusive). The Services Framework Agreement has been approved by the then independent shareholders on 4 May 2021. For details of the Services Framework Agreement, please refer to the Company’s circular dated 19 April 2021.

Reference is made to the Company’s announcements dated 20 and 21 June 2021 whereby the Company has announced that its big data centres in Sichuan Province, the PRC have suspended their operation of big data centre services business due to the suspension of power supply, which were pursuant to the letter on assisting in the clean-up and shutdown of virtual currency “mining” projects 《關於協助做好虛擬貨幣「挖礦」項目清理關停工作的函》 issued by Economic and Information Bureau (經信局). According to the Business Update and Profit Warning Announcement, the Group’s third big data centre in Sichuan Province, which is operated by Subsidiary C will be closed. The Company has further disclosed in the Business Update and Profit Warning Announcement that the Company has made provision of impairment of fixed assets caused by the Group’s plan to relocate the machinery and equipment of the two big data centres, operated by Ganzhi Changhe Hydropower Consumption Service Co., Ltd. (甘孜州長河水電消納服務有限公司) and Sichuan Lecai Yuntian Network Technology Co., Ltd. (四川省樂彩雲天網絡科技有限公司), for the construction of big data centres in the other regions. As a result, Changhe Hydropower is not able to continue to provide the services in accordance with the Services Framework Agreement. In light of that, the Company has negotiated with the Service Receiver on an arm’s length basis and on normal commercial terms in entering into the Service Agreement. As disclosed in the Company’s announcement dated 13 October 2021, the Services Framework Agreement has been terminated. Based on our further discussion with the Company regarding the impact of the closure of the big data centres in the PRC, we understand that, except for the estimated financial impact to the Company for the nine-month period ended 30 September 2021 as mentioned in the paragraph headed “Financial information of the Group”, we concur with the Directors that the closure of the big data centres together with the provision of impairment of fixed assets would not have any material impact on the entering into the Service Agreement, taking into account that (i) the transactions contemplated under the Service Agreement are new, separate and independent from the transactions contemplated under the Services Framework Agreement; and (ii) the Group has sufficient working capital to develop and operate the big data centre business in Hong Kong and Kazakhstan.

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In order to continue the business development of the Company, according to the 2021 Interim Report, the Company is in the process of constructing a new big data centre in Hong Kong (the “**HK Centre 1**”). The HK Centre 1 has a gross floor area of approximately 10,800 square metres (“**sqm**”) with a maximum processing capacity of approximately 1,400 kWh. As advised by the management of the Company, the HK Centre 1 is expected to commence operation in October 2021. The management of the Company advised that the Company is in the process of negotiating with the landlord to rent another location to construct another big data centre in Hong Kong (the “**HK Centre 2**”) which is expected to have a target processing capacity of approximately 1,400 kWh. The management of the Company advised that the HK Centre 2 is expected to take two months for furnishing and is expected to commence operation in January 2022. The then total processing capacity of the HK Centre 1 and the HK Centre 2 (the “**HK Centres**”) is expected to be approximately 2,800 kWh.

Moreover, on 28 September 2021, the Company and Capital Management LLP (the “**New JV Partner**”) entered in the shareholders agreement in respect of the formation of joint venture company (the “**JV Company**”) in Kazakhstan. The principal business of the JV Company will be construction and operation of a big data centre in Kazakhstan (the “**KZ Centre**”). The KZ Centre is located in Uralsk of Kazakhstan with a maximum processing capacity of approximately 40,000 kWh. The KZ Centre is expected to commence operation in December 2021. As advised by the management of the Company, the Company plans to expand the processing capacity of the KZ Centre from approximately 40,000 kWh to 99,000 kWh in 2023. We understand from the management of the Company that the expansion of the KZ Centre is expected to complete by the 4th quarter of 2022 and the KZ Centre with the enhanced processing capacity is expected to be ready for operation in January 2023.

As advised by the management of the Company, the Directors have conducted due diligence and obtained the legal opinions in relation to operating big data centres in Hong Kong and Kazakhstan. According to the legal opinions, there are no restriction in the law of Hong Kong and Kazakhstan for the operation of big data centres. Based on the assessment, the Directors are of the view that the risk of suspension of operation of big data centres in Hong Kong and Kazakhstan is comparatively low and the Group currently has no legal impediment in operating big data centres in Hong Kong and Kazakhstan.

Under the Service Agreement, the Company, its wholly-owned subsidiaries and Controlling companies, as the case may be, are responsible for providing comprehensive big data centre services to BIT Mining, its wholly-owned subsidiaries and Controlling companies, as the case may be, in the big data centre(s), from time to time, operated by the Company, its wholly-owned subsidiaries and Controlling companies. The integrated services provided under the Service Agreement include on-site custody of the data processors, broadband network technology support, management of security monitoring server, troubleshooting and assistance in the maintenance of the data processors.

The Directors are further of view that the Big Data Centre Services are provided in the ordinary and usual course of business of the Group and will generate stable income, reinforce the Group’s revenue stream and cash flow, and facilitate the future development plan of the Group. Moreover, the Group considers BIT Mining to be a reputable and reliable customer as it is a company listed on the New York Stock Exchange.

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In addition, we noted that the aggregate processing capacity of the said data processors during for the period commencing from the Effective Date to 31 December 2021, the two years ending 31 December 2022 and 2023 and the period commencing from 1st January 2024 to the Last Date (the “**CCT Period**”) represents approximately 9% – 30% of the aggregate processing capacity of the big data centres of the Group. Nevertheless, based on our discussion with the Company, we understand that the Company does not and will not significantly rely on BIT Mining Group for the following reasons:

1. *Self-sustained business operation of the Big Data Centre Services*

After the commencement of the operation of the HK Centres and KZ Centre, the Group can solicit new and/or existing customers to subscribe for the Big Data Centre Services. Since the Company has built up amicable relationships with its existing customers over time, many have expressed preliminary interest in potentially relocating to the new centres in the future and continuing to work with the Company if the chance arises.

2. *Competitive service fee provided by big data centres*

The Group believes the big data centres operated by the Group will offer more competitive pricing in relation to the provision of the Big Data Centre Services as compared to big data centres operated by other competitors. Accordingly, the Group can attract more new customers.

3. *Well established infrastructure and compliant operation of the big data centres*

The global big data centre industry is currently under a relatively early development stage. The Group will choose its locations with well-established infrastructure and compliant operation for set up of its big data centres. As at the Latest Practicable Date, the Group has determined the location for its data centre in Kazakhstan, which is specifically in the Uralsk region. As disclosed in the announcement dated 28 September 2021, this is the region in which the New JV Partner has built up its experience and therefore, a loyal customer base, which is anticipated to bring business into the KZ Centre and the Company will be able to benefit from the New JV Partner’s local knowledge and expertise.

4. *Diversification well established infrastructure and compliant operation of the big data centres*

The Group is currently engaged in (i) provision of data analysis and storage services; (ii) proprietary cryptocurrency mining; and (iii) money lending business in Hong Kong. Although the revenue from the other businesses is not material for the time being, the Group anticipates to gradually develop its other businesses in time. In light of the continuous diversification of the Company’s business segments, the level of reliance on BIT Mining being a customer is likely to be limited.

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5. *Non-exclusivity of the Service Agreement*

The Service Agreement is not exclusive, and hence the Group will have the flexibility to enter into agreements with other customers.

In the event that there is any possibility on reliance on BIT Mining and/or any of its associates in the future, the Company may consider taking the following measures:

- (i) enter into long term binding contract with other customers;
- (ii) expand its customer base;
- (iii) promote its other existing businesses; and
- (iv) explore and expand into other feasible businesses, if appropriate.

Based on the above, the Directors are of the view that there is a complementary and mutual beneficial relationship between the Company and BIT Mining under the Service Agreement. While the Company can secure BIT Mining, a reputable and reliable customer with bulk purchase, for stable income, BIT Mining can also benefit from the Group's high quality and qualified Big Data Centre Services.

We are of the view that there is a complementary and mutually beneficial relationship between the Company and BIT Mining Group under the Service Agreement. While terms set out in the Service Agreement are based on normal commercial terms, the Company believes, and we concur, that the transactions under the Service Agreement with BIT Mining Group will not cause any material business dependence or reliance issue for the Group. As further set out in the Letter from the Board, the Directors are not aware of any disadvantages in relation to or in connection with the provision of the Big Data Centre Services.

As set out in the Letter from the Board, based on the latest information currently available to the Company, the Company estimates that the expected revenue derived from the provision of Big Data Centres Services to BIT Mining Group for the CCT Period would not exceed 30% of the total revenue of the Group. It is emphasised that the above information is a preliminary assessment by the Directors which is subject to changes and adjustments from time to time as and when the business of the Group progresses. As advised by the management of the Company, we understand that the Company will keep monitoring the revenue contribution from BIT Mining Group as well as strive to diversify the Group's income sources via expanding its customer base in order to prevent any possible reliance issue. Based on the above, along with the self-sustained business operation and competitive pricing offered by the Group as mentioned above, we concur with the Company that it would be able to prevent undue reliance on BIT Mining Group should there be further business cooperation between the Group and BIT Mining Group in the foreseeable future.

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Having considered that (i) the provision of the Big Data Centre Services are the principal business activities of Group contributing majority of its revenue, and the services contemplated under the Service Agreement are furtherance and continuance of its principal businesses; (ii) there are no legal impediment for the Group to operate big data centres in Hong Kong and Kazakhstan and the risk of suspension of operation of big data centres in Hong Kong and Kazakhstan is comparatively low; (iii) the transactions under the Service Agreement with BIT Mining Group will not cause any material business dependence or reliance issue for the Company; and (iv) terms and conditions of the Service Agreement were negotiated after arm's length discussions and reflect normal commercial terms, we concur with the Company that the entering into of the Service Agreement and the transactions contemplated thereunder adhere to the business strategy of the Company and would further enhance the Group's revenue, thereby generating additional revenue and profits to the benefits of the Group and its Shareholders as a whole.

2. The principal terms of the Service Agreement

The principal terms of the Service Agreement are summarized as follows:

- Parties: (a) The Company;
- (b) BIT Mining
- Term: the period of 36 months commencing from the Effective Date and expiring on the Last Date (both dates inclusive)
- Pricing Policy: Calculated based on the following pricing formula:
- Number of data processors operated by customer × Utility consumption rates of electricity consumed by each model type of data processors × Fixed hourly service rate × Number of operating hours per month
- Payment Term: On monthly basis and shall be paid by the Service Receiver to the Service Provider within ten (10) days after receipt of the invoice by the Service Receiver for the service fee incurred in the previous calendar month.
- Security deposit: Prior to the placement of the data processors by the Service Receiver, the Service Receiver shall pre-pay to the Service Provider a security deposit which is equivalent to the services fee for an estimated thirty (30) days period for the agreed number of data processors. If the number of data processors actually placed by the Service Receiver exceeds the agreed quantity, the said security deposit will be increased proportionally.
- Upon the expiry of the Term, provided that the Service Receiver has fully settled all outstanding service fee incurred during the Term, the Service Provider will return the service fee security deposit in full, without interest, to the Service Receiver within one month from the date of expiry of the Term.

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As stated in the Letter from the Board, terms of the Big Data Centre Services to be provided by the Group to BIT Mining Group pursuant to the Service Agreement were negotiated between the parties on an arm's length basis and are on normal commercial terms, which are fair and reasonable.

As stated in the Letter from the Board, the Service Agreement is conditional upon the Independent Shareholders' approval of the Service Agreement, transactions contemplated thereunder and the Annual Caps at the EGM. The Service Agreement will be effective from the date of passing of the respective resolution approving the Service Agreement.

Services fee and pricing policy

As advised by the management of the Company, the Group has a standard pricing strategy for determination of the applicable fixed hourly service rates for the provision of the Big Data Centre Services which is applicable to all customers (including BIT Mining and its associates). Taking into account factors including (i) the number of data processors operated by the customers and the type of the model of data processors which will have different computing power and in turn determine the corresponding electricity consumption rates; (ii) cost factors including (a) the prevailing power price, which might vary due to the nature of the power and locations (i.e. Hong Kong and Kazakhstan under the Service Agreement), during the relevant service period; (b) the aggregated processing capacity taken up by the data processors, and (c) the labour costs, operating costs and overheads associated with the provision and maintenance of the Big Data Centre Services including but not limited to climate control, uninterrupted electricity supply, high speed internet connection, on-site maintenance technicians and security surveillance, etc.; and (iii) competition factor such as the prevailing market price of the service fee charged by big data centres within the same region for comparable services at the corresponding time.

After an integrated assessment of the aforementioned factors, a fixed service fee for every kWh of electricity to be consumed by data processors (the "**Fixed Hourly Service Rates**") for the Big Data Centre Services will be determined which is applicable to all the prescribed model types of data processors in the specific location under the Service Agreement. Due to the variance in the cost of the big data centres in different area, the Fixed Hourly Service Rates shall differ.

The Group will firstly consider the cost factors to ensure that the Fixed Hourly Service Rates will outweigh its costs at minimum. Then, the Group will weigh in the prevailing market price of service fees charged by big data centres within the same location for comparable services at the corresponding time. As advised by the management of the Company, the cost of operating big data centre in Hong Kong and Kazakhstan are different, especially the power price and the labour cost. In general, the Group will factor into a gross profit margin ranging from 20% to 30% in determining the Fixed Hourly Service Rates. The finance department of the Group is responsible to monitor the power price and labour and operating costs from time to time and report to the chief financial officer for any material change. The business unit staff of the Group will monitor, collect and evaluate the market data, including but not limited to the prevailing market price for comparable services from time to time. Both departments will then report their findings to the general manager regularly, which is responsible to perform a thorough cost and pricing analysis and make recommendation on adjustment of the Fixed Hourly Service Rates from time to time when necessary. All recommendation on price adjustment is subject to the final review and approval by the chief executive officer.

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As advised by the management of the Company, data processors generally operate on a 24/7 basis in order to maximize their performances and the power price constitutes majority of its operating costs. The electricity costs are dependent on model type of data processors, therefore the pricing basis of the Fixed Hourly Service Rates are determined based on the model type of the data processors according to their electricity usage requirement.

$$\begin{array}{r} \text{Big Data Centre} \\ \text{Services fee} \end{array} = \begin{array}{r} \text{Number of data processors operated by the customer} \\ \times \\ \text{Utility consumption rates of electricity consumed by each model} \\ \text{type of data processors} \\ \times \\ \text{Fixed hourly service rates} \\ \times \\ \text{Number of operation hours per month} \end{array}$$

The final service fee payable by BIT Mining Group to the Group under the Service Agreement shall be concluded on a monthly basis, which takes into account the aggregated actual operation hours of the data processors under the agreement and the prescribed hourly service rates for each model of data processors.

As the HK Centres and KZ Centre have not yet commenced operation and the Group has not operated any other big data centres in Hong Kong and Kazakhstan, there are no previous transactions between the Group and independent third parties in this regard. In order to assess the fairness and reasonableness of the terms of the Service Agreement, we have obtained and reviewed the quotations obtained by the Group from the independent third parties providing comparable big data centre services in Hong Kong and Kazakhstan (the “**Comparable Services Quotations**”), which the big data centre services provided by the independent third parties are comparable in nature with the Big Data Centre Services. Based on our review of the Comparable Services Quotations, we noted that the fixed hourly service rates charged by the Group to BIT Mining Group for the HK Centres and KZ Centre are at the same level as and/or not lower than those charged by the independent third parties to the Group.

Apart from the Comparable Services Quotations, we understand that the Group has been in negotiation with other potential customers which are independent third parties to the Company regarding the provision of services which are comparable to the Big Data Centre Services. We have obtained the draft service contracts between the Group and the potential independent third-party customers regarding the provision of big data centre services in the HK Centres and the KZ Centre (the “**Comparable Services Contracts**”). Based on our review on the Comparable Services Contracts, we noted that the fixed hourly service rates charged by the Group to BIT Mining Group is at the same level as those charged to the potential independent third party customers. Furthermore, based on our review on the Service Agreement, the Comparable Services Quotations and the Comparable Services Contracts, we noted that the payment terms and credit periods along with basis in determining the amount of security deposits to be placed by the customers ahead of the operation of data processors are generally the same.

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Based on the above analysis, we noted that the terms of the Service Agreement are in general comparable to those of the Comparable Services Quotations and the Comparable Services Contracts and the terms offered by the Group to BIT Mining are fair and reasonable and no more favourable than those of independent third parties. Accordingly, we are of the view that the Service Agreement is carried out in the ordinary and normal course of business of the Group. We concur with the Board that the terms of the Service Agreement are on normal commercial terms, and they are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

3. The proposed annual caps under the Service Agreement

Based on the information provided by the Group, the table below sets out the Annual Caps categorised by the location of the big data centres for the CCT Period.

	From the Effective Date to 31 December 2021 <i>(HK\$ million)</i>	From 1 January 2022 to 31 December 2022 <i>(HK\$ million)</i>	From 1 January 2023 to 31 December 2023 <i>(HK\$ million)</i>	From 1 January 2024 to the Last Date <i>(HK\$ million)</i>
Hong Kong	7.2	48.2	48.2	36.1
Kazakhstan	2.9	35.0	104.9	78.8
Total	10.1	83.2	153.1	114.9

Basis of determining the Annual Caps

As it is the first project of the Group to operate big data centres in Hong Kong and Kazakhstan, there is no historical transaction between the Group and BIT Mining and/or its subsidiaries in relation to the provision of the Big Data Centre Services in Hong Kong and Kazakhstan. As advised by the Company, the Annual Caps were determined by the Directors primarily based on the following:

- (i) the prevailing market prices charged by other big data centres within the same region for comparable services to those provided under the Service Agreement at the corresponding time;
- (ii) the estimation of the number and model types of data processors to be deployed by the Service Receiver during the Term determined with reference to the number of data processors of various model types:
 - (a) already owned by the Service Receiver, all of which are currently in operation by the Service Receiver and would be relocated to the big data centres operated by the Service Provider throughout the Term; and

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- (b) recently acquired by the Service Receiver pending delivery or agreed to be acquired by the Service Receiver in principle pursuant to executed framework agreement subject to availability;
- (iii) a stable fixed hourly service rate throughout the Term; and
- (iv) a stable number of operating hours of data processors per month. The data processors generally operate on a 24/7 basis in order to maximize their performances.

As regards the Annual Caps to be sought for the CCT Period of approximately HK\$10.1 million, HK\$83.2 million, HK\$153.1 million and HK\$114.9 million respectively, we have obtained from the Company a detailed estimation of the Annual Caps in respect of the estimated annual transaction amount for the sales generated from the provision of the Big Data Centre Services by the Group to BIT Mining Group during the CCT Period (the “**Estimation**”). We noted from the Estimation that the Annual Caps are derived from multiplying the estimated processing capacity under the Big Data Centre Services to be required by BIT Mining Group by the estimated fixed hourly service rate of the Big Data Centre Services.

Regarding the estimated processing capacity to be required by BIT Mining Group

HK Centres

During the CCT Period, the Annual Caps for the HK Centres are approximately HK\$7.2 million, HK\$48.2 million, HK\$48.2 million and HK\$36.1 million respectively, whereas the average monthly amounts under the Annual Caps for the HK Centres are HK\$2.4 million (assuming the Effective Date is 1 October 2021), HK\$4.0 million, HK\$4.0 million and HK\$4.0 million (assuming the Last Date is 30 September 2024) respectively. There is an increase of approximately 66.7% in the average monthly amount for the period from the Effective Date to 31 December 2021 as compared to that for the period from 1 January 2022 to the Last Date. We noted from the Estimation that such increase is mainly resulted from the expected increase in processing capacity to be required by BIT Mining Group during the CCT Period in accordance with the schedule of the deliveries of data processors as agreed between the Group and BIT Mining Group.

According to the Letter from the Board, it is expected that 600 data processors (the “**HK Batch 1**”) will be placed by BIT Mining Group in the HK Centre 1 from October 2021 to September 2024. From January 2022 onwards and up to September 2024, it is currently expected that 400 data processors (the “**HK Batch 2**”) will be placed by BIT Mining Group in the HK Centre 2. Based on our discussion with the Company, we noted that the HK Batch 1 and the HK Batch 2 have been already delivered to Hong Kong by BIT Mining Group, which have been scheduled for deployment at the HK Centre 1 in October 2021 and at the HK Centre 2 in January 2022 respectively. Moreover, the HK Batch 1 comprising 600 data processors requires an aggregate processing capacity of approximately 1,200 kWh, while the HK Batch 2 comprising 400 data processors requires an aggregate processing capacity of approximately 800 kWh. Therefore, the expected processing capacity to be required by BIT Mining Group in the HK Centres increases from approximately 1,200 kWh for the period from the Effective Date to 31 December 2021 to approximately 2,000 kWh for the period from 1 January 2022 to the Last Date.

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As mentioned in the sub-section headed “Background of and reasons for entering into of the Service Agreement” to this letter, the HK Centre 1 equipped with processing capacity of approximately 1,400 kWh is expected to commence operation in October 2021, whereas the HK Centre 2 equipped with processing capacity of approximately 1,400 kWh is expected to commence operation in January 2022. The then total processing capacity of the HK Centres is expected to be approximately 2,800 kWh. Based on the estimations on the required processing capacity by BIT Mining Group in the HK Centres, the HK Batch 1 is expected to take up the processing capacity of approximately 86% of the total processing capacity of the HK Centre 1 for the period from the Effective Date to 31 December 2021, while the HK Batch 1 and the HK Batch 2 are expected to take up the processing capacity of approximately 71% of the total processing capacity of the HK Centres for the period from 1 January 2022 to the Last Date. The rest of the remaining processing capacity is expected to be occupied by independent third-party customers during the CCT Period. Therefore, we are of the view that the total processing capacity of the HK Centres is sufficient to cater for the operations of data processors to be deployed by BIT Mining in the HK Centres during the CCT Period.

KZ Centre

During the CCT Period, the Annual Caps for the KZ Centre are approximately HK\$2.9 million, HK\$35.0 million, HK\$104.9 million and HK\$78.8 million respectively, whereas the average monthly amount under the Annual Caps for the KZ Centre are HK\$2.9 million (assuming the Effective Date is 1 December 2021), HK\$2.9 million, HK\$8.7 million and HK\$8.7 million (assuming the Last Date is 30 September 2024) respectively. There is an increase of approximately three times in the average monthly amount for the period from the Effective Date to 31 December 2022 as compared to that for the period from 1 January 2023 to the Last Date. We noted from the Estimation that such increase is mainly resulted from the expected increase in processing capacity to be required by BIT Mining Group during the CCT Period in accordance with the schedule of the deliveries of data processors as agreed the Group and BIT Mining Group.

According to the Letter from the Board, it is expected that 3,000 data processors (the “**KZ Batch 1**”) will be placed by BIT Mining Group in the KZ Centre from December 2021 to September 2024. From January 2023 onwards and up to September 2024, it is currently expected that 6,000 data processors (the “**KZ Batch 2**”) will be placed by BIT Mining Group in KZ Centre. Based on our discussion with the Company, we noted that the KZ Batch 1 has been already delivered to Kazakhstan by BIT Mining Group, while the KZ Batch 2 has been deployed in other big data centre service providers and expected to reallocate to KZ Centre in January 2023. The KZ Batch 1 and the KZ Batch 2 have been scheduled for deployment at the KZ Centre in December 2021 and January 2023 respectively. Moreover, the KZ Batch 1 comprising 3,000 data processors requires an aggregate processing capacity of approximately 8,000 kWh, while the KZ Batch 2 comprising 6,000 data processors requires an aggregate processing capacity of approximately 16,000 kWh. Therefore, the expected processing capacity to be required by BIT Mining Group in the KZ Centre increases from approximately 8,000 kWh for the period from the Effective Date to 31 December 2022 to approximately 24,000 kWh for the period from 1 January 2023 to the Last Date.

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As mentioned in the sub-section headed “Background of and reasons for entering into of the Service Agreement” to this letter, the KZ Centre equipped with processing capacity of approximately 40,000 kWh is expected to commence operation in December 2021. As advised by the management of the Company, the Company plans to expand the processing capacity of the KZ Centre from approximately 40,000 kWh to 99,000 kWh in 2023. We understand from the management of the Company that the expansion of the KZ Centre is expected to complete by the 4th quarter of 2022 and the KZ Centre with the enhanced processing capacity of approximately 99,000 kWh is expected to be ready for operation in January 2023. Based on the estimations on the required processing capacity by BIT Mining Group for the KZ Centre, the KZ Batch 1 is expected to take up the processing capacity of approximately 20% of the total processing capacity of the KZ Centre for the period from the Effective Date to 31 December 2022, while the KZ Batch 1 together with the KZ Batch 2 are expected to take up the processing capacity of approximately 24% of the then total processing capacity of the KZ Centre after its expansion for the period from 1 January 2023 to the Last Date. The rest of the remaining processing capacity is expected to be occupied by independent third-party customers during the CCT Period. Therefore, we are of the view that the total processing capacity of the KZ Centre is sufficient to cater for the operations of data processors to be deployed by BIT Mining in the KZ Centre during the CCT Period.

Having considered that (i) the processing capacity of the HK Centres and the KZ Centre; (ii) the delivery schedule of the data processors owned by BIT Mining Group; and (iii) the data processors, once deployed, are generally expected to operate consistently on a 24/7 basis which provides a solid basis for the projection of the number of data processors under deployment, we consider that the Company’s projection on the number of data processors to be deployed by BIT Mining Group for the CCT Period is fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Regarding the estimated fixed hourly service rate

We noted from the Estimation that the Fixed Hourly Service Rates applied to the calculation of the Annual Caps for the HK Centres and KZ Centre are expected to remain at the same level during the CCT Period. As mentioned above in the section headed “Services fee and pricing policy”, the Group has a standard pricing strategy for determination of the applicable fixed hourly service rate for the provision of Big Data Centre Services applicable to all customers (including BIT Mining Group). The Group will consider the cost factors to ensure that the Fixed Hourly Service Rates will outweigh its costs at minimum and will weigh in the prevailing market price of service fees charged by big data centres within the same location for comparable services at the corresponding time. As advised by the management of the Company, the cost of operating big data centre in Hong Kong and Kazakhstan are different, especially the power price and the labour cost. Based on our discussion with the Company, we understand that the Company has assumed the operating cost of the HK Centres and KZ Centre remain unchanged for the CCT Period taking into account that there were no material fluctuation on the power price and the labour cost in Hong Kong and Kazakhstan during the past three years, except for an increase in power price of Kazakhstan by approximately 6% in 2020. Moreover, due to the fact that the HK Centres and KZ Centre have not yet commenced operation, we consider our review on the fixed hourly services rates of the Comparable Services Quotations and the Comparable Service Contracts to be representative in assessing the latest pricing adopted by the Group in the provision of the Big Data Centre Services, whereas the fixed hourly service rates charged by the Group to BIT Mining Group is at the similar level as those charged by the independent third party suppliers to the Group based on the Comparable Services Quotations and those charged by the Group to independent third party customers based on the Comparable Service Contracts. Therefore, we consider that the Company has taken a prudent approach in determining the estimated service fees of the Big Data Centre Services for the CCT Period.

Based on our review on the calculation of Annual Caps under the Service Agreement, we are of the view that the Annual Caps under the Service Agreement are determined by the Company after due and careful consideration, and they are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. The internal control measures governing the transactions under the Service Agreement

As set out in the Letter from the Board, the Company has established internal control measures to ensure that the continuing connected transactions contemplated under the Service Agreement are conducted in accordance with the pricing policies and internal procedures adopted by the Group, and that the terms of agreement and service fees charged by the Group to the BIT Mining Group are on normal commercial terms and on terms no less favourable than those terms for similar services offered by the Group to independent third parties. Such internal control measures employed by the Group including the following:

- (a) Before entering into a continuing connected transaction, the finance department of the Group will review and ensure that the pricing is fair and reasonable by reference to:
 - the prevailing market price of the same or substantially similar services with comparable service scope and quality offered by the Group to its customers. The business unit staff of the Group has substantial experience and industry knowledge in the area of big data centre services. In order to ascertain the prevailing market price, they will attend industry seminars (if feasible) from time to time to (i) keep abreast of the latest industry development including pricing trend and fluctuation; and (ii) approach potential customers and collect market data. Often in the course of discussion and negotiation with potential customers, these customers will compare the fee quotation obtained from the Group's competitors with an aim to bargain with the Group for the best available terms on an arm's length basis. Hence, the business unit staff of the Group can grasp a general understanding on the prevailing market price from discussion with its potential customers and further evaluate and analyze the price trend leveraging on their substantial experience and industry knowledge.
 - the historical price offered to Independent Third Parties by checking against the historical service fee of similar services and comparable general terms offered by the Group to its customers who are Independent Third Parties. The finance department also performed evaluation and assessment to ensure that the terms offered to the Service Receiver under the Service Agreement are no more favourable than those provided to independent customers under similar conditions.
- (b) In case the pricing terms under the relevant continuing connected transactions agreement are applied for the first time or the pricing terms are different from those used previously, the Board will engage an independent financial adviser to review the relevant terms.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (c) The finance department is responsible for regularly monitoring the utilisation of the annual caps which require, among other things, the submission of monthly reports on the accumulated actual transaction amounts of the transactions to the Company's chief financial officer, the company secretary and the internal auditor, in order to ensure that the accumulated actual transaction amounts would not exceed the annual cap for the relevant year. The company secretary shall promptly liaise with the business team as and when the annual cap has been 80% utilised to agree and implement measures to control and avoid exceeding any of the annual caps. The contracting parties understand and agree that they must abide by the GEM Listing Rules when fulfilling their obligations under any of the terms of continuing connected transaction agreement, including but not limited to the annual caps. The contracting parties shall temporarily suspend the performance of its relevant contractual obligations specified in such agreement until the Company is able to comply with the GEM Listing Rules (including obtaining a revised annual cap for the transactions contemplated under the continuing connected transaction agreement).
- (d) The finance department of the Company will consult with the Group's chief financial officer in respect of continuing connected transaction compliance issues, who will report to the audit committee of the Company and also provide a confirmation to the audit committee that the continuing connected transactions of the Company which are subject to the annual review and disclosure requirements under the GEM Listing Rules have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole; and that the Group's internal control procedures applicable to continuing connected transactions are adequate and effective to ensure that such transactions were so conducted. The audit committee will consider this accordingly.
- (e) The Company's external auditors will review the continuing connected transactions (which are subject to the annual review and disclosure requirements under the GEM Listing Rules) annually to check and confirm, among others, whether the pricing terms have been adhered to and whether the relevant caps have been exceeded.
- (f) The independent non-executive Directors will review the continuing connected transactions of the Company (which are subject to the annual review and disclosure requirements under the GEM Listing Rules) annually to check and confirm whether such continuing connected transactions are conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole, and whether the internal control procedures put in place by the Company are adequate and effective to ensure that such continuing connected transactions were conducted in accordance with the pricing policies set out in such relevant agreements.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We noted that the internal control measures adopted by the Group in governing the continuing connected transactions contemplated under the Service Agreement is same as internal control measures adopted by the Group in other continuing connected transactions, thus we consider that the internal control measures adopted by the Group in governing the continuing connected transactions contemplated under the Service Agreement are fairly structured and reasonable. We have also (i) obtained and reviewed the relevant internal control measures of the Group and the corresponding internal assessments conducted by the Group regarding the entering into of the Service Agreement; and (ii) the review results conducted by the independent non-executive Directors and the assessment results conducted by the Company's external auditors for historical continuing connected transactions carried out by the Group, which are reported in the annual reports of the Company. Based on the aforementioned, we are of the view that the internal control measures of the Group have been duly implemented. In conjunction with the internal control measures employed by BIT Mining (which is a sizeable listed company) governing the continuing service arrangement under the Service Agreement, we are of the view that there are sufficient and effective procedures and hierarchy to monitor and ensure that the pricing and terms of the Service Agreement are on normal commercial terms and no less favourable than those terms for similar services offered by the Group to independent third parties and the continuing connected transactions under the Service Agreement to be conducted in the manners which are fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

Having considered the above principal factors and reasons, we concur with the Directors' view that (i) the transactions contemplated under the Service Agreement are carried out in the ordinary and usual course of business of the Group; (ii) the terms of the Service Agreement are on normal commercial terms, and are fair and reasonable; (iii) the transactions contemplated under the Service Agreement are in the interests of the Company and the Shareholders as a whole; and (iv) the basis of determining the Annual Caps under the Service Agreement are fair and reasonable. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favor of the ordinary resolutions to be proposed at the EGM for approving the Service Agreement (including the Annual Caps).

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. 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 <i>(Note 2)</i>	Approximate percentage of total issued Shares <i>(Note 1)</i>
Ms. Zhang Jing	137,200	0.03%

(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	0.65%
Mr. Yan Hao	3,300,000	0.60%
Ms. Huang Lilan	2,000,000	0.36%
Mr. Yang Xianfeng	5,166,800	0.94%
Mr. Lin Sen	400,000	0.07%
Mr. Huang Jian	200,000	0.04%

Notes:

- As at the Latest Practicable Date, the total number of issued Shares was 548,378,822.
- This represents interests held by the relevant Director as beneficial owner.
- 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 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. Yang Xianfeng	2,066,800	1 April 2019	HK\$1.10	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. 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
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 – BIT Mining***

ADS of BIT Mining

Name of Director	Number of ADS held (Note 2)	Approximate percentage of total issued and outstanding shares of BIT Mining (Note 1)
Ms. Zhang Jing	3,481	0.005%
Mr. Yang Xianfeng	459,460	0.650%

Notes:

1. As at the Latest Practicable Date, the total number of issued and outstanding shares of BIT Mining was 70,639,533.
2. This represents interests held by the relevant Director as beneficial owner.

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/Nature	Number of Shares held/ interested in	Approximate percentage of total issued Shares (Note 1)
BIT Mining	Beneficial owner	327,868,805	59.79%
Mr. Law Man San Vincent ("Mr. Law") (Note 2)	Interest in controlled corporations	327,868,805	59.79%
	Beneficial owner	184,000	0.03%
Ms. Yuan Ping ("Mrs. Law") (Note 3)	Interest of spouse	328,052,805	59.82%

Notes:

- As at the Latest Practicable Date, the total number of issued Shares was 548,378,822.
- Mr. Law was deemed to be interested in 327,868,805 Shares held by BIT Mining through his controlled corporations, Good Luck Capital Limited and Delite Limited. He was also interested in 184,000 Shares in the capacity of beneficial owner.
- Mrs. Law was deemed to be interested in all shares of the Company held by Mr. Law pursuant to the SFO.

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, Mr. Yang Xianfeng and Ms. Huang Lilan are senior management of BIT Mining which has interest in the Shares 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 2020, the date to which the latest published audited consolidated financial statements of the Group 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 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, as disclosed by BIT Mining (being the controlling shareholder of the Company), BIT Mining is engaged in, amongst other things, the provision of data centre services and cryptocurrency mining business. As such, BIT Mining has interest in business which may be considered to potentially compete with the (i) provision of data analysis and storage services; and (ii) proprietary cryptocurrency mining business of the Group.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, the controlling shareholder of the Company and their respective close associates (as defined in the GEM Listing Rules) had interest in any business which competes or may compete with the business of the Group and any other conflicts of interest with the Group.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save and except as disclosed in the Company's announcement dated 20, 21, 25 June and 18 October, 2021, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020, the date to which the latest published audited consolidated financial statements of the Company were made up.

7. QUALIFICATION AND CONSENT OF EXPERT

The followings are the qualifications of the expert which have given its opinions or advice which is 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

As at the Latest Practicable Date, Octal Capital Limited 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, Octal Capital Limited did not have any direct or indirect interest in any asset which had been, since 31 December 2020, 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.

Octal Capital Limited 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 letter and recommendation given by the Octal Capital Limited are given as of the date of this circular for incorporation herein.

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

9. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.lotoie.com>) for the period of 14 days from the date of this circular:

- (a) the Service Agreement;
- (b) the letter from Board, the text of which is set out in this circular;
- (c) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (d) the letter from the Independent Financial Adviser, the text of which is set out in this circular;
and
- (e) this circular.

NOTICE OF THE EGM



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 Monday, 8 November 2021 at 11:00 a.m. (the “**EGM**”) for the purpose of considering and, if thought fit, passing the following resolutions:

ORDINARY RESOLUTION

“**THAT:**

- (a) the Service Agreement (as defined in the circular to the shareholders of the Company dated 22 October 2021 (the “**Circular**”)) be and is 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 Annual Caps (as defined in the Circular) in relation to the transactions contemplated under the Service Agreement for the period from the Effective Date (as defined in the Circular) to the Last Date (as defined in the Circular) (both dates inclusive) be and are hereby approved; and
- (c) all other transactions contemplated under the Service 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 Service Agreement, or any of the transactions contemplated under the Service 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 Service Agreement) as are, in the opinion of the Director, in the interests of the Company and its shareholders as a whole.”

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

Hong Kong, 22 October 2021

NOTICE OF THE EGM

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

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 from Friday, 5 November 2021 to Monday, 8 November 2021 (both days inclusive), during which period no share transfer 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, 4 November 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 resolution 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.