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Loto Interactive Limited

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

THIRD QUARTER RESULTS FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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.

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

MANAGEMENT DISCUSSION AND ANALYSIS

The board (the “**Board**”) of directors (the “**Directors**”) of Loto Interactive Limited (the “**Company**”) hereby announces the unaudited consolidated financial results of the Company and its subsidiaries (the “**Group**”) for the nine-month period ended 30 September 2021 (the “**Reporting Period**”) as follows:

Business Review

During the Reporting Period, the Group is principally engaged in (i) provision of data analysis and storage services (the “**Big Data Centre Services**”); (ii) proprietary cryptocurrency mining (the “**Cryptocurrency Mining Business**”); and (iii) money lending business in Hong Kong (the “**Money Lending Business**”).

Big Data Centre Services

The Group operates big data centres to provide comprehensive services including premises, hardware support, power supply, ancillary supervision and management services to our clients.

As disclosed in the announcement of the Company dated 18 October 2021 (the “**Business Update and Profit Warning Announcement**”), the Group’s third big data centre in Sichuan Province, the People’s Republic of China (the “**PRC**”), which is operated by Chengdu Keying Interactive Information Technology Limited (成都科盈互動信息科技有限公司) (the “**Subsidiary C**”) will be closed. The Company has made provision of impairment of fixed assets for the said closure and demolition. The Group plan to relocate the machinery and equipment of the other 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. The Company has also made provision of impairment of fixed assets caused by the Group’s plan to relocate the said machinery and equipment.

In order to maximize the benefit and interest for the Group and our shareholders as a whole, the Group has further developed the Group’s business in the Big Data Centre Services by of constructing new big data centres in Hong Kong and Kazakhstan. The new big data centre in Hong Kong, with a maximum processing capacity of approximately 1,400 kWh, is almost in the finalisation stage and expected to be in operation in the fourth quarter of 2021. Moreover, the Group will construct and operate a big data centre in Kazakhstan (the “**KZ Centre**”) as disclosed in the Company’s announcements dated 6 and 28 September 2021. The KZ Centre is located in Uralsk region of West Kazakhstan with a maximum processing capacity of approximately 40,000 kWh, which is expected to be completed in or about December 2021.

During the Reporting Period, the Big Data Centre Services generated revenue of approximately HK\$170.0 million, representing a decrease of approximately HK\$110.3 million as compared to the corresponding period in 2020, which was due to the suspension from power supply for the three big data centres in Sichuan, the PRC since June 2021.

Cryptocurrency Mining Business

As disclosed in the Company's interim results for the six-month period ended 30 June 2021, the Group has kickstarted its expansion into the business of proprietary cryptocurrency mining at that material time. The revenue generated by the Cryptocurrency Mining Business for the third quarter of this year was only of approximately HK\$0.1 million which reflect the performance of the Cryptocurrency Mining Business was less satisfactory than expected. Such unsatisfactory performance was due to the great fluctuation in the currency price of cryptocurrency. The Board believes that might not be to the benefit of the Company and our shareholders as whole the expected profits derived might be out of proportion to the comparative risk to be taken by the Group as a whole. The Company will focus on the business of the Big Data Centre Services. Accordingly, during the Reporting Period, the Board decided not to continue its expansion into the business of Cryptocurrency Mining Business. The Group will lease the previously purchased 1,807 data processors, which were original purchased for cryptocurrency mining business to independent third parties for rent as one of its ordinary and usual course of business. The Board believes with such strategy the Group will receive stable income without taking substantial business risk. It is expected that the rental income for the said data processors will be received in the fourth quarter this year.

Money Lending Business

In order to leverage our corporate expertise and resources to broaden income source, an indirect wholly-owned subsidiary of the Company, Might Winner Limited, obtained a money lender's license in January 2020. On 3 April 2020, a loan in the principal amount of HK\$30 million for a term of 24 months at an interest rate of 10% per annum, was granted to an independent third party, which contributed revenue of approximately HK\$2.3 million for the Reporting Period.

Financial Review

During the Reporting Period, the Group is engaged in three operating segments which are (1) Big Data Centre Services; (2) Cryptocurrency Mining Business; and (3) Money Lending Business. The Group recorded a total revenue of approximately HK\$172.8 million (nine-month period ended 30 September 2020: HK\$282.6 million), representing a significant decrease of HK\$109.8 million, which comprised the following:

(1) *Big Data Centre Services*

Revenue contributed by the Big Data Centre Services amounted to approximately HK\$170.0 million for the Reporting Period, representing a decrease of HK\$110.3 million as compared to the corresponding period in 2020 (nine-month period ended 30 September 2020: HK\$280.3 million).

(2) *Cryptocurrency Mining Business*

Revenue generated from Cryptocurrency Mining Business amounted to approximately HK\$0.1 million for the Reporting Period (nine-month period ended 30 September 2020: Nil).

(3) *Money Lending Business*

Revenue generated from Money Lending Business amounted to approximately HK\$2.3 million for the Reporting Period, representing an increase of HK\$0.8 million as compared to the corresponding period in 2020 (nine-month period ended 30 September 2020: HK\$1.5 million).

Operating Results

The Group recorded a loss of approximately HK\$180.0 million for the Reporting Period, representing an increase of HK\$154.4 million or 603% as compared to a loss of HK\$25.6 million for the corresponding period in 2020, which was mainly attributable to the combined effect of:

- (i) decrease in gross profit of approximately HK\$58.3 million of the Big Data Centre Services which was due to the suspension from power supply for the three big data centres in the third quarter; and
- (ii) increase in the provision of impairment of fixed assets of approximately HK\$4.9 million which was due to the closure and demolition of the aforementioned big data centre operated by the Subsidiary C; and

- (iii) increase in the provision of impairment of approximately HK\$110.8 million which was due to 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; and
- (iv) offset by decrease in staff cost of approximately HK\$4.0 million which was attributable to the decreased number of employees due to suspension of the big data centres; and
- (v) offset by decrease in operating expense related to the Big Data Centre Services of approximately HK\$5.3 million which was mainly due to the decrease of one-off initial formation expenses related to the third big data centre; and
- (vi) offset by decrease in amortisation associated with acquired intangible assets of approximately HK\$4.0 million.

Outlook

The Company will actively expand our business into Hong Kong, Kazakhstan and other overseas markets. The Company will capitalise on our accumulated experience in the big data center business to further optimise our business content and explore new directions of development. In addition, in the new and changing business environment, we will continue to pursue improvement, adhere to the spirit of innovation, closely monitor changes in policies and market conditions, leverage our core experience and corporate resources to seek new opportunities in pursuit of the long-term benefits for the Group and our shareholders as a whole.

Dividend

The Directors do not recommend the payment of an interim dividend for the Reporting Period (nine-month period ended 30 September 2020: Nil).

Loan Receivable

An indirect wholly-owned subsidiary of the Company, Might Winner Limited, has obtained a money lender's license in January 2020. As at 3 April 2020, the Group entered into a loan agreement (the "**Loan**") with an independent third party, Bright Topper Limited (the "**Borrower**"), in the principal amount of HK\$30,000,000 at the interest rate of 10% per annum for a term of two years. Interests for the first 12 months shall be repaid in the first year and the principal amount and interests for remaining period shall be repaid on or before the maturity date. The repayment of the Loan was guaranteed by the director and the sole beneficial owner of the Borrower.

Significant Investments, Material Acquisitions and Disposals

Reference is made to the announcement of the Company dated 6 September and 28 September 2021 in relation to the formation of a joint venture. Pursuant to the Shareholders Agreement and the supplemental agreement to the Shareholders Agreement, Brighten Express Limited and Capital Management LLP shall establish a joint venture company (the “**JV Company**”) with the total investment amount of not more than US\$4 million (equivalent to approximately HK\$31.09 million), which will be beneficially owned as to approximate 51% by Brighten Express Limited and approximately 49% by Capital Management LLP.

The principal business of the JV Company will be construction and operation of the project which involves the construction of the infrastructure (including facility centres and equipment) and operation of a big data centre in Kazakhstan. The JV Company was incorporated in Kazakhstan on 1 October 2021 and it is expected that it will be commence operation in December 2021.

Except for those disclosed in this announcement, there were no other significant investments held, material acquisitions, or disposals of subsidiaries during the Reporting Period. Apart from those disclosed in this announcement, there was no plan authorised by the Board for other material investments or additions of capital assets at the date of this announcement.

Important Events After the Reporting Period

Reference is made to the announcements of the Company dated 13 September 2021 and 13 October 2021 and circular of the Company dated 22 October 2021. As disclosed, on 13 September 2021, the Company, for itself and also as agent of its wholly-owned subsidiaries and controlling companies, conditionally entered into the service agreement (“**Service Agreement**”) with BIT Mining Limited (“**BIT Mining**”), the controlling shareholder of the Company. Pursuant to the Service Agreement, subject to the approval of the independent shareholders of the Company at the extraordinary general meeting convened on 8 November 2021, the Company, for itself and also as agent of its wholly-owned subsidiaries and the company(ies) in which a party holds any interest (the “**Controlling Companies**”), conditionally agreed to 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 period of 36 months.

The independent shareholders of the Company have approved the Service Agreement at the extraordinary general meeting held on 8 November 2021.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the nine-month period ended 30 September 2021

	Notes	Three-month period ended 30 September		Nine-month period ended 30 September	
		2021	2020	2021	2020
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
REVENUE	3	865	153,858	172,753	282,592
Cost of sales and service rendered		<u>(14,685)</u>	<u>(123,433)</u>	<u>(196,133)</u>	<u>(247,779)</u>
Gross profit		(13,820)	30,425	(23,380)	34,813
Other income and (losses)/gains		(115,688)	991	(114,932)	2,442
Selling expenses		–	(77)	(28)	(84)
Administrative expenses		(14,320)	(22,597)	(43,287)	(56,916)
Other expenses		2	(1,054)	(549)	(4,772)
Share of (losses)/gains: Associates		1,096	(6)	2,321	(73)
Finance costs		<u>(519)</u>	<u>(1,240)</u>	<u>(592)</u>	<u>(1,905)</u>
PROFIT/(LOSS) BEFORE TAX		(143,249)	6,442	(180,447)	(26,495)
Income tax credit	4	<u>–</u>	<u>281</u>	<u>–</u>	<u>853</u>
PROFIT/(LOSS) FOR THE PERIOD		<u>(143,249)</u>	<u>6,723</u>	<u>(180,447)</u>	<u>(25,642)</u>
OTHER COMPREHENSIVE INCOME					
Other comprehensive (loss)/income for the period, net of tax:					
Items that will not be reclassified to profit or loss:					
Fair value changes of equity investments at fair value through other comprehensive income		<u>–</u>	<u>(25)</u>	<u>14,397</u>	<u>(3,382)</u>

CONDENSED CONSOLIDATED INCOME STATEMENT (continued)

For the nine-month period ended 30 September 2021

		Three-month period ended 30 September		Nine-month period ended 30 September	
		2021 (Unaudited) <i>HK\$'000</i>	2020 (Unaudited) <i>HK\$'000</i>	2021 (Unaudited) <i>HK\$'000</i>	2020 (Unaudited) <i>HK\$'000</i>
	<i>Notes</i>				
Items that may be reclassified to profit or loss:					
Exchange differences on translation of foreign operations		<u>1,860</u>	<u>9,181</u>	<u>5,894</u>	<u>6,380</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		<u>1,860</u>	<u>9,156</u>	<u>20,291</u>	<u>2,998</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		<u>(141,389)</u>	<u>15,879</u>	<u>(160,156)</u>	<u>(22,644)</u>
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO:					
Owner of the Company		(143,249)	(1,937)	(174,819)	(32,053)
Non-controlling interests		<u>–</u>	<u>8,660</u>	<u>(5,628)</u>	<u>6,411</u>
		<u>(143,249)</u>	<u>6,723</u>	<u>(180,447)</u>	<u>(25,642)</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO:					
Owners of the Company		(141,389)	6,987	(154,224)	(29,287)
Non-controlling interests		<u>–</u>	<u>8,892</u>	<u>(5,932)</u>	<u>6,643</u>
		<u>(141,389)</u>	<u>15,879</u>	<u>(160,156)</u>	<u>(22,644)</u>
EARNING/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (HK cents)					
– Basic and diluted	6	(27.91)	2.13	(35.10)	(8.12)

NOTES:

(1) BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of the GEM Listing Rules and with Hong Kong Accounting Standard 34, Interim Financial Reporting.

(2) SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention. The same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2020, except for the adoption of all the new and revised Hong Kong Financial Reporting Standards, amendments and interpretations ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2021. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current period and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the unaudited consolidated financial statements.

(3) REVENUE

An analysis of the Group's revenue for the three-month and the nine-month period ended 30 September 2021 is as follows:

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000
Big Data Centre Services	–	152,575	170,044	280,282
Money Lending Business	750	750	2,250	1,500
Cryptocurrency Mining Business	115	–	115	–
Online game business	–	533	344	780
Lottery business	–	–	–	30
	<u>865</u>	<u>153,858</u>	<u>172,753</u>	<u>282,592</u>

(4) INCOME TAX CREDIT

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000
Deferred tax	<u>–</u>	<u>281</u>	<u>–</u>	<u>853</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. No Hong Kong Profits Tax was provided for since the Hong Kong subsidiaries have incurred losses from operations for both periods.

Under the Law of the PRC on Enterprise Income Tax (the “**EIT Law**”) and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

(5) DIVIDEND

No dividends had been paid or declared by the Company during the nine-month period ended 30 September 2021 (nine-month period ended 30 September 2020: Nil).

(6) LOSS PER SHARE

The calculation of basic loss per share for the three-month and the nine-month period ended 30 September 2021 is based on the unaudited loss attributable to owners of the Company of approximately HK\$143,249,000 and HK\$174,819,000 (three-month and nine-month period ended 30 September 2020: HK\$1,937,000 and HK\$32,053,000) and on the weighted average number of approximately 498,120,679 and 498,120,679 respectively (three-month period and nine-month period ended 30 September 2020: 315,859,983 and 315,859,983) ordinary shares in issue during the period.

The computation of diluted loss per share in 2021 and 2020 did not include the Company’s outstanding share options since their assumed exercise would result in a decrease in loss per share.

(7) SHARE CAPITAL AND RESERVES

	Attributable to owners of the Company									
	Issued capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Share- based payment reserve <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Equity investment revaluation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Sub-Total <i>HK\$'000</i>	Non- controlling interests <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
At 1 January 2021 (audited)	37,902	338,906	9,370	(5,255)	19,281	(12,653)	(68,885)	318,666	91,044	409,710
Loss for the period	-	-	-	-	-	-	(174,819)	(174,819)	(5,628)	(180,447)
Other comprehensive (loss)/income for the period	-	-	-	-	6,198	14,397	-	20,595	(304)	20,291
Total comprehensive loss for the period	-	-	-	-	6,198	14,397	(174,819)	(154,224)	(5,932)	(160,156)
Allotment and issue of shares on subscription	16,936	83,618	-	-	-	-	-	100,554	-	100,554
Purchase of non-controlling interests	-	-	-	-	-	-	(18,966)	(18,966)	(85,391)	(104,357)
Equity-settled share-based payment expense	-	-	988	-	-	-	-	988	-	988
Disposal of equity investments at fair value through other comprehensive income	-	-	-	-	-	(11,744)	11,744	-	-	-
At 30 September 2021 (unaudited)	<u>54,838</u>	<u>422,524</u>	<u>10,358</u>	<u>(5,255)</u>	<u>25,479</u>	<u>(10,000)</u>	<u>(250,926)</u>	<u>247,018</u>	<u>(279)</u>	<u>246,739</u>

	Attributable to owners of the Company									
	Issued capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Share- based payment reserve <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Equity investment revaluation reserve <i>HK\$'000</i>	(Accumulated losses)/retained earnings <i>HK\$'000</i>	Sub-Total <i>HK\$'000</i>	Non- controlling interests <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
At 1 January 2020 (audited)	31,586	329,194	20,881	(5,255)	3,692	(12,570)	(37,657)	329,871	12,876	342,747
Non-controlling interests arising from establishment of a new subsidiary	-	-	-	-	-	-	-	-	75,830	75,830
Disposal of subsidiaries	-	-	-	-	-	-	-	-	(5,377)	(5,377)
Profit/(Loss) for the period	-	-	-	-	-	-	(32,053)	(32,053)	6,411	(25,642)
Other comprehensive income/(loss) for the period	-	-	-	-	6,148	(3,382)	-	2,766	232	2,998
Total comprehensive income/(loss) for the period	-	-	-	-	6,148	(3,382)	(32,053)	(29,287)	6,643	(22,644)
Equity-settled share-based payment expense	-	-	3,259	-	-	-	-	3,259	-	3,259
Transfer of share-based payment reserve upon share options cancellation	-	-	(15,539)	-	-	-	15,539	-	-	-
At 30 September 2020 (unaudited)	<u>31,586</u>	<u>329,194</u>	<u>8,601</u>	<u>(5,255)</u>	<u>9,840</u>	<u>(15,952)</u>	<u>(54,171)</u>	<u>303,843</u>	<u>89,972</u>	<u>393,815</u>

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

COMPETING INTEREST

As disclosed by BIT Mining (being the controlling shareholder of the Company), during the Reporting Period, 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, 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.

AUDIT COMMITTEE

The Company has an audit committee, which was established for the purposes of reviewing and providing supervision over the Company's financial reporting process and overseeing the Group's risk management and internal controls. It also reviews the effectiveness of the audit process and risk evaluation. The audit committee comprises two independent non-executive Directors, namely Mr. Lin Sen (chairman of the audit committee) and Dr. Lu Haitian, and one non-executive Director, namely Mr. Yang Xianfeng. The financial information contained in this third quarter results announcement for the Reporting Period has not been audited by the auditors of the Company, but has been reviewed by the audit committee of the Company.

By Order of the Board
Loto Interactive Limited
Yan Hao

Chief Executive Officer and Executive Director

Hong Kong, 8 November 2021

As at the date of this announcement, the Board of Directors comprises Ms. Zhang Jing (Chairman), Mr. Yan Hao# (Chief Executive Officer), Ms. Huang Lilan#, Mr. Yang Xianfeng*, Dr. Lu Haitian+, Mr. Lin Sen+ and Mr. Huang Jian+.*

Executive Director

* *Non-executive Director*

+ *Independent Non-executive Director*

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