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Loto Interactive Limited

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

BUSINESS UPDATE BIG DATA CENTRE SERVICES

This announcement is made by Loto Interactive Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for the purposes of updating the shareholders of the Company (the “**Shareholders**”) and potential investors on the business operations of the Group.

Reference is made to the disclosure of big data centre services in the annual, interim and quarterly results announcements of the Group dated 22 March, 7 May, 7 August and 7 November 2019, respectively (collectively, the “**Announcements**”). Unless the context otherwise requires, capitalized terms used in this announcement shall have the same meaning as defined in the Announcements.

BIG DATA CENTRE SERVICES

The Group established its big data centre services in March 2019 and has been expanding this segment ever since then. The Group currently operates two big data centres in Sichuan, China, with an aggregate gross floor area of 6,760 square metres, and the third big data centre is under construction. As an operator of the big data centres, the Group provides the premises, hardware support, power supply and ancillary supervision and management services to clients. The Group has also developed software for supervision and analysis of big data and licensed to clients for use in the big data centres of the Group.

Business and Revenue Models

The Group’s involvement in the big data centre services mainly comprises three phases:

- (i) *the business development phase:* The Group’s primary responsibilities include selection of suitable location for the big data centre, plan and design of the building, fixtures and facilities, negotiation with local government on the proposed projects, collaboration with local utility services providers on supply and pricing, and liaison with potential business partners.
- (ii) *the construction phase:* The Group’s primary responsibilities include management and supervision of the construction projects, and negotiation and communication with different working teams.

(iii) *the operation phase:* The Group's primary responsibilities include development of new client, management of utility supply, provision of hardware and software support, provision of onsite supervision and maintenance services, and provision of other ancillary administrative and supporting services to the clients.

The customers can bring in their own data processors and are charged of a fixed hourly services fee depending on the model of data processors used by each customer.

Services Provided to Customers

The services provided to its customers in the big data centres cover a full range from monitoring the average utilisation rate and working status of data processors to supervising the overall safety and security of both physical environment and internet connection within the big data centres. Each customer is provided with a monthly report on operation results of its data processors. In the event of any unusual condition reported on the data processors, the relevant customer will receive an immediate notification and follow-up inspection and maintenance services will be provided by the Group upon request. In order to ensure full-load operation of the big data centres, the Group maintains regular communication with local utility services providers in respect of resources allocation and application for increase or decrease in supply of utility.

Self-developed and Self-owned Software

The Group has developed a comprehensive management software (the “**Software**”) for the operation of the Big Data Centres of the Group. With the customised hardware installed in the Big Data Centres, the Software provides integrated solutions for operation and maintenance management, financial management and resources allocation in cloud computing in the Big Data Centres. The Software enables the clients to remotely monitor their data processors and obtain real-time information on the average computing capacity, CPU load and utilisation and operating time and to receive notification of unusual condition of their data processors.

Solicitation Process and Due Diligence Process on Customers

The Group develops new clients through various means. The management team regularly attends conferences in relation to big data processing to promote the business of the Group and obtains updated information from potential customers on their business needs. The Group also obtains new customers through client referrals and industry agents. In order to attract new customers, the Group arranges site visits to its big data centres for potential customers and business partners on a regular basis.

The Group's criteria in selection of new customers include: (i) commercial terms offered by the new customers such as unit price, term of services, amount of deposit, number and type of data processors, compensation amount for breaches; (ii) past business relationship between the customer and the Company; (iii) the new customers' reputation in the industry; and (iv) public information on the new customers' legality, size, source of funding, relevant business history.

Major Terms of Service Contracts with Customers

Set out below is a summary of the major terms of the service contracts between the Group and its customers:

Scope of Services	: Comprehensive big data centre services, including on-site hosting of data processors, provision of ancillary broadband network technology, administration of security surveillance server, troubleshooting and assistance with maintenance
Term	: Range from 12 to 20 months
Pricing	: Fixed hourly services fee depending on the model of data processors used by each customer and with reference to the actual operation hours
Payment	: On monthly or semi-monthly basis and within five days upon receipt of the invoice
Deposit	: Customers are required to pay a sum of money as deposit to the Group

Information and Developments on the Big Data Centres

The first big data centre of the Group commenced business in March 2019 and is located in Ya'an, Sichuan Province. It has a gross area of 960 square metres and an operation capacity to provide data analysis and storage services at the same time to a maximum number of 9,500 data processors.

The second big data centre of Group commenced business in June 2019 and is located in Kangding, Sichuan Province. It has a gross area of approximately 5,800 square metres and an operation capacity to provide data analysis and storage services at the same time to a maximum number of 95,000 data processors.

The third big data centre of the Group is currently under construction and expected to commence business by May 2020. Upon completion, the operation scale of the third big data centre will be approximately 2.5 to 3 times of the second big data centre.

Cooperative Relationship with Business Partner

In order to provide stable supply of power in the big data centres at competitive costs, the Group has established cooperative relationship with various local subsidiaries of a leading state-owned enterprise in the power energy business in China (the “**Business Partner**”). The Group has been selected as one of the strategic business partners of the Business Partner for its project of consumption of electricity and water curtailment.

Under the cooperative arrangement, the Group has been granted right to construct big data centres within the sites of hydro power plants of the Business Partner and the Business Partner’s hydro power plants have agreed to supply hydropower to the Group at favourable prices to exploit the wasted power-generation capacity of such hydro power plants.

The fee charging structures for the power supply in the big data centres are determined with reference to (i) the estimated volume of wasted hydropower generated by the Business Partner's hydro power plants during high water seasons, (ii) difficulty and limitation of electric power transmission, (iii) regulatory requirements applicable to power plants of the Business Partner, and (iv) the Group's internal analysis on its risk assessment and resilience capacity.

In the first and the second big data centres, the Business Partner charges variable unit prices for supply of electricity during different seasons to reflect its average power supply costs. The fee charging structure for the third big data centre is currently under negotiation between the Group and the Business Partner.

By Order of the Board
Loto Interactive Limited
Wang Bingzhong
Chief Executive Officer and Executive Director

Hong Kong, 18 February 2020

As at the date of this announcement, the Board of Directors comprises Ms. Zhang Jing^{} (Chairman), Mr. Wang Bingzhong[#] (Chief Executive Officer), Ms. Huang Lilan[#], Mr. Yuan Qiang^{*}, Dr. Lu Haitian⁺, Mr. Yan Hao⁺ and Mr. Lin Sen⁺.*

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

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

This announcement 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.