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Crypto Flow Technology Limited
加幂科技有限公司

(formerly known as Loto Interactive Limited 樂透互娛有限公司)
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8198)

MAJOR TRANSACTION
IN RELATION TO DISPOSAL OF BUSINESSES

Financial adviser to the Company



On 3 January 2023 (after trading hours), the Company, the Purchaser and the Guarantor entered into the Agreement, pursuant to which the Purchaser has conditionally agreed to purchase and the Company has conditionally agreed to sell the Sale Share at the Consideration of HK\$37,000,000.

GEM LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio calculated in accordance with the GEM Listing Rules in respect of the Disposal exceeds 25% but is less than 75%, the Disposal constitutes a major transaction for the Company and is subject to the notification, announcement, circular and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, none of the Shareholders has any material interest in the Disposal. As such, no Shareholder is required to abstain from voting if an extraordinary general meeting were convened for the approval of the Disposal. The Company has obtained written approval in respect of the Disposal from Manful Kingdom Limited, being the controlling Shareholder holding 279,815,740 Shares in aggregate, representing approximately 51.02% of the entire issued share capital and voting rights of the Company as at the date of this announcement. Therefore, as permitted under Rule 19.44 of the GEM Listing Rules, no extraordinary general meeting will be convened for the approval of the Disposal.

A circular containing, among others, (i) details of the Disposal; and (ii) other information as required under the GEM Listing Rules is expected to be despatched to the Shareholders on or before 27 January 2023.

INTRODUCTION

On 3 January 2023 (after trading hours), the Company, the Purchaser and the Guarantor entered into the Agreement, pursuant to which the Purchaser has conditionally agreed to purchase and the Company has conditionally agreed to sell the Sale Share at the Consideration of HK\$37,000,000.

THE DISPOSAL

The principal terms of the Agreement are set out below:

Date

3 January 2023

Parties

- (1) The Company (as the seller);
- (2) the Purchaser; and
- (3) the Guarantor.

The Purchaser is owned as to 99% by Mr. Ke Lizhi (i.e. the Guarantor) and 1% by Ms. Zhang Xia.

To the best knowledge of the Directors, the Purchaser and its ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the GEM Listing Rules).

Subject matter

The Company will conditionally agree to sell and the Purchaser will conditionally agree to purchase the Sale Share.

Consideration

The Purchaser shall pay the Consideration of HK\$37,000,000 in the following manners:

1. HK\$22,200,000 (being 60% of the Consideration) shall be paid by the Purchaser to the Company upon the Completion; and
2. HK\$14,800,000 (being 40% of the Consideration) shall be paid by the Purchaser to the Company within 45 days following the Completion.

Further details of the Consideration are set out in the section headed “Basis of the Consideration” of this announcement.

Conditions precedent

Completion is conditional upon each of the following being satisfied (or, where applicable, waived):

1. the parties having obtained all necessary approvals, consents, authorisation, waivers, instructions or relaxations in respect of the Disposal and the transactions contemplated under the Agreement;
2. the Shareholders having approved the Agreement and the transactions contemplated thereunder in accordance with the GEM Listing Rules;
3. the board of directors of the Disposal Company having passed resolutions to approve the Agreement and the transactions contemplated thereunder;
4. the parties to the Agreement having obtained all necessary consents or approvals in respect of the Agreement and the transactions contemplated thereunder from the relevant government or regulatory authorities (if required);
5. the Company having issued written confirmation to the Purchaser that all of the aforesaid conditions (1) to (4) having been satisfied (except for the relevant conditions, if any, which are subject to the consents, approvals or satisfaction to be obtained from the Purchaser and/or the Guarantor); and
6. the Purchaser having issued written confirmation to the Company that all of the aforesaid conditions (1) and (4) having been satisfied (except for the relevant conditions, if any, which are subject to the consents, approvals or satisfaction to be obtained from the Company).

If the above conditions have not been satisfied or waived (save and except for condition (2) which is not capable for being waived) on or before the Long Stop Date, or such later date as the Company and the Purchaser may agree in writing, the Agreement shall cease and determine and neither party shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches of the terms thereof.

Completion

Completion shall take place within three Business Days (or such other date as agreed by the parties) upon satisfaction or waiver of all the conditions set out under the paragraph headed “Conditions precedent” above (save and except for condition (2) which is not waivable by any party to the Agreement).

Guarantee

The Guarantor will irrevocably and unconditionally guarantee to the Seller all the obligations of the Purchaser under the Agreement including, but not limited to, the performance of the Purchaser of its obligations to settle the Consideration and other fees payable by the Purchaser to the Seller.

VAT Refund

The Company will arrange, and the Purchaser will allow, staff or designated persons of the Company to continue the process of VAT Refund application for a period of one year following the Completion. If any amount is received from the VAT Refund during the above one-year period, the Purchaser agrees to, or procure the Disposal Group to transfer all such amounts to the Company within three days following such receipt.

THE DISPOSAL GROUP

Information on the Disposal Group

The Disposal Company is a company incorporated in Hong Kong with limited liability. The Disposal Group is principally engaged in the operation of the PRC Big Data Centres.

Financial information on the Disposal Group

Set out below is the financial information of Disposal Group based on its unaudited management accounts:

	For the year ended 31 December 2020 HK\$'000	For the year ended 31 December 2021 HK\$'000	For the nine months ended 30 September 2022 HK\$'000
Revenue	379,658	171,721	nil
Gross profit/(loss)	38,229	(17,969)	(7,108)
Net loss for the year/period	(6,877)	(262,383)	(15,022)

As at 30 September 2022, the Disposal Group had net assets of approximately HK\$57.8 million.

BASIS OF THE CONSIDERATION

The Consideration was arrived at after arm's length negotiation between the Company and the Purchaser after taking into account of (i) the unaudited consolidated net assets value of the Disposal Group as at 30 September 2022 of approximately HK\$57.8 million; and (ii) the preliminary valuation of the Disposal Group of approximately HK\$40.2 million as at 30 September 2022 prepared by an independent valuer (the "**Independent Valuer**") based on asset approach. Based on the preliminary appraisal of the Independent Valuer, the market value of the equity interests of the Disposal Company as at 30 September 2022 amounted to approximately HK\$40.2 million. The Consideration of the Disposal of approximately HK\$37 million represents a discount of approximately 8.0% to the aforesaid market value of the equity interests of the Disposal Company.

The preliminary appraised value of the equity interest in the Disposal Company as at 30 September 2022 amounted to approximately HK\$40.2 million, representing a deficit of approximately HK\$17.6 million as compared to the consolidated net assets value of the Disposal Group. The deficit was mainly attributable to the decrease in estimated recoverable amounts of value-added-tax (“VAT”) receivables held by the Disposal Group. As at 30 September 2022, book value of VAT receivables recorded on the book of Ganzi Changhe, Sichuan Lecaiyuntian, Chengdu Keying and Chengdu Yilaike amounted to approximately HK\$17.7 million, and a major part of which was due from the government of Ganzi Tibetan Autonomous Prefecture (the “**Ganzi Government**”).

Background of VAT receivables

Back in 2019, the Disposal Group made various property, plant and equipment investments in order to provide big data centre services in Ganzi, Sichuan. Along with the property, plant and equipment investments, the Disposal Group also recognised VAT receivables to be utilized in operation. However, during the year ended 31 December 2021, the Disposal Group ceased operation based on relevant government policies. The VAT receivables amounted to approximately HK\$17.7 million on balance sheet of the Disposal Group as at 30 September 2022.

Negotiation with the Purchaser

During the negotiation with the Purchaser for determining the consideration on the Disposal, the Purchaser performed financial due diligence, including but not limited to re-assessing the recoverability of the VAT receivables and considered such VAT receivables might not be realised in the foreseeable future in near term.

The management of the Company has used its best efforts to negotiate with the Purchaser on this, and provided efforts and documents to support such amount being recoverable, and also tried to communicate with the PRC government to grant such VAT receivables to the Disposal Group, however, such grounds are not accepted by the Purchaser.

Prolonged Approval Process of VAT Refund

The VAT Refund applications have been submitted by the Disposal Group since June 2021 and the issue has not been solved for about 15 months as at September 2022, or about 18 months as at the date of this announcement. As of the date of this announcement, the Disposal Group has not obtained an expected timeline as for the approval progress, and for receiving any actual VAT refund from the Ganzi Government.

View from the Independent Valuer

Given that the Purchaser has raised concerns on the recoverability of the VAT receivables and that there are a number of issues surrounding the VAT receivables, the Company has engaged the Independent Valuer to perform an appraisal on the market value of the equity interest of the Disposal Company. In particular, the Company has discussed with the Independent Valuer the abovementioned issues surrounding the VAT receivables. The Independent Valuer considers that the interaction with and the responses from the local tax authorities suggested a prolonged approval progress and unpredictable timeline for receiving VAT Refund, which creates a high degree of uncertainty on the recovery of the deductible VAT receivables. The Independent Valuer is of the opinion that the application of VAT refund from the Ganzi Government is extremely difficult to be successful, and thus it has assigned zero value to such VAT receivables in arriving at the appraised value of the Disposal Company.

Company's view on the Consideration

The Consideration of the Disposal of approximately HK\$37 million represents a discount of approximately 8.0% to the aforesaid market value of the equity interests of the Disposal Company. After taking into account (a) the difficulty in finding a suitable purchaser for the non-operating assets held by the Disposal Group; (b) the current PRC policies on the industry that the PRC Government policy would not change and would continue to ban crypto mining business in the foreseeable future; (c) that the discount was mainly due to the deficit in the appraised value of the equity interest of the Disposal Company, which in turn was mainly due to the aforesaid non-recoverability of the VAT receivables; (d) that the VAT receivables might not be realized in the foreseeable future as explained above, and any other potential buyer will probably consider the same based on the above facts; and (e) that based on the preliminary appraisal, there are no significant deficits in valuation on the Disposal Group's property, plant and equipment, the Company considers the Consideration to be fair and reasonable.

VAT Refund

As set out in the Agreement, the Company will arrange, and the Purchaser will allow, staff or designated persons of the Company to continue the process of VAT Refund application for a period of one year following the Completion. If any amount is received from the VAT Refund during the above one-year period, the Purchaser agrees to, or procure the Disposal Group to transfer all such amounts to the Company within three days following such receipt. The above one-year period was determined by the parties based on arm's length negotiations. Taking into account that, (i) there are difficulties and issues encountered during the VAT Refund process; (ii) the likelihood of getting the VAT Refund will become more remote if it is not yet approved by the end of such one-year period, which is now estimated to be in or around end of 2023 (i.e. around 30 months since the first application in June 2021); and (iii) there will be additional costs to be incurred by the Company to continue the process of VAT Refund, the Company considers that a one-year period is reasonable.

INFORMATION ON THE PURCHASER

The Purchaser is a company incorporated in Macau with limited liability with principal activity of investment holding.

REASONS FOR AND BENEFITS OF THE DISPOSAL

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

References are made to the Company's announcements dated 20 June 2021, 21 June 2021 and 25 June 2021 and 18 October 2021 in relation to the cessation of operation of the Group's PRC Big Data Centres, being three big data centres operated by the Disposal Group located in Sichuan province of the PRC, for compliance with the relevant national regulatory requirements, the Group's PRC Big Data Centres have been closed and no longer generated any revenue since June 2021. As part of the next steps of the Group's plan to close the PRC Big Data Centres, the Company decided to dispose of the Disposal Company.

The Directors are of the view that after the aforesaid incidents in the PRC, and in view of the continuing surge of electricity cost globally, being the major operating costs of big data centre business, caused by energy supply chain disruption mainly due to COVID-19 pandemic, the Group does not intend to continue or develop the big data centre business in the PRC. The Disposal Group did not generate any revenue since June 2021 and the Directors are of the view that continuing holding of the interests in the Disposal Group will not be beneficial to the Group in the long run.

The Company remains optimistic about the big data industry and it is the intention of the Company to continue to the development of its existing businesses in Hong Kong and expand the existing businesses of the Group through, among other things, the development of big data centre(s) in the overseas markets including, but not limited to, the North America and Southeast Asia regions. The Directors are of the view that the Group will be able to focus on the aforesaid business development after carrying out the Disposal. In arriving at such business development plan, the Company has taken into account the following factors:

- (i) there has been an increasing trend in energy prices in the past few months. Such increase in energy price has also led to an increase in electricity price, which is one of the key factors affecting the business of the clients of the Group's big data centre businesses;
- (ii) the operation of a big data centre will require sufficient space for installing and setting up the necessary equipment and facilities for the big data centre. Although there is a downward trend in the property prices in Hong Kong recently, there may be increase in property prices and rents following the recovery of the economic activities of Hong Kong; and
- (iii) in view of the aforesaid possible fluctuations in rents in Hong Kong and energy price in the near future, the Company considers that it will be more prudent to develop its business in areas with lower electricity prices and lower rents, such as Southeast Asia or North America.

Upon Completion, each of the companies within the Disposal Group will cease to be subsidiaries of the Company, and the financial results of the Disposal Group will no longer be consolidated into the financial statements of the Group. It is expected that the Group will record a one-off loss on the Disposal of approximately HK\$20.8 million, being the Consideration net of the unaudited consolidated net asset value of the Disposal Group as at 30 September 2022 (which is subject to final audit by the auditors of the Company).

The Group is currently exploring opportunities to develop and/or expand its existing big data centre business. It is intended that part of the net proceeds will be used by the Group on potential investment opportunities and the remaining for general working capital purposes. Further details of the intended use of proceeds from the Disposal are set out below:

- (i) approximately HK\$22 million of the proceeds will be used to increase or upgrade the fixed assets of the Group's big data centre (including any big data centres to be developed or acquired by the Group in the future);
- (ii) approximately HK\$5 million of the proceeds will be used in hiring experts or staff for researches and business development;
- (iii) approximately HK\$6 million of the proceeds will be used for business expansion, including but not limited to, investments into companies carrying out similar businesses of the Group; and
- (iv) approximately HK\$4 million of the proceeds will be used for general working capital.

As set out above, the Group will use majority of the proceeds from the Disposal in operating and expanding the businesses of the Group. The Group will consider development of big data centre(s) in the overseas markets and therefore, the Company expects that certain parts of the proceeds (usage (i) above) will be used for the development of the big data centre, including the increasing or upgrading of the fixed assets to be used in big data centres. As at the date of this announcement, the Group is exploring suitable opportunities for expansion and development of its big data centre business, particularly the overseas market. Such opportunities include, among others, possible investment in company(ies) in the United States of America engaging in business of big data centre(s).

In addition, along the intended business expansion into big data centre business in overseas market, the Company considers that there will be a need to hire experts or staff for researches and business development (usage (ii) above). Certain parts of the proceeds (usage (iii) above) will be reserved for the business expansion, including but not limited to the possible investment in the United States big data centre business as mentioned above, and any other similar businesses that the Company considers appropriate. Taking into account the business plan of the Group and the intended usage of the proceeds from the Disposal, the Company considers that the Group will be able to expand its businesses to generate more revenue in the future.

Having considered the above, the Directors are of the view that the terms of the Disposal are fair and reasonable, and the Disposal is in the interests of the Company and its Shareholders as a whole.

GEM LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio calculated in accordance with the GEM Listing Rules in respect of the Disposal exceeds 25% but is less than 75%, the Disposal constitutes a major transaction for the Company and is subject to the notification, announcement, circular and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, none of the Shareholders has any material interest in the Disposal. As such, no Shareholder is required to abstain from voting if an extraordinary general meeting were convened for the approval of the Disposal. The Company has obtained written approval in respect of the Disposal from Manful Kingdom Limited, being the controlling Shareholder holding 279,815,740 Shares in aggregate, representing approximately 51.02% of the entire issued share capital and voting rights of the Company as at the date of this announcement. Therefore, as permitted under Rule 19.44 of the GEM Listing Rules, no extraordinary general meeting will be convened for the approval of the Disposal.

A circular containing, among others, (i) details of the Disposal; and (ii) other information as required under the GEM Listing Rules is expected to be despatched to the Shareholders on or before 27 January 2023.

DEFINITIONS

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

“Agreement”	the agreement entered into on 3 January 2023 between the Company, the Purchaser and the Guarantor in respect of the Disposal
“Board”	the board of the Directors
“Business Day(s)”	a day (other than a Saturday, Sunday or public holiday or a day on which a tropical cyclone warning signal no. 8 or above or a “black” rainstorm warning signal is hoisted or remains hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which the licensed banks in Hong Kong are generally open for business throughout their normal business hours
“Chengdu Keying”	Chengdu Keying Interactive Information Technology Limited (成都科盈互動信息科技有限公司), a subsidiary of the Disposal Company
“Chengdu Yilaike”	Chengdu Yilaike Technology Co., Ltd. (成都伊萊科科技有限公司), a subsidiary of the Disposal Company

“Company”	Crypto Flow Technology Limited (formerly known as Loto Interactive Limited 樂透互娛有限公司) (stock code: 8198), a company incorporated under the laws of the Cayman Islands with limited liability and the Shares of which are listed on GEM
“Completion”	completion of the Disposal
“Consideration”	the consideration for the Disposal of HK\$37,000,000
“Director(s)”	director(s) of the Company
“Disposal”	the disposal of the Sale Share pursuant to the Agreement
“Disposal Company”	Brighten Express Limited (達正有限公司), a company incorporated in Hong Kong with limited liability, being a wholly-owned subsidiary of the Company
“Disposal Group”	Disposal Company, together with its subsidiaries
“Ganzi Changhe”	Ganzi Changhe Hydropower Consumption Service Co., Ltd (甘孜州長河水電消納服務有限公司), a subsidiary of the Disposal Company
“GEM”	GEM operated by the Stock Exchange
“GEM Listing Rules”	The Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Guarantor”	Mr. Ke Lizhi, being the ultimate beneficial owner of the Purchaser holding 99% equity interest in the Purchaser
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Long Stop Date”	31 January 2023 (or such later date to be agreed between the Company and the Purchaser in writing)
“Macau”	the Macau Special Administrative Region of the PRC
“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Big Data Centres”	the three big data centres operated by the Disposal Group located in Sichuan province of the PRC

“Purchaser”	澳門鯤鵬九洲文化旅遊投資集團有限公司(Macau Kun Peng Jiu Zhou Cultural Tourism Investment Group Limited*), a company incorporated in Macau with limited liability
“Sale Share”	one issued share and the entire equity interests in the Disposal Company
“Share(s)”	ordinary share(s) of a par value of HK\$0.1 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Sichuan Lecaiyuntian”	Sichuan Lecaiyuntian Internet Technology Co., Ltd (四川省樂彩雲天網絡科技有限公司), a subsidiary of the Disposal Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“VAT Refund”	the application for the refund of value-added-tax of the Disposal Group amounting to approximately HK\$17.7 million as at 30 September 2022
“%”	per cent.

By order of the Board
Crypto Flow Technology Limited
Huang Yibin
Chief Executive Officer and Executive Director

Hong Kong, 3 January 2023

As at the date of this announcement, the executive Directors are Mr. Li Hongbin (Chairman) and Mr. Huang Yibin (Chief Executive Officer) and Ms. Xiong Jiayan; and the independent non-executive Directors are Mr. Chu, Howard Ho Hwa, Mr. Tong, I Tony and Mr. Sun Yuqiang.

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 Listed Company Information” page of the Stock Exchange’s website at www.hkexnews.hk for at least 7 days from the date of its publication and on the Company’s website at www.cryptoflowhk.com.

* For illustration purpose only