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Crypto Flow

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 THE ACQUISITION OF 55% EQUITY INTEREST
IN A TARGET COMPANY**

On 16 March 2023 (after trading hours), the Purchaser, a wholly-owned subsidiary of the Company, and the Sellers entered into the Agreement, pursuant to which the Purchaser has conditionally agreed to purchase and, the Sellers have conditionally agreed to sell, the Sale Shares and the Sale Loans at an aggregate Consideration of US\$4,311,913 (equivalent to approximately HK\$33,848,515) to be settled through the issue and allotment of the Consideration Shares by the Company to the Sellers.

GEM LISTING RULES IMPLICATIONS

As one or more of the relevant percentage ratios calculated in accordance with the GEM Listing Rules in respect of the Acquisition exceed 25% but are less than 100%, the Acquisition 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.

An EGM will be convened for the purpose of considering and, if thought fit, approving the Agreement and the transactions contemplated thereunder (including the Specific Mandate). To the best of the knowledge and belief of the Directors, having made all reasonable enquiries, no Shareholder has a material interest in the Agreement and the transactions contemplated thereunder such that he or it shall abstain from voting at the EGM on an ordinary resolution to approve the Agreement and the transactions contemplated thereunder.

A circular containing details regarding, among others, (i) further details of the Agreement and the transactions contemplated thereunder; (ii) the valuation report of the Target Company; (iii) the financial and other information of the Group; (iv) the financial and other information of Target Company; and (v) the pro forma financial information of the Group as enlarged by the Acquisition, will be despatched to the Shareholders in accordance with the GEM Listing Rules as soon as practicable, which is expected to be on or before 11 April 2023.

INTRODUCTION

On 16 March 2023 (after trading hours), the Purchaser, a wholly-owned subsidiary of the Company, and the Sellers entered into the Agreement, pursuant to which the Purchaser has conditionally agreed to purchase and, the Sellers have conditionally agreed to sell, the Sale Shares and the Sale Loans at an aggregate Consideration of US\$4,311,913 (equivalent to approximately HK\$33,848,515) to be settled through the issue and allotment of the Consideration Shares by the Company to the Sellers.

THE AGREEMENT

The principal terms of the Agreement are set out below:

Date

16 March 2023

Parties

- (1) The Purchaser; and
- (2) the Sellers

Seller 1 is wholly-owned by Sichuan Hengjia Energy Development Group Co., Limited, which is owned as to 50% by Mr. Wang Heng, approximately 16.668% by Mr. Chen Xiaojing, approximately 16.666% by Mr. Zhu Jiwei and approximately 16.666% by Mr. Wu Jin.

Seller 2 is wholly-owned by Mr. Yu Chao.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Sellers and their ultimate beneficial owners are Independent Third Parties.

Subject matter

The Purchaser has conditionally agreed to purchase and, the Sellers have conditionally agreed to sell, the Sale Shares and the Sale Loans at an aggregate Consideration of US\$4,311,913 (equivalent to approximately HK\$33,848,515) comprising an amount of US\$3,614,063 (equivalent to approximately HK\$28,370,397) payable to Seller 1 and US\$697,849 (equivalent to approximately HK\$5,478,118) payable to Seller 2.

Consideration

The Consideration shall be satisfied by the Purchaser to the Sellers through the issue and allotment of 80,591,701 Consideration Shares by the Company at the issue price of HK\$0.42 per Consideration Share to the Sellers upon Completion.

The Consideration of US\$4,311,913 was arrived at after arm's length negotiations between the Purchaser, the Company and the Sellers after taking into account of (i) the Sale Loan 1 and the Sale Loan 2 of US\$4,549,932 and approximately US\$881,353, respectively, as at 31 December 2022 and (ii) the unaudited net liabilities of the Target Company of approximately US\$1.13 million as at 31 December 2022 (the "**Initial NAV**").

Conditions precedent

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

- (i) the Listing Committee of the Stock Exchange having granted approval for listing of, and permission to deal in, the Consideration Shares, and such approval not having been revoked, suspended, withdrawn, or otherwise canceled;
- (ii) the Shareholders having approved at the EGM the Agreement and the transactions contemplated (including the Specific Mandate) thereunder in accordance with the Listing Rules;
- (iii) the Purchaser having received a certificate of good standing of the Target Company dated no more than 10 days prior to the Completion Date;
- (iv) the Purchaser having received evidence satisfactory to it that all applicable taxes and other amounts payable by the Target Company have been paid or adequately provided for;

- (v) the Sellers having executed and delivered all documents required to effectuate the transactions contemplated under the Agreement;
- (vi) the Purchaser having been provided with copy of the service agreement(s) signed by and among the Target Company and the customers of the Agents;
- (vii) the representations and warranties of the Sellers contained in the Agreement being true and correct in all material respects as at the Completion Date;
- (viii) the Purchaser having completed and being satisfied with the results from its due diligence reviews over the business affairs, operations and financial position of the Target Company;
- (ix) Mr. Chen Xiaojing, being one of the shareholders of the holding company of Seller 1, having executed and delivered a personal guarantee, in the form to the satisfaction of the Purchaser, in favour the Target Company and the Purchaser guaranteeing the obligation of Seller 1 under the Seller 1's Undertaking;
- (x) the Purchaser having been provided with document(s) showing to the Purchaser's satisfaction that the Target Company has become the registered owner of the land on which the Big Data Center is situated;
- (xi) the Purchaser having been provided with copy of agreement or consent from Indiana Michigan Power Company that all the existing agreements and arrangements in relation to the Indiana Michigan Power Company should be directly provided to the Target Company;
- (xii) all necessary authorizations, consents, and approvals from any authorities (including but not limited to governmental authority, shareholders and board's resolutions) or other third party required to consummate the transactions contemplated by the Agreement having been obtained; and
- (xiii) the Purchaser having received acknowledgement from the Target Company for the transfer of the Sale Loans.

If the above conditions have not been satisfied or waived (save and except for condition (i), (ii) and (xii) which are not capable of being waived) on or before the Long Stop Date, the Agreement shall automatically and immediately terminate and neither party shall have any liability to the other party (except for any liability arising from a breach of this Agreement prior to termination).

Completion

Upon compliance with or fulfilment (or waiver) of all the conditions set out under the paragraph headed "Conditions precedent" above, Completion shall take place on the Completion Date.

The Purchaser is not obliged to complete the acquisition unless the purchase of all Sale Shares and all Sale Loans is completed simultaneously.

Seller 1's undertaking in relation to the YCD Shareholder's Loan

If (i) the YCD Shareholder's Loan is due for repayment by the Target Company on the 22 November 2023 (the "**Repayment Date**") or (ii) Your Choice Digital shall demand the Target Company to repay all the amounts due under the YCD Shareholder's Loan (including all interests accrued thereon) on or before the Repayment Date, Seller 1 irrevocably and unconditionally undertakes to, upon written request by the Target Company, immediately pay the YCD Shareholder's Loan in such manner the Target Company may specify in the above written request, subject to the following:

- (a) the maximum aggregate amount payable by the Seller 1 shall be an amount equal to the YCD Shareholder's Loan;
- (b) the amount actually paid by Seller 1 to Your Choice Digital shall be deemed to be a loan from Seller 1 to the Target Company with a repayment period of one year from the date when Seller 1 repaid the YCD Shareholder's Loan to Your Choice Digital at interest of 1% per annum; and
- (c) the Seller 1's Undertaking shall survive the Completion.

Closing audit and adjustment

Within 30 days after the Completion Date, the Purchaser shall deliver to the Sellers a statement (the "**Closing Statement**") setting out the Purchaser's calculation of the net assets value of the Target Company as at the Completion Date and the Consideration based thereon.

If the Sellers disagree with the calculations set out in the Closing Statement, the parties shall work together in good faith to resolve any differences. If the parties are unable to agree on a resolution within 30 days after the delivery of the Closing Statement, the matter shall be referred to an independent accounting firm to resolve the dispute. The decision of the independent accounting firm is conclusive and binding on the parties (in the absence of manifest error). For the avoidance of doubt, under no circumstances will the Purchaser pay for any upward adjustment of the Consideration.

If the net assets value of the Target Company in the Closing Statement is at least US\$200,000 lower than the Initial NAV, the Consideration shall be adjusted at the sole and absolute discretion of the Purchaser and the Purchaser shall be entitled to demand the Sellers to jointly and severally pay the differential amount to the Purchaser in cash within 3 Business Days of the date of the determination of such adjustment to a bank account designated by the Purchaser, provided that no adjustment should be made unless the net assets value in the Closing Statement is at least US\$200,000 lower than the Initial NAV.

Consideration Shares

As at the date of this announcement, the Company has 548,408,822 Shares in issue. The 80,591,701 Consideration Shares represent approximately 14.70% of the existing issued share capital of the Company and approximately 12.81% of the issued share capital of the Company as enlarged by the allotment and issuance of the Consideration Shares (assuming that there is no other change in the issued share capital of the Company).

The Consideration Shares shall be allotted and issued pursuant to the Specific Mandate, and shall rank pari passu with the Shares in issue on the date of allotment and issuance including the rights to all dividends, distributions and other payments made or to be made for which the record date falls or after the date of such allotment and issuance.

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

Issue price of the Consideration Shares

The issue price of HK\$0.42 per Consideration Share represents:

- (i) a discount of approximately 2.33% to the closing price of HK\$0.43 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 8.50% to the average closing prices of HK\$0.459 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day; and
- (iii) a discount of approximately 9.68% to the average closing prices of HK\$0.465 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day.

The issue price of the Consideration Shares was determined after arm's length negotiations between the Purchaser, the Company and the Sellers with reference to the current market price of the Share. The Directors consider that the issue price of the Consideration Shares is fair and reasonable and on normal commercial terms.

THE TARGET GROUP

Information on the Target Company

The Target Company is a company incorporated in the state of Delaware of the USA with limited liability. The Target Company is principally engaged in the operation of the Big Data Centre in the USA. The Big Data Centre, with a maximum capacity of approximately 20 megawatt, is situated on a land with area of approximately 3.6 acres located in Grant County, Indiana, USA (the “**Land**”). As at the date of this announcement, the land use rights of the Land belongs to Your Choice Digital. Your Choice Digital has agreed to transfer the land use rights of the Land to the Target Company. As one of the conditions precedent to the Completion, it is expected that the Target Company will become the registered owner of the Land prior to the Completion.

The Target Company commenced its business as a joint venture at the outset. The development of the Big Data Centre was financed by the loans from shareholders of the Target Company. Such shareholders’ loans are unsecured, bearing an interest of 1% per annum.

Financial information on the Target Company

Set out below is the financial information of Target Company based on its unaudited management accounts prepared in accordance with International Financial Reporting Standards

	For the period from 22 November 2021 (being the date incorporation of the Target Company) to 31 December 2021	For the year ended 31 December 2022
	<i>US\$’000</i>	<i>US\$’000</i>
Revenue	Nil	3,764
Net (loss) for the year/period	(4)	(1,120)

As at 31 December 2022, the Target Company had net liabilities of approximately US\$1.12 million.

REASONS FOR AND BENEFITS OF THE ACQUISITION

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.

As mentioned in the Company's announcement dated 3 January 2023 in relation to the Disposal, 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.

Following the completion of Disposal on 11 January 2023, the Group has been focusing on its business development and exploring suitable opportunities for expansion and development of its big data centre business, particularly the overseas market. The Acquisition represents the Group's effort in seeking business development and expansion.

The Sale Loans were provided by the Sellers as shareholders' loan to support the development and operation of the Target Company. The purchase of Sale Loans forms part of the exit by the Sellers.

The Directors considers that the Acquisition would enable the Group to expand its business portfolio and diversify its revenue base to the overseas market. In addition, the Consideration is satisfied by way of allotment and issuance of the Consideration Shares and therefore does not create any cashflow burden on the Group. Accordingly, the Directors are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole and the terms of the Agreement are fair and reasonable and on normal commercial terms.

EFFECT ON THE SHAREHOLDING STRUCTURE

The following table summarises the shareholding structure of the Company as at the date of this announcement and upon issue of the Consideration Shares (assuming that there is no other change in the share capital of the Company):

	As at the date of this announcement		Immediately upon the issue of the Consideration Shares	
	Number of Shares	%	Number of Shares	%
Manful Kingdom Limited ^(Note)	279,815,740	51.02	279,815,740	44.49
Seller 1	–	–	67,548,564	10.74
Seller 2	–	–	13,043,137	2.07
Public Shareholders	<u>268,593,082</u>	<u>48.98</u>	<u>268,593,082</u>	<u>42.70</u>
Total	<u>548,408,822</u>	<u>100.00</u>	<u>629,000,523</u>	<u>100.00</u>

Note: As a controlling shareholder of Manful Kingdom Limited who was interested in 35% of the issued share capital thereof, Mr. Fu Jiepin was deemed to be interested in 279,815,740 Shares held by Manful Kingdom Limited. Ms. Xia Bing is the spouse of Mr. Fu Jiepin. Accordingly, Ms. Xia Bing was deemed to be interested in the Shares in which Mr. Fu Jiepin was interested under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

GEM LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio of the Acquisition exceeds 25% but are less than 100%, the Acquisition 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. The Consideration Shares will be issued pursuant to the Specific Mandate to be granted by the Shareholders.

An EGM will be convened for the purpose of considering and, if thought fit, approving the Agreement and the transactions contemplated thereunder (including the Specific Mandate). To the best of the knowledge and belief of the Directors, having made all reasonable enquiries, no Shareholder has a material interest in the Agreement and the transactions contemplated thereunder such that he or it shall abstain from voting at the EGM on an ordinary resolution to approve the Agreement and the transactions contemplated thereunder.

A circular containing details regarding, among others, (i) further details of the Agreement and the transactions contemplated thereunder; (ii) the valuation report of the Target Company; (iii) the financial and other information of the Group; (iv) the financial and other information of Target Company; and (v) the pro forma financial information of the Group as enlarged by the Acquisition, will be despatched to the Shareholders in accordance with the GEM Listing Rules as soon as practicable, which is expected to be on or before 11 April 2023.

DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Shares and the Sale Loans by the Purchaser from the Sellers pursuant to the Agreement
“Agents”	Your Choice Four CA Inc. and Beskor Balance Inc., acting as agents of the Target Company pursuant to an agency agreement pursuant to which Your Choice Four CA Inc. and Beskor Balance Inc. signed service agreements with the Target Company’s end customers
“Agreement”	the stock sale and purchase agreement entered into on 16 March 2023 between the Purchaser and the Sellers in respect of the Acquisition
“Big Data Centre”	the big data centre operated by the Target Company
“Board”	the board of the Directors
“Business Day(s)”	means a day other than a Saturday, Sunday or (i) federal, state or local holiday in the USA or (ii) public holiday in Hong Kong
“Company”	Crypto Flow Technology Limited (formerly known as Loto Interactive Limited) (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 Acquisition

“Completion Date”	the Business Day after the date of fulfilment (or waiver) of all the conditions precedent as set out in the Agreement or such later date as agreed by the Purchaser and the Sellers in writing
“Consideration”	the consideration for the Acquisition of US\$4,311,913
“Consideration Shares”	the 80,591,701 new Shares to be issued by the Company to the Sellers pursuant to the Agreement
“Director(s)”	director(s) of the Company
“Disposal”	the disposal of the entire equity interests in Brighten Express Limited, details of which are set out in the Company’s announcement dated 3 January 2023 and circular dated 28 February 2023
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve the Agreement and the transactions contemplated thereunder
“GEM”	GEM operated by the Stock Exchange
“GEM Listing Rules”	The Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	third party(ies) and their ultimate beneficial owner(s) (if applicable) which are independent of and not connected with the Company and its connected persons (as defined in the GEM Listing Rules)
“Last Trading Day”	15 March 2023, being the last full trading day of the Shares on the Stock Exchange immediately prior to the date of this announcement
“Listing Committee”	has the same meaning ascribed to it under the Listing Rules
“Long Stop Date”	30 September 2023 (or such other date the Purchaser and the Sellers may agree in writing)

“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
“Purchaser”	Interactive Lab Limited, a company incorporated in the British Virgin Islands with limited liability, which is a wholly-owned subsidiary of the Company
“Sale Loan 1”	the unsecured loan in the principal amount of US\$4,500,000 at an interest rate of 1% per annum and the accrued interest due 22 November 2023 advanced by Seller 1 to the Target Company
“Sale Loan 2”	the unsecured interest-free loan in the principal amount of US\$881,353 advanced by Seller 2 to the Target Company
“Sale Loans”	the Sale Loan 1 and the Sale Loan 2
“Sale Shares”	510 shares and 100 shares representing approximately 46.36% and approximately 9.09% of the issued share capital of the Target Company owned by Seller 1 and Seller 2 respectively
“Seller 1”	Ever Marvel Group Limited, a company incorporated in the British Virgin Islands with limited liability with principal activity of investment holding
“Seller 1’s Undertaking”	the undertaking by Seller 1 in relation to the YCD Shareholder’s Loan
“Seller 2”	LEWIN TECHNOLOGY HK LIMITED, a company incorporated in Hong Kong with limited liability with principal activity of investment holding
“Sellers”	Seller 1 and Seller 2
“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)
“Specific Mandate”	the specific mandate to be granted by the Shareholders in the EGM for the issue and allotment of the Consideration Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Target Company”	Your Choice Ever Best, Inc., a company incorporated in the state of Delaware of the USA with limited liability
“US\$”	United States dollars, the lawful currency of USA
“USA” or “United States”	the United States of America
“YCD Shareholder’s Loan”	the unsecured loan in the principal amount of US\$1,500,000 at an interest rate of 1% per annum due 22 November 2023 advanced by Your Choice Digital to the Target Company
“Your Choice Digital”	Your Choice Digital, Inc., a company incorporated in Irvine, California, USA with limited liability, an Independent Third Party holding approximately 44.55% of the issued share capital of the Target Company
“%”	per cent.

For illustrative purpose of this announcement only, conversion of US\$ into HK\$ is made at the rate of US\$1.00 = HK\$7.85.

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

Hong Kong, 16 March 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.