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乐透互娱
LOTO INTERACTIVE

Loto Interactive Limited

(formerly known as "MelcoLot Limited 新濠環彩有限公司")
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8198)

THIRD QUARTER RESULTS FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2017

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate 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. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, 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 of Loto Interactive Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "**GEM Listing Rules**") for the purpose of giving information with regard to Loto Interactive Limited. The directors of Loto Interactive Limited, 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 results of the Company and its subsidiaries (the "**Group**") for the nine-month period ended 30 September 2017 as follows:

Business Review

The Group is engaged in the provision of lottery-related technologies, systems and solutions to two state-run lottery operators in the People's Republic of China (the "**PRC**"), namely China Welfare Lottery Issuance Centre and China Sports Lottery Administration Centre ("**CSLA**"). We are a distributor of high quality, versatile lottery terminals and parts for CSLA, which is the exclusive sports lottery operator in the PRC. The distribution business is our major revenue generator and contributed approximately 99% of the Group's revenue for the nine-month period ended 30 September 2017 (nine-month period ended 30 September 2016: 99%).

The Group has established a presence in the PRC by managing a network of retail outlets in the PRC, as well as providing system maintenance service and game upgrading technology for the rapid-draw game, "Shi Shi Cai" in the Chongqing Municipality. The Group has ceased to operate retail outlets in the PRC since 17 October 2017. For further details, please refer to the paragraph headed "Subsequent Event After the End of the Reporting Period" below.

According to information published by the Ministry of Finance, the China lottery market continued to show steady growth. Total lottery sales achieved a year-on-year growth of 6.3% to RMB273.9 billion in August 2017. Since March 2015 when the government took action to strictly prohibit all internet lottery ticket sales activities, the China lottery market had been full of challenges. While changing regulatory environment will unavoidably bring short-term uncertainties to the industry, we believe that proper regulatory reform will further improve the industry regulatory framework, thus leading to a healthier and sustainable market in the long run. While new channels and games continue to offer development potential, as an integrated lottery service and technology provider, the Group is well positioned to benefit from the evolution of the PRC lottery policy. We will monitor market developments closely and capture opportunities as they arise.

At the same time, the Group continues to pursue new business opportunities in the gaming and entertainment industry in other jurisdictions for leveraging our core expertise and corporate resources to achieve our goal of maximizing long-term shareholders' value.

Financial Review

The Group continues to be engaged in a single operating segment which is the lottery business. During the nine-month period ended 30 September 2017, total revenue of the Group amounted to HK$19.5 million (nine-month period ended 30 September 2016: HK$53.0 million), a decrease of approximately 63%, which comprised the following:

(1) Sales of lottery terminals and parts

Revenues generated from the sales of lottery terminals and parts for the sports lottery for the nine-month period ended 30 September 2017 amounted to HK$18.7 million (nine-month period ended 30 September 2016: HK$52.3 million), representing a decrease of approximately 64%. As disclosed in the announcement of the Company dated 15 August 2017, the significant decrease in revenue from the sales of lottery terminals and parts for the sports lottery is mainly due to the fact that the Company did not conduct trading of lottery terminals in the second quarter of 2017. However, the Group has received a few orders for lottery terminals in the third quarter of 2017. For the three-month period ended 30 September 2017, revenue of the lottery terminals and parts amounted to HK$9.2 million (three-month period ended 30 September 2016: HK$18.7 million), representing a decrease of approximately 49%.

(2) Provision of services and solutions for the distribution of lottery products

Revenues derived from the provision of services and solutions for the distribution of lottery products for the nine-month period ended 30 September 2017 amounted to HK$0.8 million (nine-month period ended 30 September 2016: HK$0.7 million), representing an increase of approximately 14%.

Operating Results

The Group recorded a loss of HK$8.2 million for the nine-month period ended 30 September 2017 (nine-month period ended 30 September 2016: HK$16.7 million), representing a decrease of 51%, which was mainly attributable to the decrease in employee benefits costs from HK$13.1 million for the nine-month period ended 30 September 2016 to HK$7.2 million for the corresponding period in 2017. The decrease was primarily due to there being share-based payments of HK$5 million recorded for the nine-month period ended 30 September 2016 in connection with certain 2014 share options vested in the corresponding period in 2016 but no further share-based payments in relation to these share options were recorded for the nine-month period ended 30 September 2017.

Subscription of Notes

On 24 July 2017, the Company subscribed, at par, for 24-month quarterly puttable step-up coupon notes issued by BOCI Financial Products Limited (the "**Issuer**") in the principal amount of HK$50,000,000 (the "**2017 Notes**"). The 2017 Notes are interest-bearing at progressive rates ranging from 0.79% to 2.70% payable at the end of each quarter, with maturity date on 31 July 2019. For further details, please refer to the announcement of the Company dated 24 July 2017.The total outstanding amount, including the outstanding principal and interest, of the 2017 Notes as of 30 September 2017 amounted to HK$50,010,000.

The Company has previously subscribed, at par, for 24-month quarterly puttable step-up coupon notes issued by the Issuer in the principal amount of HK$50,000,000 (the "**2016 Notes**") on 27 June 2016. The 2016 Notes are interest-bearing at progressive rates ranging from 0.87% to 1.73% payable at the end of each quarter, with maturity date on 29 June 2018. For further details, please refer to the announcement of the Company dated 27 June 2016. The total outstanding amount, including the outstanding principal and interest, of the 2016 Notes as of 30 September 2017 amounted to HK$50,111,527.

Dividend

The Board does not recommend the payment of an interim dividend for the nine-month period ended 30 September 2017 (nine-month period ended 30 September 2016: Nil).

Subsequent Event After the End of the Reporting Period

On 18 October 2017, the Company as lender, entered into a loan agreement (the "**Loan Agreement**") with Beijing Huancai Information Technology Ltd. as chargee, Yourich Inc Limited as borrower (the "**Borrower**"), and Liu He as guarantor (the "**Guarantor**"), pursuant to which the Company agreed to grant to the Borrower, an independent third party, a loan in the principal amount of HK$99,000,000 at the interest rate of 6% per annum for a term of two (2) years. The loan is secured by a guarantee provided by the Guarantor and a charge over 95% of the entire equity interest of Artix Investment Co., Ltd., a security investment platform of the Guarantor. The principal amount together with all accrued and unpaid interests shall be repayable in full upon expiry of two (2) years. The total outstanding amount, including the outstanding principal and interest, under the Loan Agreement as of the date of this announcement amounted to HK$99,244,110.

To further streamline the business of the Group, the Group has entered into a termination agreement with its business partner in the PRC on 17 October 2017 pursuant to which the Group ceased to operate retail outlets in the PRC.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the nine-month period ended 30 September 2017

		Three-month period ended 30 September		Nine-month period ended 30 September	
		2017	2016	**2017**	2016
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	*3*	**9,414**	18,986	**19,540**	53,024
Purchases and service costs		**(8,707)**	(17,776)	**(17,823)**	(49,615)
Other income and gains		**1,028**	1,365	**3,048**	4,306
Employee benefits costs		**(1,685)**	(3,319)	**(7,164)**	(13,091)
Depreciation of property, plant and equipment		**(30)**	(31)	**(79)**	(96)
Share of profit (losses) of joint ventures		**–**	–	**16**	(3)
Other expenses		**(1,944)**	(3,450)	**(5,642)**	(10,708)
Loss before taxation		**(1,924)**	(4,225)	**(8,104)**	(16,183)
Taxation	*4*	**(2)**	(79)	**(85)**	(537)
Loss for the period		**(1,926)**	(4,304)	**(8,189)**	(16,720)
Other comprehensive income (expense)					
Item that will not be reclassified subsequently to profit or loss:					
Exchange differences arising on translation to presentation currency		**163**	(22)	**473**	1,208
Total comprehensive expense for the period		**(1,763)**	(4,326)	**(7,716)**	(15,512)
Loss for the period attributable to:					
Owners of the Company		**(1,917)**	(4,253)	**(7,800)**	(16,457)
Non-controlling interests		**(9)**	(51)	**(389)**	(263)
		(1,926)	(4,304)	**(8,189)**	(16,720)
Total comprehensive (expense) income attributable to:					
Owners of the Company		**(1,856)**	(4,284)	**(7,579)**	(15,288)
Non-controlling interests		**93**	(42)	**(137)**	(224)
		(1,763)	(4,326)	**(7,716)**	(15,512)
Loss per share	*6*				
– Basic and diluted		**HK(0.06) cents**	HK(0.14) cents	**HK(0.25) cents**	HK(0.52) cents

Notes:

(1) BASIS OF PREPARATION

The condensed consolidated financial information has been prepared in accordance with the applicable disclosure requirements of the GEM Listing Rules. The amounts included in this quarterly interim financial information are computed based on the recognition and measurement requirements in accordance with Hong Kong Accounting Standard 34, *Interim Financial Reporting* ("**HKAS 34**"). However this quarterly interim financial information does not contain sufficient information to constitute an interim financial report as defined in HKAS 34.

(2) SIGNIFICANT ACCOUNTING POLICIES

The quarterly interim financial information has been prepared under the historical cost convention. The accounting policies adopted are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2016, 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 2017. The application of these new and revised HKFRSs in the current interim period has had no material effect on the amounts reported in this condensed consolidated financial information and/or disclosures set out in this condensed consolidated financial information.

The Group has not early applied the new and revised HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of those new and revised HKFRSs will have no material impact on the condensed consolidated financial information.

(3) REVENUE

An analysis of the Group's revenue for the three-month and the nine-month period ended 30 September 2017 is as follows:

	Three-month period ended 30 September		**Nine-month period ended 30 September**	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trading of lottery terminals and parts	**9,160**	18,697	**18,746**	52,341
Provision of services and solutions for distribution of lottery products	**254**	289	**794**	683
	9,414	18,986	**19,540**	53,024

(4) TAXATION

	Three-month period ended 30 September		**Nine-month period ended 30 September**	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC Enterprise Income Tax				
– Current period	**2**	79	**85**	537

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit for the nine-month period ended 30 September 2017 and its corresponding period in 2016.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdiction.

(5) DIVIDEND

No interim dividends had been paid or declared by the Company during the nine-month period ended 30 September 2017 (2016: Nil).

(6) LOSS PER SHARE

The calculation of basic loss per share for the three-month and nine-month period ended 30 September 2017 is based on the unaudited loss attributable to owners of the Company of approximately HK$1,917,000 and HK$7,800,000 (three-month and nine-month period ended 30 September 2016: HK$4,253,000 and HK$16,457,000) and on the weighted average number of approximately 3,145,817,591 and 3,145,711,052 (three-month and nine-month period ended 30 September 2016: 3,145,656,900 and 3,145,656,900) ordinary shares in issue during the period.

The computation of diluted loss per share in 2017 and 2016 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								
	Share capital	Share premium	Share-based payment reserve	Other reserve	Exchange reserve	Accumulated losses	Sub-total	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2016 (audited)	31,456	327,878	85,157	(5,255)	2,788	(42,273)	399,751	8,796	408,547
Exchange differences arising on translation to presentation currency	–	–	–	–	1,169	–	1,169	39	1,208
Loss for the period	–	–	–	–	–	(16,457)	(16,457)	(263)	(16,720)
Total comprehensive expense for the period	–	–	–	–	1,169	(16,457)	(15,288)	(224)	(15,512)
Recognition of equity-settled share-based payments	–	–	6,678	–	–	–	6,678	–	6,678
As at 30 September 2016 (unaudited)	31,456	327,878	91,835	(5,255)	3,957	(58,730)	391,141	8,572	399,713
As at 1 January 2017 (audited)	31,456	327,878	91,987	(5,255)	3,159	(44,576)	404,649	7,900	412,549
Exchange differences arising on translation to presentation currency	–	–	–	–	221	–	221	252	473
Loss for the period	–	–	–	–	–	(7,800)	(7,800)	(389)	(8,189)
Total comprehensive income (expense) for the period	–	–	–	–	221	(7,800)	(7,579)	(137)	(7,716)
Recognition of equity-settled share-based payments	–	–	394	–	–	–	394	–	394
Issue of ordinary shares upon exercise of share options	2	28	–	–	–	–	30	–	30
Cash settlement for share-based payments	–	–	(5,000)	–	–	–	(5,000)	–	(5,000)
Transfer of share-based payments reserve upon forfeiture	–	–	(87,381)	–	–	87,381	–	–	–
As at 30 September 2017 (unaudited)	31,458	327,906	–	(5,255)	3,380	35,005	392,494	7,763	400,257

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

During the nine-month period ended 30 September 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

COMPETING INTEREST

During the nine-month period ended 30 September 2017, 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 established an audit committee for the purposes of reviewing and providing supervision over the Company's financial reporting process, 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), Mr. Lu Haitian and a non-executive Director, namely Mr. Yu Min. The financial information contained in this third quarter results for the nine-month period ended 30 September 2017 has not been audited by the auditor of the Company, but has been reviewed by the audit committee.

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

Hong Kong, 3 November 2017

As at the date of this announcement, the Board of Directors comprises Mr. Pan Zhengming (Chairman), Mr. Wang Bingzhong# (Chief Executive Officer), Mr. Wu Jian#, Mr. Yu Min*, Mr. Lu Haitian+, Mr. Yan Hao+ and Mr. Lin Sen+.*

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

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.