乐透互娱
LOTO INTERACTIVE

Loto Interactive Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8198)

FIRST QUARTER RESULTS FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018

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 hereby announces the unaudited consolidated results of the Company and its subsidiaries (the "**Group**") for the three-month period ended 31 March 2018 (the "**Reporting Period**") 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, however, no related revenue was generated for the Reporting Period due to the particular procurement cycle of CSLA for lottery vending machine(s) (also known as lottery terminal(s)) ("**LVM(s)**"). As explained in more details in the section headed "Report of the Directors – Key Risks and Uncertainties" of the Company's 2017 annual report, in general, the duration of the procurement cycle of CSLA for LVM(s) is approximately 5 to 7 years. Hence, for every 5 to 7 years' period, a substantial number of LVMs will be replaced. This timeframe is commonly referred to as the "LVMs procurement cycle of the CSLA". There is no clear-cut timeframe for when the LVMs procurement cycle begins and when it ends. In practice, the LVMs procurement cycle is subject to the CSLA's decisions, the actual demand on the replacement of old LVMs and the pace of opening of new CSLA lottery halls. The Group's largest customer, Beijing Intradak System Technology Co., Ltd. (北京英特達系統技術有限公司) ("**Intradak**") is one of the six authorised providers of CSLA and it obtains and/or bids for the CSLA's contracts and/or tenders from the CSLA to supply approved LVMs to the CSLA lottery shops. When Intradak obtains a contract from the CSLA, it places purchase orders with the Group. During the Reporting Period, no purchase order was placed by Intradak to the Group. After the Reporting Period in April 2018, the Group entered into a lottery terminals supply contract with Intradak with a contract sum of approximately HK$1 million.

The Group has established its presence in the PRC by providing system maintenance service and game upgrading technology for the rapid-draw game, "Shi Shi Cai" in the Chongqing Municipality. The revenue generated by "Shi Shi Cai" was approximately HK$136,000 for the Reporting Period.

The China lottery market had been full of challenges since March 2015 when the government took action to strictly prohibit all internet lottery ticket sales activities. 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 are undoubtedly attractive areas for development, as an integrated lottery service and technology provider, the Group is well positioned to capture opportunities arising from the evolution of the PRC lottery policy. We are closely monitoring the development of this market in the PRC.

The Group established a non wholly-owned subsidiary, Shenzhen Lewanwuxian Information Technology Co., Ltd., in March of 2018, which has since been engaged in games operating. It is expected to generate revenue after the first quarter of 2018.

The Group will continue pursuing opportunities to develop international projects and PRC business opportunities which will leverage our corporate expertise in the gaming and entertainment industry and diversify our business to support our goal in 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 Reporting Period, the Group recorded revenue of approximately HK$136,000, representing a decrease of 99% (three-month period ended 31 March 2017: HK$9.8 million). No revenue was generated from sales of lottery terminals and parts for the sports lottery due to the particular LVMs procurement cycle of the CSLA as explained above. After the Reporting Period in April 2018, the Group has entered into a lottery terminals supply contract with Intradak with a contract sum of approximately HK$1 million.

Operating Results

The Group recorded a loss of HK$5.5 million for the Reporting Period, representing a decrease of 150% compared to HK$2.2 million for the corresponding period in 2017, which was mainly attributable to the increase in share-based payment related to the share options granted on 5 January 2018, amounting HK$2 million and the increase in rental expense for the new offices amounting to about HK$1.7 million.

Dividend

The Board does not recommend the payment of an interim dividend for the Reporting Period (three-month period ended 31 March 2017: Nil).

Subsequent Event After the End of the Reporting Period

On 13 April 2018, the Company announced that a wholly-owned subsidiary of the Company, namely Interactive Lab Limited, was formed for exploring cutting-edge technologies and applications, including games, e-sports, virtual reality and augmented reality, blockchain technology (the "**Potential New Business**"). The Group may develop the Potential New Business through joint ventures or venture capital.

On 2 May 2018, the Company announced that Loto Interactive Information Technology (Shenzhen) Limited ("**Loto Shenzhen**"), a wholly-owned subsidiary of the Company, and Shenzhen E-sun Sky Network Information Technology Co., Ltd. ("**E-sun Sky**"), entered into a framework agreement (the "**Framework Agreement**") with Shenzhen General Lottery Technology Co., Ltd. ("**Shenzhen GenLot**") in respect of the supply and purchase of sports lottery terminals.

Under the Framework Agreement, Loto Shenzhen and E-sun Sky intend to purchase up to 10,000 units of sports lottery terminals in total from Shenzhen GenLot pursuant to separate purchase agreements to be executed.

With years of experience and extensive network established in the PRC lottery terminal market, the Company considers that entering into of the Framework Agreement would complement the Group's core business and enable the Group to broaden its source of revenue and expand its business operations with an aim to maximizing profit and return for the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three-month period ended 31 March 2018

		Three-month period ended 31 March	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
REVENUE	*3*	**136**	9,788
Cost of sales		**–**	(9,166)
Gross profit		**136**	672
Other income and gains		**2,233**	1,101
Selling expenses		**(30)**	–
Administrative expenses		**(6,959)**	(2,016)
Research and development cost		**(437)**	–
Finance costs		**–**	–
Other expenses		**(473)**	(1,890)
Share of losses:		**–**	–
Joint ventures		**–**	–
LOSS BEFORE TAX		**(5,530)**	(2,133)
Income tax (expense)/credit	*4*	**–**	(83)
LOSS FOR THE PERIOD		**(5,530)**	(2,216)
Attributable to:			
Owners of the parent		**(5,469)**	(2,075)
Non-controlling interests		**(61)**	(141)
		(5,530)	(2,216)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*6*		
Basic		**HK (0.23) cents**	HK (0.07) cents
Diluted		**HK (0.23) cents**	HK (0.07) 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

This 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 2017, 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 2018. 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.

(3) REVENUE

An analysis of the Group's revenue for the Reporting Period is as follows:

	Three-month period ended 31 March	
	2018	2017
	HK$'000	*HK$'000*
Trading of lottery terminals and parts	**–**	9,586
Provision of services and solutions for distribution of lottery products	**136**	202
	136	9,788

(4) TAXATION

	Three-month period ended 31 March	
	2018	2017
	HK$'000	*HK$'000*
PRC Enterprise Income Tax -current period	**–**	83

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit arising from Hong Kong for the Reporting Period and its corresponding period in 2017.

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 Reporting Period (2017: Nil).

(6) LOSS PER SHARE

The calculation of basic loss per share for the Reporting Period is based on the unaudited loss attributable to owners of the Company of approximately HK$5.1 million (2017: HK$2.2 million) and on the weighted average number of approximately 3,145,935,836 (2017: 3,145,768,000) ordinary shares in issue during the Reporting Period.

The computation of diluted loss per share in 2018 and 2017 did not include the Company's outstanding share options since their assumed exercise would result in the decrease in the diluted 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*
At 1 January 2017 (audited)	31,456	327,878	91,987	(5,255)	3,159	(44,576)	404,649	7,900	412,549
Other comprehensive income for the period	–	–	–	–	1,259	–	1,259	(659)	600
Loss for the period	–	–	–	–	–	(17,929)	(17,929)	(644)	(18,573)
Total comprehensive income (expense) for the period	–	–	–	–	1,259	(17,929)	(16,670)	(1,303)	(17,973)
Equity-settled share-based payment expense	–	–	394	–	–	–	394	–	394
Issue of ordinary shares upon exercise of shares option	3	50	(22)	–	–	–	31	–	31
Transfer of share-based payments reserve upon forfeiture	–	–	(92,359)	–	–	92,359	–	–	–
At 31 December 2017 (audited)	31,459	327,928	–	(5,255)	4,418	29,854	388,404	6,597	395,001

	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*
At 1 January 2018 (audited)	31,459	327,928	–	(5,255)	4,418	29,854	388,404	6,597	395,001
Other comprehensive income for the period	–	–	–	–	887	(479)	408	383	791
Loss for the period	–	–	–	–	–	(5,469)	(5,469)	(61)	(5,530)
Total comprehensive income (expense) for the period	–	–	–	–	887	(5,948)	(5,061)	322	(4,739)
Acquisition of subsidiary	–	–	–	–	–	200	200	–	200
Recognition of equity-settled share-based payments	–	–	2,000	–	–	–	2,000	–	2,000
At 31 March 2018 (unaudited)	**31,459**	**327,928**	**2,000**	**(5,255)**	**5,305**	**24,106**	**385,543**	**6,919**	**392,462**

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

During the Reporting Period, 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) and Dr. Lu Haitian, and a non-executive Director, namely Mr. Yuan Qiang. The financial information contained in this first quarter results for the Reporting Period 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, 8 May 2018

As at the date of this announcement, the Board of Directors comprises Mr. Pan Zhengming (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 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.