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Loto Interactive Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8198)

THIRD QUARTER RESULTS FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 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 condensed consolidated results of the Company and its subsidiaries (the “**Group**”) for the nine-month period ended 30 September 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. 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 lottery vending machines to the CSLA lottery shops. When Intradak obtains a contract from the CSLA, it places purchase orders with the Group. During the Reporting Period, the Group’s revenue generated from the sales of lottery terminals and parts to Intradak amounted to approximately HK\$6.3 million.

The Group has established a 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 from “Shi Shi Cai” was approximately HK\$0.4 million for the Reporting Period. In response to the notice of prohibition of online lottery sales by the PRC government, the Group has suspended online sales of “Shi Shi Cai” accordingly, which led to a negative influence on the sales volume.

The Group established a non wholly-owned subsidiary, Shenzhen Lewanwuxian Information Technology Co., Ltd., (“**Shenzhen Lewanwuxian**”) in March 2018, which has since been engaged in operating online games. On 12 July 2018, Shenzhen Lewanwuxian entered into an image copyright license agreement with Fashion League Group (HK) Limited (“**Fashion League**”) for three years commencing from 1 June 2018, pursuant to which, Fashion League granted to Shenzhen Lewanwuxian an intellectual property right to use the image of the animated movie, namely UNDERDOG as the image to be used in an online game (the “**Game**”). Pre-sales of the Game has started on 22 October 2018 and the formal launch of the Game is expected to take place in November 2018.

Meanwhile, Beijing Lewanwuxian Information Technology Co., Ltd., a subsidiary of the Company engaged in the distribution of online games started to generate revenue from one mobile game, “San Guo Ba (三國霸)”, in late August and witnessed a steady increase on a month-on-month basis in the third quarter of 2018. During the Reporting Period, the Group’s revenue generated from the distribution of online games amounted to approximately HK\$60,000.

On 13 April 2018, the Company announced that a wholly-owned subsidiary of the Company, namely Interactive Lab Limited (“**Interactive Lab**”), was formed for exploring cutting-edge technologies and applications, including games, e-sports, virtual reality and augmented reality and blockchain technology. Interactive Lab has established a joint venture with an independent third-party business partner to develop an online rating application and provide consulting services for cryptocurrencies and has entered into an investment agreement with such business partner in respect of the cooperation.

In addition, Hong Kong Interactive Lab Limited (“**Hong Kong Lab**”), a wholly-owned subsidiary of Interactive Lab, entered into a collaborative agreement with The Hong Kong Polytechnic University (“**PolyU**”) on 30 July 2018 for a term of two years commencing from August 2018. Pursuant to the collaborative agreement, Hong Kong Lab and PolyU have agreed to cooperate in a project to develop a rating system for cryptocurrencies. This project is aimed at establishing a set of rating criteria on cryptocurrencies for the blockchain-based platforms. Hong Kong Lab has provided funding and technical support to PolyU to conduct research on the rating system. After the Reporting Period and as at the date of this announcement, an online rating application, imRating.com, has been implemented and is at its final stage to connect with one of the blockchain-based trading platforms. Revenue is expected to be generated in the fourth quarter of 2018 when the online rating application functions effectively.

Financial Review

The Group is engaged in two major operating segments which are the lottery business and the online game business. Total revenue of the Group amounted to HK\$6.8 million (nine-month period ended 30 September 2017: HK\$19.5 million), a decrease of approximately 65%, 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 amounted to HK\$6.3 million (nine-month period ended 30 September 2017: HK\$18.7 million), representing a decrease of approximately 66%. Such decrease was mainly attributable to the market fluctuations during the Reporting Period.

(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 Reporting Period amounted to HK\$0.4 million (nine-month period ended 30 September 2017: HK\$0.8 million), representing a decrease of approximately 50%.

(3) Distribution of mobile gaming

Revenues contributed by mobile gaming started in late August which was a new business for the Reporting Period amounted to HK\$60,000.

Operating Results

The Group recorded a loss of HK\$25.7 million for the Reporting Period, representing an increase of HK\$17.5 million or 213% as compared to a loss of HK\$8.2 million for the nine-month period ended 30 September 2017, which was mainly attributable to the combined effects of:

- (i) increase in share-based compensation expenses of HK\$5.6 million. The increase was primarily due to non-cash expenses arising from the share options granted in January 2018;
- (ii) increase in research and design expense related to mobile gaming of HK\$6.0 million;
- (iii) increase in rental expense and decoration expense for the Company's new office of HK\$4.8 million; and
- (iv) increase in consultant expense of HK\$2.3 million which was partially offset by a decrease in staff cost and selling expense of HK\$0.9 million.

Outlook

The lottery market in the PRC continues to show steady growth. The Group continues to explore new business models in the lottery terminal markets, online game operating, technologies and applications which will leverage on our corporate expertise in the gaming and entertainment industry and diversify our business to support our goal in maximizing long-term shareholders' value.

Dividend

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

Loan Receivable

On 18 October 2017, the Company granted a loan (the “**Loan**”) to an independent third party, Yourich Inc Limited (the “**Borrower**”), in the principal amount of HK\$99,000,000 at the interest rate of 6% per annum for a term of two years. The interest for the first twelve months (being HK\$5,940,000) shall be paid by the Borrower on the drawdown date and made out of and deducted from the proceeds of the principal of the Loan. The Loan was guaranteed by Ms. Liu He (the “**Guarantor**”), a director and sole beneficial owner of the Borrower and was secured by 95% of the entire equity interests in Artix Investment Co., Ltd. (the “**Target**”) held by the Guarantor and any rights and interests derived thereof. The Target is a company incorporated in the PRC and a non wholly-owned subsidiary of the Borrower.

The principal amount of the Loan together with all accrued and unpaid interests shall be repayable in full upon expiry of two years after the drawdown date. The Borrower may prepay the principal amount of the Loan in full at any time before the maturity date together with corresponding interest accrued. However, if the principal amount of the Loan is prepaid before the expiry of the first twelve months after the drawdown date, the interest paid for the first twelve months shall not be returned to the Borrower.

Structured Notes

On 27 June 2016, the Group subscribed, at par, for 24-month puttable step-up coupon notes in the principal amount of HK\$50,000,000 (the “**2016 Notes**”) from BOCI Financial Products Limited (the “**Issuer**”). On 29 June 2018, principal and related interests of the 2016 Notes have been received completely.

On 24 July 2017, the Group further subscribed, at par, for 24-month puttable step-up coupon notes issued by the Issuer in a 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 (the “**Interest Payment Date**”), with a maturity date on 31 July 2019.

The Group has the right to put the 2017 Notes, in whole but not in part, to the Issuer at par plus accrued interest on each Interest Payment Date from, and including, the fifth Interest Payment Date to, and including the Interest Payment Date immediately preceding the maturity date. If the Group exercises its right to put the 2017 Notes, the Issuer will have a corresponding obligation to redeem the 2017 Notes in respect of which the right to put has been exercised. The Directors do not expect that the 2017 Notes will be redeemed early.

Subsequent Event After the End of the Reporting Period

As disclosed in the announcement of the Company dated 8 October 2018, the independent shareholders of the Company has approved the cooperation agreement (the “**Cooperation Agreement**”) between 樂透互娛信息技術(深圳)有限公司 (Loto Interactive Information Technology (Shenzhen) Limited) (“**Loto Shenzhen**”), a wholly-owned subsidiary of the Company, and 深圳市易訊天空網絡技術有限公司 (Shenzhen E-sun Sky Network Technology Co., Ltd.) (“**E-sun Sky**”) and transactions contemplated thereunder. After the Reporting Period and as at the date of this announcement, no service has been provided by Loto Shenzhen to E-sun Sky under the Cooperation Agreement.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the nine-month period ended 30 September 2018

	Notes	Three-month period ended 30 September		Nine-month period ended 30 September	
		2018	2017	2018	2017
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue	3	3,530	9,414	6,781	19,540
Cost of sales		<u>(3,747)</u>	<u>(8,707)</u>	<u>(7,258)</u>	<u>(17,823)</u>
Gross profit (loss)		(217)	707	(477)	1,717
Other income and gains		2,868	1,027	7,460	3,048
Selling expenses		(461)	(308)	(580)	(873)
Administrative expenses		(8,325)	(3,339)	(25,189)	(11,940)
Research and design expenses		(5,995)	–	(5,995)	–
Other expenses		(360)	(27)	(849)	(72)
Share of profit/(loss):					
Joint ventures		<u>(18)</u>	<u>16</u>	<u>(74)</u>	<u>16</u>
Loss before taxation		(12,508)	(1,924)	(25,704)	(8,104)
Taxation	4	<u>–</u>	<u>(2)</u>	<u>–</u>	<u>(85)</u>
Loss for the period		<u>(12,508)</u>	<u>(1,926)</u>	<u>(25,704)</u>	<u>(8,189)</u>
Other comprehensive income (loss)					
<i>Item that will not be reclassified subsequently to profit or loss:</i>					
Exchange differences arising on translation to presentation currency		<u>865</u>	<u>163</u>	<u>(77)</u>	<u>473</u>
Total comprehensive loss for the period		<u>(11,643)</u>	<u>(1,763)</u>	<u>(25,781)</u>	<u>(7,716)</u>
Loss for the period attributable to:					
Owner of the Company		(12,245)	(1,917)	(25,067)	(7,800)
Non-controlling interests		<u>(263)</u>	<u>(9)</u>	<u>(637)</u>	<u>(389)</u>
		<u>(12,508)</u>	<u>(1,926)</u>	<u>(25,704)</u>	<u>(8,189)</u>
Total comprehensive (loss) income attributable to:					
Owners of the Company		(10,994)	(1,856)	(25,263)	(7,579)
Non-controlling interests		<u>(649)</u>	<u>93</u>	<u>(518)</u>	<u>(137)</u>
		<u>(11,643)</u>	<u>(1,763)</u>	<u>(25,781)</u>	<u>(7,716)</u>
Loss per share					
– Basic and diluted	6	<u>HK(0.40) cents</u>	<u>HK(0.06) cents</u>	<u>HK(0.82) cents</u>	<u>HK(0.25) cents</u>

NOTES:

(1) BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of the GEM Listing Rules and with Hong Kong Accounting Standard 34, Interim Financial Reporting.

(2) SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention. The same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied 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 adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current period and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the unaudited consolidated financial statements.

(3) REVENUE

An analysis of the Group's revenue for the three-month and the Reporting Period is as follows:

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Trading of lottery terminals and parts	3,359	9,160	6,326	18,746
Provision of services and solutions for distribution of lottery products	111	254	395	794
Distribution of mobile gaming	60	–	60	–
	<u>3,530</u>	<u>9,414</u>	<u>6,781</u>	<u>19,540</u>

(4) TAXATION

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
PRC Enterprise Income Tax				
– Current period	<u>–</u>	<u>2</u>	<u>–</u>	<u>85</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. No Hong Kong Profits Tax was provided for since the Hong Kong subsidiaries have incurred losses from operations for both periods.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

(5) **DIVIDEND**

No 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 three-month and the Reporting Period is based on the unaudited loss attributable to owners of the Company of approximately HK\$12,245,000 and HK\$25,067,000 (three-month and nine-month period ended 30 September 2017: HK\$1,917,000 and HK\$7,800,000) and on the weighted average number of approximately 3,145,935,836 and 3,145,935,836 (three-month and nine-month period ended 30 September 2017: 3,145,817,591 and 3,145,711,052) ordinary shares in issue during the 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 a decrease in loss per share.

(7) **SHARE CAPITAL AND RESERVES**

	Attributable to owners of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Share-based payment reserve	Other reserve	Exchange reserve	(Accumulated Loss)/ retained earnings		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2017 (audited)	31,456	327,878	91,987	(5,255)	3,159	(44,576)	404,649	412,549
Loss for the period	-	-	-	-	-	(7,800)	(7,800)	(8,189)
Other comprehensive income for the period	-	-	-	-	221	-	252	473
Total comprehensive income (loss) for the period	-	-	-	-	221	(7,800)	(137)	(7,716)
Recognition of equity-settled share-based payments	-	-	394	-	-	-	-	394
Issue of ordinary shares upon exercise of share options	2	28	-	-	-	-	-	30
Cash settlement for share-based payments	-	-	(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	7,763	400,257
As at 1 January 2018 (audited)	31,459	327,928	-	(5,255)	4,418	29,854	6,597	395,001
Loss for the period	-	-	-	-	-	(25,067)	(637)	(25,704)
Other comprehensive (loss)/income for the period	-	-	-	-	(954)	493	384	(77)
Total comprehensive loss for the period	-	-	-	-	(954)	(24,574)	(253)	(25,781)
Acquisition of subsidiary	-	-	-	-	-	171	-	171
Equity-settled share-based payment expense	-	5,976	-	-	-	-	-	5,976
As at 30 September 2018 (unaudited)	31,459	333,904	-	(5,255)	3,464	5,451	6,344	375,367

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 third quarter results announcement for the Reporting Period has not been audited by the auditor of the Company, but has been reviewed by the audit committee of the Company.

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

Hong Kong, 7 November 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.