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Loto Interactive Limited

*(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8198)*

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 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.*

The board (the “**Board**”) of directors (the “**Directors**”) of Loto Interactive Limited (the “**Company**”) announces the audited consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2018 (the “**Year**”), together with the comparative figures for the corresponding year in 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	<i>Notes</i>	2018 HK\$’000	2017 HK\$’000
REVENUE	3	6,034	48,827
Cost of sales		(5,312)	(46,485)
Gross profit		722	2,342
Interest income		9,665	4,963
Other income and gains		1,262	622
Selling expenses		(1,786)	(1,829)
Administrative expenses		(43,329)	(24,432)
Other expenses		(617)	(58)
Share of loss of associates		(698)	—
LOSS BEFORE TAX		(34,781)	(18,392)
Income tax expense	4	—	(181)
LOSS FOR THE YEAR	5	(34,781)	(18,573)

OTHER COMPREHENSIVE INCOME/(LOSS)

**Other comprehensive income/(loss) for the year,
net of tax:**

Items that will not be reclassified to profit or loss:

Fair value changes of equity investments at

fair value through other comprehensive income

	126	—
		—

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

For the year ended 31 December 2018

	<i>Notes</i>	2018 HK\$'000	2017 HK\$'000
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		(1,986)	600
		(1,986)	600
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		(1,860)	600
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(36,641)	(17,973)
LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		(34,087)	(17,929)
Non-controlling interests		(694)	(644)
		(34,781)	(18,573)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		(36,323)	(16,670)
Non-controlling interests		(318)	(1,303)
		(36,641)	(17,973)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (HK\$ cents)	7		
– Basic and diluted		(1.084)	(0.569)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		6,486	355
Investments in associates		12,959	–
Investments in joint ventures		–	–
Equity investments at fair value through other comprehensive income		10,126	–
Loan receivable		–	94,214
Prepayments for long-term assets		–	1,695
Structured notes		–	50,086
		29,571	146,350
CURRENT ASSETS			
Loan receivable		94,221	–
Structured notes		50,371	50,116
Trade receivables	8	9,273	19,698
Prepayments, deposits and other receivables	9	8,283	5,284
Cash and cash equivalents		198,221	208,138
		360,369	283,236
CURRENT LIABILITIES			
Trade payables	10	7,557	18,155
Accruals and other payables	11	7,914	11,514
Amount due to the holding company		39	1,447
Tax payable		3,278	3,469
		18,788	34,585
NET CURRENT ASSETS		341,581	248,651
TOTAL ASSETS LESS CURRENT LIABILITIES		371,152	395,001
NET ASSETS		371,152	395,001
EQUITY			
Equity attributable to owners of the Company			
Share capital	12	31,459	31,459
Reserves		333,414	356,945
		364,873	388,404
Non-controlling interests		6,279	6,597
TOTAL EQUITY		371,152	395,001

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

Attributable to owners of the Company										
			Share-based			Equity				
	Issued capital HK\$'000	Share premium [#] HK\$'000	payment reserve [#] HK\$'000	Other reserve [#] HK\$'000	Exchange reserve [#] HK\$'000	investment reserve [#] HK\$'000	(Accumulated) earnings [#] HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 January 2017	31,456	327,878	91,987	(5,255)	3,159	-	(44,576)	404,649	7,900	412,549
Loss for the year	-	-	-	-	-	-	(17,929)	(17,929)	(644)	(18,573)
Other comprehensive income/ (loss) for the year	-	-	-	-	1,259	-	-	1,259	(659)	600
Total comprehensive income/ (loss) for the year	-	-	-	-	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 share options	3	50	(22)	-	-	-	-	31	-	31
Transfer of share-based payment reserve upon share options cancellation	-	-	(92,359)	-	-	-	92,359	-	-	-
At 31 December 2017	<u>31,459</u>	<u>327,928</u>	<u>-</u>	<u>(5,255)</u>	<u>4,418</u>	<u>-</u>	<u>29,854</u>	<u>388,404</u>	<u>6,597</u>	<u>395,001</u>
At 1 January 2018	31,459	327,928	-	(5,255)	4,418	-	29,854	388,404	6,597	395,001
Loss for the year	-	-	-	-	-	-	(34,087)	(34,087)	(694)	(34,781)
Other comprehensive (loss)/income for the year	-	-	-	-	(2,362)	126	-	(2,236)	376	(1,860)
Total comprehensive (loss)/income for the year	-	-	-	-	(2,362)	126	(34,087)	(36,323)	(318)	(36,641)
Equity-settled share-based payment expense	-	-	12,792	-	-	-	-	12,792	-	12,792
Lapsed of share option scheme	-	-	(194)	-	-	-	194	-	-	-
At 31 December 2018	<u>31,459</u>	<u>327,928</u>	<u>12,598</u>	<u>(5,255)</u>	<u>2,056</u>	<u>126</u>	<u>(4,039)</u>	<u>364,873</u>	<u>6,279</u>	<u>371,152</u>

* Other reserve represents the difference between the adjustment to non-controlling interests and the consideration paid arising in equity transactions.

These reserve accounts comprise the consolidated reserves in the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL INFORMATION

The Company is a public limited company incorporated in the Cayman Islands and its shares have been listed on GEM of the Stock Exchange since 17 May 2002. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The Company is an investment holding company. Its subsidiaries are principally engaged in the lottery business and online game business in the People's Republic of China (the "**PRC**").

In the opinion of the Directors, as at 31 December 2018, the substantial shareholder of the Company is 500.com Limited (the "**Holding Company**"), which is listed on the New York Stock Exchange (stock code: WBAI).

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") that are relevant to its operations and effective for its accounting year beginning on 1 January 2018. HKFRSs comprise Hong Kong Financial Reporting Standards ("**HKFRS**"); Hong Kong Accounting Standards ("**HKAS**"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. REVENUE AND OPERATING SEGMENT INFORMATION

(a) *Reportable segments*

The chief operating decision-maker has been identified as the Board of Directors. The Board of Directors reviews the Group's internal reporting in order to assess performance and allocate resources. The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

The Group has two (2017: one) reportable segments. The segments are managed separately as each business segment offers different products and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Trading of lottery terminals and parts and provision of services and solutions for the distribution of lottery products ("**Lottery business**")
- Distribution of mobile gaming ("**Online game business**")

3. REVENUE AND OPERATING SEGMENT INFORMATION (continued)

(i) Information about reportable segment profit or loss, assets and liabilities:

Year ended 31 December 2018	Lottery business HK\$'000	Online game business HK\$'000	Total HK\$'000
Revenue from external customers	5,457	577	6,034
Segment loss	(1,671)	(10,716)	(12,387)
Depreciation	39	44	83
Additions to segment non-current assets	55	188	243
As at 31 December 2018			
Segment assets	8,208	8,445	16,653
Segment liabilities	(3,765)	(857)	(4,622)
Year ended 31 December 2017	Lottery business HK\$'000	Total HK\$'000	
Revenue from external customers	48,827	48,827	
Segment loss	(1,359)	(1,359)	
Depreciation	51	51	
Income tax expense	181	181	
Additions to segment non-current assets	115	115	
As at 31 December 2017			
Segment assets	36,110	36,110	
Segment liabilities	(20,743)	(20,743)	

3. REVENUE AND OPERATING SEGMENT INFORMATION (continued)

(ii) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities:

	2018 HK\$'000	2017 HK\$'000
Revenue		
Total revenue of reportable segments	<u>6,034</u>	48,827
Consolidated revenue	<u><u>6,034</u></u>	<u>48,827</u>
Profit or loss		
Total profit or loss of reportable segments	(12,387)	(1,359)
Other profit or loss	(9,602)	(16,655)
Unallocated amounts:		
Gain on disposal of a joint venture	–	16
Equity-settled share option expense	<u>(12,792)</u>	<u>(394)</u>
Consolidated loss before tax for the year	<u><u>(34,781)</u></u>	<u><u>(18,392)</u></u>
Assets		
Total assets of reportable segments	16,653	36,110
Other assets	9,413	4,367
Unallocated amounts:		
Investments	23,085	–
Cash and cash equivalents	196,197	194,693
Loan receivable	94,221	94,214
Structured notes	<u>50,371</u>	<u>100,202</u>
Consolidated total assets	<u><u>389,940</u></u>	<u><u>429,586</u></u>
Liabilities		
Total liabilities of reportable segments	(4,622)	(20,743)
Other liabilities	<u>(14,166)</u>	<u>(13,842)</u>
Consolidated total liabilities	<u><u>(18,788)</u></u>	<u><u>(34,585)</u></u>

3. REVENUE AND OPERATING SEGMENT INFORMATION (continued)

(b) *Geographical information*

The Group's operations are carried out in the PRC and revenue from external customers based on the location of goods and services delivered is derived from the PRC.

The following is an analysis of the non-current assets, analysed by the geographical area in which the assets are located:

	2018 HK\$'000	2017 HK\$'000
Non-current assets, excluding financial assets		
The PRC	263	215
Hong Kong	6,197	1,835
British Virgin Island ("BVI")	26	-
	<hr/> 6,486	<hr/> 2,050

The non-current asset information above is based on the locations of the assets and excludes financial instruments.

(c) *Information about major customers*

Revenue from major customers, each of whom amounted to 10% or more of the total revenue, is set out below:

	2018 HK\$'000	2017 HK\$'000
Customer A (Note)	5,059	24,374
Customer B (Note)	-	23,449
	<hr/> 5,059	<hr/> 47,823

Note: Revenue from the trading of lottery terminals and parts.

3. REVENUE AND OPERATING SEGMENT INFORMATION (continued)

(d) *Disaggregation of revenue from contracts with customers:*

Segments	Lottery business HK\$'000	Online game business HK\$'000	2018 Total HK\$'000
Geographical markets			
The PRC	<u>5,457</u>	<u>577</u>	<u>6,034</u>
Major products/services			
Trading of lottery terminals and parts	<u>5,059</u>	–	<u>5,059</u>
Provision of services and solutions for the distribution of lottery products	<u>398</u>	–	<u>398</u>
Distribution of mobile gaming	<u>–</u>	<u>577</u>	<u>577</u>
	<u>5,457</u>	<u>577</u>	<u>6,034</u>
Timing of revenue recognition			
At a point in time	<u>5,457</u>	<u>577</u>	<u>6,034</u>
Over time	<u>–</u>	<u>–</u>	<u>–</u>
	<u>5,457</u>	<u>577</u>	<u>6,034</u>
Segments	Lottery business HK\$'000	2017 Total HK\$'000	
Geographical markets			
The PRC	<u>48,827</u>	<u>48,827</u>	
Major products/services			
Trading of lottery terminals and parts	<u>47,823</u>	<u>47,823</u>	
Provision of services and solutions for the distribution of lottery products	<u>1,004</u>	<u>1,004</u>	
	<u>48,827</u>	<u>48,827</u>	
Timing of revenue recognition			
At a point in time	<u>48,827</u>	<u>48,827</u>	
Over time	<u>–</u>	<u>–</u>	
	<u>48,827</u>	<u>48,827</u>	

The Group mainly sells lottery terminals and parts to the customers. Sales are recognised when control of the products has transferred, being when the products are delivered to a customer, there is no unfulfilled obligation that could affect the customer's acceptance of the products and the customer has obtained legal titles to the products.

Sales to customers are normally made with credit terms of 60 days. For new customers, deposits or cash on delivery may be required. Deposits received are recognised as a contract liability.

A receivable is recognised when the products are delivered to the customers as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

4. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made as the Hong Kong subsidiaries did not generate any assessable profits arising in Hong Kong during the Year (2017: Nil).

Pursuant to the PRC Corporate Income Tax Law effective on 1 January 2008, the PRC subsidiaries are subject to corporate income tax ("CIT") at a statutory rate of 25% (2017: 25%) on their respective taxable income for the year ended 31 December 2018. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

	2018 HK\$'000	2017 HK\$'000
Current – Mainland China		
Charge for the Year	–	165
Underprovision in prior years	–	16
 Total tax charge for the Year	 –	 181

The reconciliation between the income tax expense and the product of profit before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	2018 HK\$'000	2017 HK\$'000
Loss before tax	 <u>(34,781)</u>	 <u>(18,392)</u>
 Tax at the weighted average tax rate of 16.5% to 25% (2017: 16.5% to 25%)	 (6,812)	 (3,135)
Underprovision in prior years	–	16
Loss attributable to a joint venture and associates	(175)	(4)
Tax effect of income that is not taxable	(1,605)	(796)
Tax effect of expenses that are not deductible	1,869	486
Tax effect of tax losses not recognised	<u>6,723</u>	<u>3,614</u>
 Income tax expense	 –	 181

At 31 December 2018, the Group had unused tax losses of HK\$231,367,000 (2017: HK\$199,169,000) available to offset against future taxable profits. No deferred tax asset has been recognised in respect of unused tax losses due to the unpredictability of future profit streams.

Included in unrecognised tax losses are losses of HK\$52,794,000 (2017: HK\$51,916,000) that are allowed to be carried forward and utilised against the taxable income of subsequent years. The loss carry forward period cannot exceed 5 years and expires between 2019 and 2023. Other losses of HK\$178,573,000 (2017: HK\$147,253,000) may be carried forward indefinitely.

At 31 December 2018, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiary established in Mainland China. In the opinion of the Directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

5. LOSS FOR THE YEAR

The Group's loss for the Year is arrived at after charging/(crediting):

	2018 HK\$'000	2017 HK\$'000
Auditors' remuneration	600	720
Cost of inventories sold	5,312	46,485
Minimum lease payments under operating leases	6,033	2,812
Staff costs (including directors' remuneration):		
Salaries and other benefits	8,657	7,394
Bonus	504	8,190
Pension scheme contributions	465	760
Equity-settled share option expense	<u>12,792</u>	<u>394</u>
	<u><u>22,418</u></u>	<u><u>16,738</u></u>
Depreciation	2,078	106
Loss on disposal of items of property, plant and equipment	53	7
Net exchange losses/(gains)	317	(414)
Gain on disposal of a joint venture	–	(16)
Gain on deregistration of a subsidiary	<u>(1,034)</u>	<u>–</u>

6. DIVIDEND

The Directors do not recommend the payment of any dividend for each of the years ended 31 December 2018 and 2017.

7. LOSS PER SHARE

The calculation of the basic earnings per share amount is based on the loss for the Year attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares of 3,145,936,000 (2017: 3,145,768,000) in issue during the Year.

No adjustment has been made to the basic loss per share amounts presented for the year ended 31 December 2018 and 2017 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

The calculation of the basic and diluted earnings per share is based on the following:

	2018 HK\$'000	2017 HK\$'000
Loss		
Loss for the purposes of calculating basic and diluted earnings per share	<u>(34,087)</u>	<u>(17,929)</u>
	2018 '000	2017 '000
Number of shares		
Weighted average number of ordinary shares in issue during the year for the purposes of the basic and diluted loss per share	<u>3,145,936</u>	<u>3,145,768</u>

8. TRADE RECEIVABLES

	2018 HK\$'000	2017 HK\$'000
Trade receivables	<u>9,273</u>	<u>19,698</u>

An aging analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2018 HK\$'000	2017 HK\$'000
Within 30 days	556	10,457
31-90 days	258	–
91-180 days	4,144	5,809
181 days to 365 days	915	3,432
Over 1 year	<u>3,400</u>	<u>–</u>
	<u>9,273</u>	<u>19,698</u>

The Group's trading terms with its customers are usually on credit, in some instances where payment in advance is required. The credit period is generally two months for two major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances.

The Group applies the simplified approach under HKFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

	Less than					Total HK\$'000	
	1 month past due HK\$'000	1-3 months past due HK\$'000	3-6 months past due HK\$'000	Over 1 year past due HK\$'000			
At 31 December 2018							
Weighted average expected							
loss rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
Receivable amount	27	787	4,144	915	3,400	9,273	
Loss allowance	–	–	–	–	–	–	
At 31 December 2017							
Weighted average expected							
loss rate	0.00%	0.00%	0.00%	–	–	0.00%	
Receivable amount	9,285	1,172	9,241	–	–	19,698	
Loss allowance	–	–	–	–	–	–	

9. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 HK\$'000	2017 HK\$'000
Other receivables	2,270	1,370
Interest receivables	3,649	248
Deposits	39	2,671
Prepayments	<u>2,325</u>	<u>995</u>
	<u>8,283</u>	<u>5,284</u>

10. TRADE PAYABLES

The aging analysis of trade payables, based on the date of receipt of goods, is as follows:

	2018 HK\$'000	2017 HK\$'000
Within 30 days	–	10,256
31-90 days	303	–
91-180 days	–	5,518
181-365 days	3,007	2,381
Over 1 year	<u>4,247</u>	<u>–</u>
	<u>7,557</u>	<u>18,155</u>

The average credit period on purchases of goods is 60 days.

11. ACCRUALS AND OTHER PAYABLES

	2018 HK\$'000	2017 HK\$'000
Other payables	2,443	7,672
Consideration payables	2,283	–
Amount due to a shareholder of a joint venture	2,334	2,334
Accruals	<u>854</u>	<u>1,508</u>
	<u>7,914</u>	<u>11,514</u>

12. SHARE CAPITAL

	2018 HK\$'000	2017 HK\$'000
Authorised:		
5,500,000,000 ordinary shares of HK\$0.01 each	55,000	55,000
	2018 HK\$'000	2017 HK\$'000
Issued and fully paid:		
3,145,935,836 (2017: 3,145,935,836) ordinary shares of HK\$0.01 each	31,459	31,459
A summary of movements in the Company's share capital is as follows:		
	Number of shares in issue	Share Capital HK'000
At 1 January 2017	3,145,656,900	31,456
Share options exercised	278,936	3
At 31 December 2017, 1 January 2018 and 31 December 2018	3,145,935,836	31,459

CHAIRMAN'S STATEMENT

TO OUR SHAREHOLDERS

On behalf of the Board, I hereby present the results of the Group for the Year.

In 2018, the Group faced a number of the long-standing economic challenges as well as the backdrop of a reform of the regulatory regime, the Group's revenue decreased by 87.6% to HK\$6.0 million (2017: HK\$48.8 million). Loss attributable to owners of the Company for the Year amounted to HK\$34.1 million as compared with a loss of HK\$17.9 million for the last corresponding year. As at 31 December 2018, the Group had no debt and had cash and bank balances of HK\$198.2 million.

In spite of the uncertain trading and political conditions, we have been exploring ways to nurture innovation as a key to creating new growth momentum. In this regard, we are rigorously strengthening our competitiveness in relation to cutting-edge technology and applications. At the same time, under the highly skilled leadership and resources sharing of 500.com Limited strong and excellent management team, we take our great effort to involve in not only lottery business but also online game business, which was witnessed an obvious growth in the fourth quarter of 2018 and expected to further the growth in the upcoming year.

At the beginning of the year 2019, we have started building a "Big Data Center", set up for providing data analysis, storage services and ancillary administrative and consulting services in Sichuan, China, which was expected to generate more values for the Company. We will continue to pursue investment opportunities which will leverage our corporate expertise in the gaming and entertainment industry and diversity our business beyond our existing business and jurisdictions to support our goal in maximising long-term shareholders' value. We believe that in the near future, we will be able to open up a brand-new world.

IN APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude to all our stakeholders. I would also like to give my genuine thanks to our shareholders for their continuing support and confidence in the Company. As to my fellow Board members, management team and employees, I wish to express my heartfelt appreciation for their hard work and dedicated commitment. In respect of our business partners, we are grateful for their trust, cooperation and confidence in us and look forward to many more years of support from them.

Pan Zhengming

Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in distribution of mobile gaming and the provision of lottery-related technologies, systems and solutions to two state-run lottery operators in the PRC, namely the China Welfare Lottery Issuance Centre and China Sports Lottery Administration Centre (“CSLA”).

Trading of lottery terminals and parts

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 83.9% of the Group’s revenue for the Year (2017: 97.9%).

To get full appreciation of the China lottery market, it has been facing full of challenges since March 2015 when the government took action to strictly prohibit all internet lottery ticket sales activities. Considering changing regulatory environment will unavoidably bring short-term uncertainties, the Group is devoted to business restructure aiming to have a healthier and sustainable market in the long run.

Provision of services and solutions for distribution of lottery products

The Group is also providing system maintenance services and game upgrading technology for the rapid-draw game, “Shi Shi Cai” in the Chongqing Municipality. In response to the notice of prohibition of online lottery sales by the PRC government at the third quarter of 2018, the Group has suspended online sales of “Shi Shi Cai” accordingly, which led to a negative influence on the sales volume.

Distribution of mobile gaming

In line with the leisure and entertainment business layout of the Group’s development strategy, we engaged in the distribution of online mobile games and started to generate revenue from late August. As at the end of the Year, we witnessed a steady increase on a month-on-month basis. The distribution business was accounted for 9.5% of total revenues this current year (2017: Nil).

FINANCIAL REVIEW

The operating segments of the Group engaged are lottery business and online game business. During the Year, the Group recorded revenue of HK\$6.0 million, representing a year-on-year decrease of 87.6% (2017: HK\$48.8 million) and comprising:

(1) Trading of lottery terminals and parts

Revenue generated from trading of lottery terminals and parts for the sports lottery decreased by 89.4% to HK\$5.1 million (2017: HK\$47.8 million).

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

Revenue derived from provision of services and solutions for distribution of lottery products in the Year amounted to HK\$0.4 million, decreased by 60.4% compared to HK\$1.0 million in 2017.

(3) Distribution of mobile gaming

Revenues contributed by mobile gaming started in late August which was a new business for the Year amounted to HK\$0.6 million.

Operating Results

The Group recorded a loss of HK\$34.8 million for the Year, compared to a loss of HK\$18.6 million in 2017, which was mainly attributable to the combined effect of:

- (i) decrease in sales of lottery terminals and parts by approximately 89.4% as compared to the corresponding year due to the sluggish demand from market in Mainland China;
- (ii) increase in share option expenses by HK\$12.4 million. The increase was primarily due to non-cash expenses arising from the share options granted in January 2018;
- (iii) increase in rental expense and decoration expenses of approximately HK\$5.4 million for new office;
- (iv) increase in expenses of HK\$0.7 million for exploring, preparing, setting up and operating new businesses of the Group; and
- (v) increase in interest income of loan receivable granted to a third party amounted to HK\$4.4 million.

MATERIAL ACQUISITION AND DISPOSAL OF INVESTMENTS

Investment in Financial Instruments

Equity investment at fair value through other comprehensive income

The Group's investment in financial instruments is mainly about a private equity fund through Sino Global Investment SPC namely NetGame Fund ("NetGame") with invested amount of HK\$10.0 million. The purpose of Investment in Financial Instruments, which is managed on a fair value basis, is for capital appreciation. Since the Group has adopted the HKFRS 9 effective for annual periods beginning since 1 January 2018, the Group's investments in financial instruments is classified as equity investment at fair value through other comprehensive income.

NetGame

This investment is principally committed to engage in investment of high-tech companies with great quality and potential growth. As of 31 December 2018, the total fair value of this equity investment was HK\$10.1 million and no impairment was detected.

Investment in Associates

	2018 HK\$'000	2017 HK\$'000
Unlisted investments		
Share of net assets	5,813	–
Goodwill	7,146	–
	<hr/> 12,959 <hr/>	<hr/> – <hr/>

Particulars of new acquisitions of associates of the reporting period are as follows:

Company name	Place of incorporation/ registration	Percentage of equity interests		Principal activities	
		attributable to the Company	2018	2017	
Guangzhou Sentai Information Technology Co., Ltd. (“ Guangzhou Sentai ”)	PRC		20%	–	Self-media
Shenzhen BlueTech Network Technology Co., Ltd. (“ BlueTech Network ”)	PRC		19.11%	–	Developing mobile games

On August 2018, the Company, entered into an investment agreement with invested amount of RMB5.0 million in the registered capital of Guangzhou Sentai in exchange of 20% equity interests after completion of the subscription. Guangzhou Sentai is a company mainly engaged in operating a self-media called 世鏈財經 (www.shilian.com) providing updated blockchain information.

On May 2018, the Company acquired 19.11% of the share capital of BlueTech Network with invested amount of approximately RMB7.0 million. BlueTech Network mainly focused on the online gaming operation and development.

Other than as outlined above, the Group had no material acquisition and disposal of investment during the Year.

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 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.

In the opinion of the directors, as at 31 December 2018, the fair value of the collateral approximated to HK\$142,170,000 (2017: HK\$185,505,000). The Group seeks to maintain strict monitoring over the loan receivable and the financial performance of the Borrower. Overdue balances will be regularly reviewed by senior management.

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**”). The 2016 Notes are interest-bearing at progressive rates ranging from 0.86% to 1.72% payable at the end of each quarter (the “**Interest Payment Date**”), with a maturity date on 29 June 2018.

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**”), together with the 2016 Notes collectively referred to as the “**Notes**”). The 2017 Notes are interest-bearing at progressive rates ranging from 0.79% to 2.70% payable at the Interest Payment Date, with a maturity date on 31 July 2019.

The Group has the right to put the 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 Notes, the Issuer will have a corresponding obligation to redeem the Notes in respect of which the right to put has been exercised. The directors of the Company does not expect that the Notes will be redeemed early.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group continues to manage its balance sheet carefully and maintains conservative policies in cash and financial management. As at 31 December 2018, the Group's cash and bank balances (including bank deposits with original maturity over three months) amounted to HK\$198.2 million (2017: HK\$208.1 million), representing a decrease of HK\$9.9 million from last year. Of the cash and cash equivalents as at 31 December 2018, 91% (2017: 87%) was denominated in Hong Kong dollars, with the remaining balance in Renminbi and United States dollars.

The decrease in cash and bank balances was mainly due to: i) the investment of associates and equity investment amounted HK\$23.4 million; ii) purchase of property, plant and equipment approximately HK\$6.5 million; iii) research and development expense of mobile gaming amounted HK\$5.9 million; iv) rental expense of HK\$4.3 million; and v) the cash received by withdrawal of structured notes amounted HK\$50.0 million in the Year.

As stated in 2018 interim report and 2018 third quarterly report of the Company, 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. If any of these potential projects materialises, the Company will make announcement(s) in accordance with the requirement under the GEM Listing Rules where necessary or appropriate.

The Group had no bank borrowings in 2018 (2017: Nil) and generally financed its operations with internal resources.

As at 31 December 2018, the Group's current assets exceeded its current liabilities by HK\$341.6 million (2017: HK\$248.7 million). The Group had a capital surplus of HK\$371.1 million as at 31 December 2018 (2017: HK\$395.0 million).

The gearing ratio of the Group (total borrowings divided by shareholders' funds) was nil as at 31 December 2018 (2017: Nil).

OUTLOOK

Our sales of lottery terminals and parts has decreased significantly due to the sluggish demand from market in Mainland China. We believe that the China lottery market is likely to demand new and more sophisticated hardware solutions over time and that those solutions will increasingly be deployed as a package service including the provision of lottery terminals as well as data maintenance and system support services. We have made an attempt to cooperate with 500.com Limited through a cooperation agreement entered into on 3 August 2018 as announced on the same day. This cooperation has not been fully utilized due to the uncertainties in the reform of the regulatory regime. Nevertheless, the Company will closely monitor the market condition and any development in the regulatory framework and will be proactive in seeking new opportunity to provide innovative services to the China lottery market participants while shift away from the existing low margin lottery terminals trading business. The Group cannot rule out the possibilities of ceasing to trade the approved lottery vending machines or the business related to CSLA in the future.

At the beginning of the year 2019, we have commenced building a “Big Data Center” for providing data analysis, storage services and ancillary administrative and consulting services in Sichuan, China, which is expected to start operation since late March in 2019. The Group is reviewing and assessing its internal resources and business network and will continue to explore new business opportunities for leveraging our core experience and corporate resources. We believe that it is in the interests of the Group and our shareholders to diversify into new business areas and jurisdictions within the ambit of gaming and entertainment so as to achieve our goal of maximising long-term shareholders’ value.

CHARGES ON GROUP ASSETS

None of the Group’s assets were pledged as of 31 December 2018 and 2017.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

As at 31 December 2018, all assets and liabilities of the Group were denominated in Hong Kong dollars, Renminbi and United States dollars. For the year ended 31 December 2018, the business activities of the Group were mainly denominated in Hong Kong dollars and Renminbi. Since the impact to foreign exchange exposure has been insignificant, no hedging or other alternatives have been implemented.

STAFF AND REMUNERATION POLICY

As at 31 December 2018, the Group had a total of 27 full-time employees (2017: 11 full-time employees). For the year ended 31 December 2018, the Directors received total emoluments of approximately HK\$11.6 million (2017: HK\$11.1 million), including non-cash share-based payments to Directors of HK\$6.9 million in 2018 (2017: HK\$0.1 million). The Group continues to provide remuneration packages to employees that are in line with market practices and past performance. The Group also provides employee benefits such as mandatory provident fund, medical insurance, staff training programs and share option schemes.

CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

As at 31 December 2018 and 2017, the Group’s capital commitments are as follows:

	2018 HK\$'000	2017 HK\$'000
Property, plant and equipment		
Contracted, but not provided for	22,060	–
Contracted contribution to subsidiaries	11,413	–
	33,473	–

As at 31 December 2018 and 2017, the Group did not have any significant contingent liabilities.

IMPORTANT EVENTS AFTER THE FINANCIAL YEAR

As disclosed in the announcement of the Company dated 5 March 2019, the Company, through Chengdu Keying Information Technology Co., Ltd (“**Chengdu Keying**”), a wholly-owned subsidiary of the Company, has started building the Big Data Centre in relation to the provision of data analysis and storage services and ancillary administrative and consulting services. Due to the demand for electricity resources by the Big Data Centre during its daily operation, Chengdu Keying intended to obtain a stable source of electricity supply at a reasonable cost from local utility service suppliers through qualified distributors. Revenue is expected to be generated in the first quarter of 2019 when the Big Data Centre functions effectively.

CORPORATE GOVERNANCE

The Company recognises the importance of good corporate governance to safeguard the interest of the Company’s shareholders (the “**Shareholders**”) and achieved these by an effective board, segregation of duties with clear accountability, sound internal controls, appropriate risk assessment procedures and transparency to all the Shareholders. Throughout the year ended 31 December 2018, the Company complied with all the Code Provisions of the Corporate Governance Code (the “**CG Code**”) set out in Appendix 15 to the GEM Listing Rules, save for the following:

The code provision C.1.2 of the CG Code requires that management should provide all members of the board of directors with monthly updates to enable the board as a whole and each director to discharge their duties. Although the management of the Company did not provide a regular monthly update to the members of the Board, the management provided to the Board quarterly updates on financial information and has based on business situation, provided updated business information to the Board as and when appropriate.

The Board will continue to review and monitor the corporate governance practices of the Company to ensure compliance with the CG Code and maintain high standard of corporate governance practices.

SECURITIES DEALINGS BY DIRECTORS AND EMPLOYEES

The Company has adopted its own code for dealing in the Company’s securities by Directors and employees, who are likely to be in possession of inside information in relation to the securities of the Company (the “**Code of Securities Dealings**”) on terms no less exacting than the required standards set out in Rules 5.48 to 5.67 of the GEM Listing Rules. We have received confirmation from all Directors that they have complied with the required standards set out in the Code of Securities Dealings throughout the year of 2018.

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), Dr. Lu Haitian and one non-executive Director, namely Mr. Yuan Qiang.

The annual results and the audited consolidated financial statements of the Group for the year ended 31 December 2018 have been reviewed by the audit committee.

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

During the Year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The annual general meeting of the Company is scheduled to be held on Tuesday, 7 May 2019. For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from Thursday, 2 May 2019 to Tuesday, 7 May 2019 (both days inclusive), during which period no share transfers will be registered. In order to be eligible to attend and vote at the above annual general meeting, all transfer forms accompanied by relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 30 April 2019.

SCOPE OF WORK OF ZHONGHUI ANDA CPA LIMITED ON THIS PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the auditors, ZHONGHUI ANDA CPA Limited, to the amounts set out in the audited consolidated financial statements of the Group for the year ended 31 December 2018. The work performed by ZHONGHUI ANDA CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by ZHONGHUI ANDA CPA Limited on this preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement is published on the Company's website at www.lotoie.com and the Stock Exchange's website at www.hkexnews.hk. The annual report 2018 will be available on the above websites and despatched to the Shareholders on or about Friday, 29 March 2019.

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

Hong Kong, 22 March 2019

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.