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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 2019

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 (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 2019 (the “**Reporting Period**”) as follows:

Business Review

The Group is principally engaged in (i) provision of data analysis and storage services (the “**big data centre services**”), (ii) distribution of mobile gaming (the “**online game business**”) and (iii) trading of lottery terminals and parts and 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 the China Welfare Lottery Issuance Centre and China Sports Lottery Administration Centre (“**CSLA**”) (the “**lottery business**”).

Big Data Centre Services

Pursuing to exploring various business opportunities in relation to the cutting-edge technologies and applications, the Group started building the big data centres (the “**Big Data Centres**”) in relation to the big data centre services at the beginning of the year of 2019.

The Group established the big data centre services in March 2019 and has been actively expanding this segment ever since then. The Group has constructed two big data centres in Sichuan, China, with an aggregate gross floor area of 6,760 square metres. As an operator of the Big Data Centres, the Group provides the premises, hardware support, power supply and ancillary supervision and management services to clients. The Group has also developed software for supervision and analysis of big data and licensed to clients for use in the Big Data Centres.

During the Reporting Period, the Big Data Centres generated revenue of approximately HK\$21.6 million and contributed 92% of the Group’s revenue of the Reporting Period.

Online Game Business

In line with the leisure and entertainment business layout of the Group’s development strategy, the Group is in cooperation with various reputable companies in the online game industry to distribute online mobile games and recorded revenue of approximately HK\$1.7 million of the Reporting Period.

Lottery Business

The China lottery market has been full of challenges since March 2015 when the PRC government took action to strictly prohibit all internet lottery ticket sales activities. Changing regulatory environment will unavoidably bring short-term uncertainties to the industry.

Due to the particular procurement cycle of CSLA for lottery terminals and parts as well as the sluggish demand from market in Mainland China, no related revenue from sales of lottery terminals and parts was recorded for the Reporting Period. At the same time, response to the prohibition of online lottery sales by the PRC government, the Group suspended online sales of the rapid-draw game, “Shi Shi Cai”. Nonetheless, the Company can still record sales revenue generated from the offline terminals in the CSLA sales outlets by providing system maintenance service and game upgrading technology for the Chongqing Municipality.

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.

Financial Review

The Group is engaged in three operating segments which are the big data centre services, online game business and lottery business. During the Reporting Period, total revenue of the Group amounted to HK\$23.4 million (nine-month period ended 30 September 2018: HK\$6.8 million), an increase of approximately HK\$16.6 million, which comprised the following:

(1) Big data centre services

Revenue contributed by the Big Data Centres providing data analysis, storage services and ancillary administrative and consulting services amounted to HK\$21.6 million for the Reporting Period.

(2) Online game business

Revenue generated from online game business amounted to HK\$1.7 million for the Reporting Period (nine-month period ended 30 September 2018: HK\$60,000).

(3) Lottery business

During the Reporting Period, the Group recorded revenue in the provision of services and solutions for distribution of lottery products of approximately HK\$0.1 million, representing a decrease of HK\$0.3 million (nine-month period ended 30 September 2018: HK\$0.4 million). No revenue was generated from sales of lottery terminals and parts for the sports lottery due to the particular procurement cycle of the CSLA as explained above (nine-month period ended 30 September 2018: HK\$6.3 million).

Operating Results

The Group recorded a loss of HK\$17.2 million for the Reporting Period, representing a decrease of HK\$8.5 million or 33% as compared to a loss of HK\$25.7 million for the corresponding period in 2018, which was mainly attributable to the combined effect of:

- (i) increase in revenue of HK\$16.6 million which was attributable to the increase in revenue generated from the big data centre business and online game business in the aggregate amount of HK\$23.3 million which was partially offset by the decrease in revenue generated from the lottery business amounted to HK\$6.7 million;
- (ii) increase in cost of sales of HK\$6.9 million which was attributable to the increase in cost of sales generated from the big data centre business and online game business;
- (iii) increase in staff cost of HK\$5.5 million which was attributable to the increased number of full-time employees due to new business expansion of the Reporting Period (30 September 2019: 40; 30 September 2018: 22);
- (iv) increase in expenses of HK\$1.6 million for exploring and operating new businesses of the Group; and
- (v) decrease in research and design expense related to online game business of HK\$6.0 million;

Outlook

The Group was encouraged to witness a rapid growth of the big data centre market in China and considers that the big data centre services is viable and sustainable in the longer term with a continuous growth potential in the market. The Group has obtained an Internet Data Centre Licence and intends to further expand the big data centre services and increase its market share through the organic combination of infrastructure of big data centres as well as other value-added services in respect of the big data centres.

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 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 2018: 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 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.

Subsequent Event After the End of the Reporting Period

Reference is made to the announcement of the Company dated 14 June 2019 in respect of entering into a joint venture agreement (the “**JV Agreement**”). On 18 October 2019, the joint venture established pursuant to the JV Agreement (the “**Joint Venture**”) entered into a construction cooperation agreement with an independent third party which is principally engaged in hydropower generation, pursuant to which the Joint Venture shall build a hydropower consumption demonstration park in Ganzi, Sichuan. The demonstration park will be operated as the third big data centre of the Company to provide distributed cloud computing services.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the nine-month period ended 30 September 2019

	Notes	Three-month period ended 30 September		Nine-month period ended 30 September	
		2019	2018	2019	2018
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue	3	16,336	3,530	23,441	6,781
Cost of sales		<u>(9,781)</u>	<u>(3,747)</u>	<u>(14,126)</u>	<u>(7,258)</u>
Gross profit (loss)		6,555	(217)	9,315	(477)
Other income and gains		3,851	2,868	8,845	7,460
Selling expenses		(360)	(461)	(507)	(580)
Administrative expenses		(11,022)	(8,325)	(33,007)	(25,189)
Research and design expense		–	(5,995)	–	(5,995)
Other expenses		(943)	(360)	(1,013)	(849)
Share of losses:					
Associates		(13)	(18)	(137)	(74)
Finance costs		<u>(370)</u>	<u>–</u>	<u>(744)</u>	<u>–</u>
Loss before taxation		(2,302)	(12,508)	(17,248)	(25,704)
Taxation	4	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Loss for the period		<u>(2,302)</u>	<u>(12,508)</u>	<u>(17,248)</u>	<u>(25,704)</u>
Other comprehensive income (loss)					
Exchange differences on translation of foreign operations		<u>859</u>	<u>865</u>	<u>481</u>	<u>(77)</u>
Total comprehensive loss for the period		<u>(1,443)</u>	<u>(11,643)</u>	<u>(16,767)</u>	<u>(25,781)</u>
Loss for the period attributable to:					
Owner of the Company		(1,977)	(12,245)	(16,724)	(25,067)
Non-controlling interests		<u>(325)</u>	<u>(263)</u>	<u>(524)</u>	<u>(637)</u>
		<u>(2,302)</u>	<u>(12,508)</u>	<u>(17,248)</u>	<u>(25,704)</u>
Total comprehensive (loss) income for the period attributable to:					
Owners of the Company		(1,070)	(10,994)	(17,188)	(25,263)
Non-controlling interests		<u>(373)</u>	<u>(649)</u>	<u>421</u>	<u>(518)</u>
		<u>(1,443)</u>	<u>(11,643)</u>	<u>(16,767)</u>	<u>(25,781)</u>
Loss per share (HK\$ cents)					
– Basic and diluted	6	<u>(0.07)</u>	<u>(0.40)</u>	<u>(0.55)</u>	<u>(0.82)</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 2018, 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 2019. 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.

Except for HKFRS 16, Leases, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this financial announcement. 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.

Lease

The group has initially applied HKFRS 16 from 1 January 2019. The group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the impacts on transition are set out below:

Changes in the accounting policies

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain re-measurements of the lease liability. The group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019.

At the date of transition to HKFRS 16, the group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 5.375%.

As a lessee, the Group's leases are mainly rentals of offices. The right-of-use assets were measured at the amount equal to the lease liability and there were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. The adjustments recognized are as follows:

HK\$'000

At 1 January 2019:

Increase in right-of-use assets	7,822
Increase in lease liabilities	7,822

(3) REVENUE

An analysis of the Group's revenue for the three-month and the nine-month period ended 30 September 2019 is as follows:

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Big data centre services	15,049	–	21,633	–
Online game business	1,252	60	1,696	60
Lottery business	35	3,470	112	6,721
	16,336	3,530	23,441	6,781

(4) TAXATION

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC Enterprise Income Tax				
– Current period	–	–	–	–

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 nine-month period ended 30 September 2019 (nine-month period ended 30 September 2018: Nil).

(6) LOSS PER SHARE

The calculation of basic loss per share for the three-month and the nine-month period ended 30 September 2019 is based on the unaudited loss attributable to owners of the Company of approximately HK\$1,977,000 and HK\$16,724,000 (three-month and nine-month period ended 30 September 2018: HK\$12,245,000 and HK\$25,067,000) and on the weighted average number of approximately 3,158,599,836 and 3,158,599,836 (three-month and nine-month period ended 30 September 2018: 3,145,935,836 and 3,145,935,836) ordinary shares in issue during the period.

The computation of diluted loss per share in 2019 and 2018 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
	Issued capital	Share premium	Share-based payment reserve	Other reserve	Exchange reserve	Equity investment revaluation reserve	(Accumulated losses)/retained earnings		
	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	395,001
Loss for the year	–	–	–	–	–	–	(34,087)	(694)	(34,781)
Other comprehensive (loss)/income for the year	–	–	–	–	(2,362)	126	–	376	(1,860)
Total comprehensive (loss)/income for the year	–	–	–	–	(2,362)	126	(34,087)	(318)	(36,641)
Equity-settled share-based payment expense	–	–	12,792	–	–	–	–	–	12,792
Lapsed of share option scheme	–	–	(194)	–	–	–	194	–	–
At 31 December 2018 (audited)	<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>6,279</u>	<u>371,152</u>
At 1 January 2019 (audited)	31,459	327,928	12,598	(5,255)	2,056	126	(4,039)	6,279	371,152
Loss for the year	–	–	–	–	–	–	(16,724)	(524)	(17,248)
Other comprehensive (loss)/income for the period	–	–	–	–	(338)	(126)	–	945	481
Total comprehensive (loss)/income for the period	–	–	–	–	(338)	(126)	(16,724)	421	(16,767)
Equity-settled share-based payment expense	–	–	6,590	–	–	–	–	–	6,590
Issuance of ordinary shares from exercise of share options	127	1,266	–	–	–	–	–	–	1,393
At 30 September 2019 (unaudited)	<u>31,586</u>	<u>329,194</u>	<u>19,188</u>	<u>(5,255)</u>	<u>1,718</u>	<u>–</u>	<u>(20,763)</u>	<u>6,700</u>	<u>362,368</u>

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 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.