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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 2020

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.*

UNAUDITED CONDENSED CONSOLIDATED RESULTS

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 three-month period ended 31 March 2020 (the “**Reporting Period**”) as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three-month period ended 31 March 2020

		Three-month period ended 31 March	
		2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
	Notes		
REVENUE	3	72,239	1,318
Cost of sales and service rendered		<u>(72,174)</u>	<u>(1,050)</u>
Gross profit		65	268
Other income and gains		557	2,254
Selling expenses		(7)	(30)
Administrative expenses		(16,071)	(7,305)
Other expenses		(2,398)	(113)
Share of losses of associates		(64)	(107)
Finance costs		<u>(158)</u>	<u>–</u>
LOSS BEFORE TAX		<u>(18,076)</u>	<u>(5,033)</u>
Income tax credit	4	288	–
LOSS FOR THE PERIOD		<u>(17,788)</u>	<u>(5,033)</u>

CONDENSED CONSOLIDATED INCOME STATEMENT (CONTINUED)*For the three-month period ended 31 March 2020*

		Three-month period ended 31 March	
		2020	2019
		(Unaudited)	(Unaudited)
Notes		HK\$'000	HK\$'000
OTHER COMPREHENSIVE INCOME			
Other comprehensive (loss)/income for the period, 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	(2,388)	—
	Exchange differences on translation of foreign operations	(4,438)	63
OTHER COMPREHENSIVE (LOSS)/ INCOME FOR THE PERIOD, NET OF TAX		(6,826)	63
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(24,614)	(4,970)
LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
	Owners of the Company	(17,622)	(5,021)
	Non-controlling interests	(166)	(12)
		(17,788)	(5,033)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
	Owners of the Company	(24,442)	(6,006)
	Non-controlling interests	(172)	1,036
		(24,614)	(4,970)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (HK\$ cents)			
6	– Basic and diluted	(0.56)	(0.16)

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 2019, 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 2020. 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 period ended 31 March 2020 is as follows:

	Three-month period ended 31 March	
	2020	2019
	HK\$'000	HK\$'000
Big data centre services	71,976	1,070
Distribution of mobile gaming	233	241
Provision of services and solutions for distribution of lottery products	30	7
	72,239	1,318

(4) INCOME TAX CREDIT

	Three-month period ended 31 March	
	2020	2019
	HK\$'000	HK\$'000
Deferred tax	288	–
PRC Enterprise Income Tax – current period	<u>–</u>	<u>–</u>
	288	–

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit arising from Hong Kong for the three-month period ended 31 March 2020 and its corresponding period in 2019.

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

(5) DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Reporting Period (31 March 2019: Nil).

(6) LOSS PER SHARE

The calculation of basic loss per share for the three-month period ended 31 March 2020 is based on the unaudited loss attributable to owners of the Company of approximately HK\$17.6 million (three-month period ended 31 March 2019: HK\$5.0 million) and on the weighted average number of approximately 3,158,599,836 (three-month period ended 31 March 2019: 3,145,935,836) ordinary shares in issue during the period.

The computation of diluted loss per share in 2020 and 2019 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							Non-controlling interests	Total equity
	Issued capital	Share premium	Share-based payment reserve	Other reserve	Exchange reserve	Equity investment revaluation reserve	Accumulated losses		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2020 (audited)	31,586	329,194	20,881	(5,255)	3,692	(12,570)	(37,657)	329,871	342,747
Non-controlling interests arising from establishment of a new subsidiary	-	-	-	-	-	-	-	5,319	5,319
Loss for the period	-	-	-	-	-	-	(17,622)	(166)	(17,788)
Other comprehensive loss for the period	-	-	-	-	(4,432)	(2,388)	-	(6)	(6,826)
Total comprehensive loss for the period	-	-	-	-	(4,432)	(2,388)	(17,622)	(172)	(24,614)
Equity-settled share-based payment expense	-	-	1,041	-	-	-	-	-	1,041
At 31 March 2020 (unaudited)	<u>31,586</u>	<u>329,194</u>	<u>21,922</u>	<u>(5,255)</u>	<u>(740)</u>	<u>(14,958)</u>	<u>(55,279)</u>	<u>306,470</u>	<u>324,493</u>
At 1 January 2019 (audited)	31,459	327,928	12,598	(5,255)	2,056	126	(4,039)	364,873	371,152
Loss for the period	-	-	-	-	-	-	(5,021)	(12)	(5,033)
Other comprehensive (loss)/income for the period	-	-	-	-	(859)	(126)	-	1,048	63
Total comprehensive (loss)/income for the period	-	-	-	-	(859)	(126)	(5,021)	1,036	(4,970)
Equity-settled share-based payment expense	-	-	732	-	-	-	-	-	732
At 31 March 2019 (unaudited)	<u>31,459</u>	<u>327,928</u>	<u>13,330</u>	<u>(5,255)</u>	<u>1,197</u>	<u>-</u>	<u>(9,060)</u>	<u>359,599</u>	<u>366,914</u>

MANAGEMENT DISCUSSION AND ANALYSIS

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**”); (iii) trading of lottery terminals and parts and the provision of lottery-related technologies, systems and solutions to China Welfare Lottery Issuance Centre and China Sports Lottery Administration Centre (“**CSLA**”) (the “**lottery business**”) in the People’s Republic of China (the “**PRC**”); and (iv) money lending business in Hong Kong (the “**money lending business**”).

Big Data Centre Services

The Group operates two big data centres in Sichuan, the PRC to provide comprehensive services including premises, hardware support, power supply, ancillary supervision and management services to our clients.

The first big data centre of the Group commenced business in March 2019 and is located in Ya’an, Sichuan Province. With a gross area of 960 square meters, it has an operation capacity of providing data analysis and storage services for up to 9,500 data processors at the same time.

The second big data centre of the Group commenced business in June 2019 and is located in Kangding, Sichuan Province. With a gross area of approximately 5,800 square meters, it has an operation capacity of providing data analysis and storage services for up to 95,000 data processors at the same time.

The Group’s third big data centre is currently under construction and expected to complete construction as early as the end of May 2020. Upon completion, the operation scale of the third big data centre will be approximately 2.5 to 3 times of the second big data centre.

The services provided by these big data centres to their customers cover a full range from monitoring the average utilisation rate and working status of data processors to supervising the overall safety and security of both physical environment and internet connection within the big data centres. Each customer is provided with a monthly report on operation results of its data processors. In the event of any unusual condition reported on the data processors, the relevant customer will receive an immediate notification and follow-up inspection and maintenance services will be provided by the Group upon request. In order to ensure full-load operation of the big data centres, the Group maintains regular communication with local utility services providers in respect of resources allocation and application for increase or decrease in supply of utility.

In addition, the Group has developed a comprehensive management software (the “**Software**”) specifically for its big data centres. With the customised hardware installed in the big data centres, the Software provides integrated solutions for operation and maintenance management, financial management and resources allocation in cloud computing in the big data centres. The Software enables the clients to remotely monitor their data processors and obtain real-time information on the average computing capacity, CPU load and utilisation and operating time and to receive notification of unusual condition of their data processors. The Software effectively solves the common problems encountered in the operation and maintenance management of big data centres such as delayed information access, inefficient operation and maintenance, inability to quantify on-site work and inability to get access to on-site information anytime and anywhere.

During the Reporting Period, the big data center services generated revenue of approximately HK\$72.0 million, representing a significant increase as compared to the corresponding period, which was primarily due to the commencement of operation of two big data centres of the Group.

Online Game Business

In line with the Group’s strategy for developing leisure and entertainment business, the Group engaged in the distribution of online mobile games and recorded revenue of HK\$0.2 million for the Reporting Period, which was roughly the same as compared to the corresponding period in 2019.

Lottery Business

The Group is engaged in providing lottery-related technologies, systems and solutions as well as distribution of high quality and versatile lottery terminals in China.

Due to the particular procurement cycle of CSLA for lottery terminals and parts as well as the sluggish demand from market in Mainland China, the Group has suspended trading of lottery vending machines, and closely monitors any development in the market conditions and regulatory framework. It cannot rule out the possibilities of ceasing to trade the approved lottery vending machines or the business related to CSLA in the future.

Money Lending Business

In order to leverage its corporate expertise and resources to broaden its income source, an indirect wholly-owned subsidiary of the Company, Might Winner Limited, was granted a money lender’s license in January 2020.

Financial Review

The Group is engaged in four operating segments which are (1) the big data centre services, (2) the online game business, (3) the lottery business and (4) the money lending business. The Group recorded a total revenue of approximately HK\$72.2 million during the Reporting Period (three-month period ended 31 March 2019: HK\$1.3 million), representing a significant increase of HK\$70.9 million, which comprised the following:

(1) Big data centre services

Revenue contributed by the big data centre services amounted to approximately HK\$72.0 million for the Reporting Period, representing a dramatic increase of HK\$70.9 million as compared to the corresponding period in 2019 (three-month period ended 31 March 2019: HK\$1.1 million).

(2) Online game business

Revenue generated from online game business amounted to HK\$0.2 million for the Reporting Period.

(3) Lottery business

During the Reporting Period, the Group recorded revenue of approximately HK\$30,000 from lottery business. 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.

(4) Money lending business

No revenue was generated from this segment for the Reporting Period.

Operating Results

The Group recorded a loss of approximately HK\$17.8 million for the Reporting Period, representing an increase of HK\$12.8 million or 256% as compared to a loss of HK\$5.0 million for the corresponding period in 2019, which was mainly attributable to the combined effect of:

- (i) decrease in gross profit of approximately HK\$0.2 million which was attributable to the increase in cost of operating the big data centres;
- (ii) increase in staff cost of HK\$3.4 million which was attributable to the increased number of employees due to new business expansion of the big data centre services (31 March 2020: 103; 31 March 2019: 34);
- (iii) increase in operating expenses including consulting expense, rental expense amounted to HK\$3.9 million which was mainly due to the expansion of big data centre services;

- (iv) increase in amortisation associated with acquired intangible assets of HK\$1.2 million;
- (v) increase in donation of HK\$0.9 million related to the coronavirus in China;
- (vi) increase in exchange losses of HK\$1.0 million; and
- (vii) decrease in interest income of HK\$1.9 million, which was mainly due to the decrease in the amount of loan receivables.

LOAN RECEIVABLES

Yourich Inc Limited

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 outstanding amount has been repaid in full at the beginning of February 2020.

Shenzhen Chipchain Technologies Co., Ltd.

As at 19 June 2019, the Group entered into a convertible note agreement (the “**Convertible Note Agreement**”) with Shenzhen Chipchain Technologies Co., Ltd. (the “**Convertible Note Issuer**”), pursuant to which the Group agreed to grant to the Convertible Note Issuer a convertible note (the “**Convertible Note**”) in the principal amount of RMB10,000,000 at an interest rate of 8% per annum for a term of six (6) months, during which the Group is entitled to convert the Convertible Note into 3.33% of the equity interest in the Convertible Note Issuer (the “**Conversion Right**”). The Group did not exercise the Conversion Right and the Convertible Note Issuer has defaulted in repayment of the Convertible Note when it was due. The Convertible Note was subsequently classified under loan receivable. The outstanding amount has been repaid in full on 16 April 2020.

SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

Reference is made to the announcement of the Company dated 3 April 2020, an indirect wholly-owned subsidiary of the Company, Might Winner Limited, as lender, entered into a loan agreement with Bright Topper Limited, as the borrower, and Ms. Li Xue, as the guarantor, pursuant to which Might Winner Limited agreed to grant to the borrower a loan in the principal amount of HK\$30,000,000 for a term of 24 months from 3 April 2020 to 2 April 2022 at an interest rate of 10% per annum.

OUTLOOK

In addition to the lottery business and online game business, we will focus on big data centre services which have a brighter prospect. At present, the two big data centres constructed by us in Sichuan Province, the PRC have a sizable scale of operation with a wide range of customers, and are contributing to the Group with stable revenue. In the future, we will continue our expansion which includes our third big data centre currently under construction. Upon completion, such centre will become the largest big data centre of the Group and is expected to attract more customers and bring considerable revenue. We believe that, under the new political and economic environment, we shall actively seek changes, adhere to the spirit of innovation, and leverage our core experience and corporate resources to achieve long-term benefits for the Group and its shareholders. We are confident that with the concerted efforts of the Group, we will be able to open up a brand-new world and achieve outstanding results.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Reporting Period (three-month period ended 31 March 2019: Nil).

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 an audit committee, which was established for the purposes of reviewing and providing supervision over the Company's financial reporting process and overseeing the Group's 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 financial information contained in this first quarter results for the Reporting Period has not been audited by the auditors 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 May 2020

As at the date of this announcement, the Board of Directors comprises Ms. Zhang Jing (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*

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