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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 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.*

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 2020 (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) money lending business in Hong Kong (the “**money lending business**”).

Big Data Centre Services

The Group operates three big data centres in Sichuan, the People’s Republic of China (the “**PRC**”) to provide comprehensive services including premises, hardware support, power supply, ancillary supervision and management services to our clients.

The first two big data centres of the Group commenced business in March and June 2019, respectively. Due to the outbreak of coronavirus in the PRC, the construction of the third big data centre of the Group was delayed for a month and has completed in late June 2020. The three big data centres of the Group in aggregate have a gross area of over 18,000 square meters, with a total operation capacity of providing data analysis and storage services for up to 225,000 data processors at the same time.

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 implemented 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\$280.3 million, representing a significant increase as compared to the corresponding period, which was primarily due to the commencement of operation of the third big data centre 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 approximately HK\$0.8 million for the Reporting Period, representing a significant increase of approximately HK\$0.5 million in the third quarter of 2020 as compared to the second quarter of 2020. Despite of a decrease of approximately HK\$0.9 million as compared to the corresponding period in 2019, the performance of the Group’s online game business has shown a positive trend in this quarter recovering from the influence of the outbreak of coronavirus in the PRC since the first quarter of 2020.

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, has obtained a money lender’s license in January 2020. On 3 April 2020, a loan in the principal amount of HK\$30 million for a term of 24 months at an interest rate of 10% per annum, was granted to an independent third party, which contributed revenue of approximately HK\$1.5 million for the Reporting Period.

Lottery Business

During the Reporting Period, the Group recorded a revenue of approximately HK\$30,000 from the provision of lottery-related technologies, systems and solutions to China Welfare Lottery Issuance Centre. No revenue was generated from sales of lottery terminals and parts for the sports lottery due to the particular procurement cycle of the China Sports Lottery Administration Centre.

Due to the sluggish demand from the market in Mainland China, the Group has suspended the lottery business in the PRC after the first quarter of 2020. However, the Group will closely monitor any development in the market conditions and regulatory framework and we may continue to pursue suitable business in the lottery industry when appropriate opportunities arise.

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 money lending business, and (4) the lottery business. The Group recorded a total revenue of approximately HK\$282.6 million during the Reporting Period (nine-month period ended 30 September 2019: HK\$23.4 million), representing a significant increase of HK\$259.2 million, which comprised the following:

(1) *Big data centre services*

Revenue contributed by the big data centre services amounted to approximately HK\$280.3 million for the Reporting Period. (nine-month period ended 30 September 2019: HK\$21.6 million).

(2) *Online game business*

Revenue generated from online game business amounted to approximately HK\$0.8 million for the Reporting Period (nine-month period ended 30 September 2019: HK\$1.7 million).

(3) *Money lending business*

Revenue generated from money lending business amounted to approximately HK\$1.5 million for the Reporting Period.

(4) *Lottery business*

During the Reporting Period, the Group recorded revenue of approximately HK\$30,000 from lottery business (nine-month period ended 30 September 2019: HK\$0.1 million). After the first quarter of 2020, the Group has suspended the lottery business in the PRC as explained above.

Operating Results

The Group turned to a profit of approximately HK\$6.7 million in the third quarter this year, representing a significant increase in profit of approximately HK\$9.0 million as compared to the corresponding period in 2019, during which a loss of approximately HK\$2.3 million was recorded by the Group.

Despite the profit making position in the third quarter of 2020, the Group recorded a loss of approximately HK\$25.6 million during the Reporting Period, representing an increase of approximately HK\$8.4 million or 49% as compared to a loss of approximately HK\$17.2 million for the corresponding period in 2019, which was mainly attributable to the combined effect of:

- (i) increase in gross profit of approximately HK\$25.5 million which was due to the commencement of the third big data centre;
- (ii) increase in operation expense amounted to approximately HK\$14.3 million, including rental expense, maintenance expense, consulting expense, etc., which was mainly due to the expansion of big data centre services;
- (iii) increase in staff cost of approximately HK\$8.1 million which was attributable to the increased number of employees due to new business expansion of the big data centre services (30 September 2020: 139; 30 September 2019: 40);
- (iv) decrease in interest income of approximately HK\$6.7 million, which was mainly due to the full repayment of outstanding loan receivables in February and April 2020;
- (v) increase in amortisation associated with acquired intangible assets of approximately HK\$4.0 million; and
- (vi) increase in donation of approximately HK\$0.9 million related to the coronavirus in China.

Outlook

The Group is committed to becoming an influential local enterprise among the big data centre service industry, which is expected to be a sunrise industry. Upon the completion of the third big data centre, we believed this centre will attract more customers and bring considerable revenue to the Group. At the same time, 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 (nine-month period ended 30 September 2019: Nil).

Loan Receivable

An indirect wholly-owned subsidiary of the Company, Might Winner Limited, has obtained a money lender's license in January 2020. As at 3 April 2020, the Group entered into a loan agreement (the "**Loan**") with an independent third party, Bright Topper Limited (the "**Borrower**"), in the principal amount of HK\$30,000,000 at the interest rate of 10% per annum for a term of two years. Interests for the first 12 months shall be repaid in the first year and the principal amount and interests for remaining period shall be repaid on or before the maturity date. The repayment of the Loan was guaranteed by the director and the sole beneficial owner of the Borrower.

Subsequent Event After the End of the Reporting Period

Reference is made to the announcements of the Company dated 24 September 2020 and 9 October 2020 (the "**Placing Announcements**"). A total of 63,164,000 new shares of the Company (the "**Placing Shares**") have been successfully placed by Founder Securities (Hong Kong) Limited as the placing agent to not less than six placees, who are independent third parties, at the placing price of HK\$0.26 per Placing Share (the "**Placing**"). The gross proceeds and net proceeds from the placing amounted to approximately HK\$16.42 million and approximately HK\$16.03 million, respectively. The Company intends to use the entire net proceeds from the placing for expanding the capital base for its big data centers operations.

Please refer to the Placing Announcements for details of the Placing.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the nine-month period ended 30 September 2020

		Three-month period ended 30 September		Nine-month period ended 30 September	
		2020	2019	2020	2019
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE	3	153,858	16,336	282,592	23,441
Cost of sales and service rendered		<u>(123,433)</u>	<u>(9,781)</u>	<u>(247,779)</u>	<u>(14,126)</u>
Gross profit		30,425	6,555	34,813	9,315
Other income and gains		991	3,851	2,442	8,845
Selling expenses		(77)	(360)	(84)	(507)
Administrative expenses		(22,597)	(11,022)	(56,916)	(33,007)
Other expenses		(1,054)	(943)	(4,772)	(1,013)
Share of losses: Associates		(6)	(13)	(73)	(137)
Finance costs		<u>(1,240)</u>	<u>(370)</u>	<u>(1,905)</u>	<u>(744)</u>
PROFIT/(LOSS) BEFORE TAX		6,442	(2,302)	(26,495)	(17,248)
Income tax credit	4	<u>281</u>	<u>–</u>	<u>853</u>	<u>–</u>
PROFIT/(LOSS) FOR THE PERIOD		<u>6,723</u>	<u>(2,302)</u>	<u>(25,642)</u>	<u>(17,248)</u>
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		<u>(25)</u>	<u>–</u>	<u>(3,382)</u>	<u>–</u>

CONDENSED CONSOLIDATED INCOME STATEMENT (continued)

For the nine-month period ended 30 September 2020

	Notes	Three-month period ended 30 September		Nine-month period ended 30 September	
		2020	2019	2020	2019
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Items that may be reclassified to profit or loss:					
Exchange differences on translation of foreign operations		<u>9,181</u>	<u>859</u>	<u>6,380</u>	<u>481</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		<u>9,156</u>	<u>859</u>	<u>2,998</u>	<u>481</u>
TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE PERIOD		<u><u>15,879</u></u>	<u><u>(1,443)</u></u>	<u><u>(22,644)</u></u>	<u><u>(16,767)</u></u>
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO:					
Owner of the Company		(1,937)	(1,977)	(32,053)	(16,724)
Non-controlling interests		<u>8,660</u>	<u>(325)</u>	<u>6,411</u>	<u>(524)</u>
		<u><u>6,723</u></u>	<u><u>(2,302)</u></u>	<u><u>(25,642)</u></u>	<u><u>(17,248)</u></u>
TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE PERIOD ATTRIBUTABLE TO:					
Owners of the Company		6,987	(1,070)	(29,287)	(17,188)
Non-controlling interests		<u>8,892</u>	<u>(373)</u>	<u>6,643</u>	<u>421</u>
		<u><u>15,879</u></u>	<u><u>(1,443)</u></u>	<u><u>(22,644)</u></u>	<u><u>(16,767)</u></u>
EARNING/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (HK\$ cents)					
– Basic and diluted	6	<u><u>2.13</u></u>	<u><u>(0.70)</u></u> (restated)	<u><u>(8.12)</u></u>	<u><u>(5.50)</u></u> (restated)

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 and the nine-month period ended 30 September 2020 is as follows:

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Big data centre services	152,575	15,049	280,282	21,633
Money lending business	750	–	1,500	–
Online game business	533	1,252	780	1,696
Lottery business	–	35	30	112
	<u>153,858</u>	<u>16,336</u>	<u>282,592</u>	<u>23,441</u>

(4) INCOME TAX CREDIT

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Deferred tax	281	–	853	–
PRC Enterprise Income Tax				
– Current period	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</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 nine-month period ended 30 September 2020 (nine-month period ended 30 September 2019: Nil).

(6) LOSS PER SHARE

The calculation of basic loss per share for the three-month and the nine-month period ended 30 September 2020 is based on the unaudited loss attributable to owners of the Company of approximately HK\$1,937,000 and HK\$32,053,000 (three-month and nine-month period ended 30 September 2019: HK\$1,977,000 and HK\$16,724,000) and on the weighted average number of approximately 315,859,983 and 315,859,983 respectively (three-month period (restated) and nine-month period (restated) ended 30 September 2019: 315,859,983 and 315,859,983) 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 a decrease in loss per share.

(7) SHARE CAPITAL AND RESERVES

	Attributable to owners of the Company									
	Issued capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Share- based payment reserve <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Equity investment revaluation reserve <i>HK\$'000</i>	(Accumulated losses)/ retained earnings <i>HK\$'000</i>	Sub-Total <i>HK\$'000</i>	Non- controlling interests <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
At 1 January 2020 (audited)	31,586	329,194	20,881	(5,255)	3,692	(12,570)	(37,657)	329,871	12,876	342,747
Non-controlling interests arising from establishment of a new subsidiary	-	-	-	-	-	-	-	-	75,830	75,830
Disposal of subsidiaries	-	-	-	-	-	-	-	-	(5,377)	(5,377)
Profit/(Loss) for the year	-	-	-	-	-	-	(32,053)	(32,053)	6,411	(25,642)
Other comprehensive income/(loss) for the year	-	-	-	-	6,148	(3,382)	-	2,766	232	2,998
Total comprehensive income/(loss) for the year	-	-	-	-	6,148	(3,382)	(32,053)	(29,287)	6,643	(22,644)
Equity-settled share-based payment expense	-	-	3,259	-	-	-	-	3,259	-	3,259
Transfer of share-based payment reserve upon share options cancellation	-	-	(15,539)	-	-	-	15,539	-	-	-
At 30 September 2020 (unaudited)	<u>31,586</u>	<u>329,194</u>	<u>8,601</u>	<u>(5,255)</u>	<u>9,840</u>	<u>(15,952)</u>	<u>(54,171)</u>	<u>303,843</u>	<u>89,972</u>	<u>393,815</u>

	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	Sub-Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2019 (audited)	31,459	327,928	12,598	(5,255)	2,056	126	(4,039)	364,873	6,279	371,152
Loss for the year	–	–	–	–	–	–	(16,724)	(16,724)	(524)	(17,248)
Other comprehensive (loss)/income for the period	–	–	–	–	(338)	(126)	–	(464)	945	481
Total comprehensive (loss)/income for the period	–	–	–	–	(338)	(126)	(16,724)	(17,188)	421	(16,767)
Equity-settled share-based payment expense	–	–	6,590	–	–	–	–	6,590	–	6,590
Issuance of ordinary shares from exercise of share options	127	1,266	–	–	–	–	–	1,393	–	1,393
At 30 September 2019 (unaudited)	31,586	329,194	19,188	(5,255)	1,718	–	(20,763)	355,668	6,700	362,368

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 third quarter results announcement 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
Yan Hao

Chief Executive Officer and Executive Director

Hong Kong, 6 November 2020

As at the date of this announcement, the Board of Directors comprises Ms. Zhang Jing (Chairman), Mr. Yan Hao# (Chief Executive Officer), Ms. Huang Lilan#, Mr. Yuan Qiang*, Dr. Lu Haitian+, Mr. Lin Sen+ and Mr. Huang Jian+.*

Executive Director

* *Non-executive Director*

+ *Independent Non-executive Director*

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