



乐透互娱
LOTO INTERACTIVE

FIRST QUARTER REPORT 2018

Loto Interactive Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8198)

www.lotoie.com

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.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

*This report, 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 report 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 report misleading.*

MANAGEMENT DISCUSSION AND ANALYSIS

The board (the “**Board**”) of Directors hereby announces the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the three-month period ended 31 March 2018 (the “**Reporting Period**”) as follows:

Business Review

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

We are a distributor of high quality, versatile lottery terminals and parts for CSLA, which is the exclusive sports lottery operator in the PRC. The distribution business is our major revenue generator, however, no related revenue was generated for the Reporting Period due to the particular procurement cycle of CSLA for lottery vending machine(s) (also known as lottery terminal(s)) (“**LVM(s)**”). As explained in more details in the section headed “Report of the Directors – Key Risks and Uncertainties” of the Company’s 2017 annual report, in general, the duration of the procurement cycle of CSLA for LVM(s) is approximately 5 to 7 years. Hence, for every 5 to 7 years’ period, a substantial number of LVMs will be replaced. This timeframe is commonly referred to as the “LVMs procurement cycle of the CSLA”. There is no clear-cut timeframe for when the LVMs procurement cycle begins and when it ends. In practice, the LVMs procurement cycle is subject to the CSLA’s decisions, the actual demand on the replacement of old LVMs and the pace of opening of new CSLA lottery halls. The Group’s largest customer, Beijing Intradak System Technology Co., Ltd. (北京英特達系統技術有限公司) (“**Intradak**”) is one of the six authorised providers of CSLA and it obtains and/or bids for the CSLA’s contracts and/or tenders from the CSLA to supply approved LVMs to the CSLA lottery shops. When Intradak obtains a contract from the CSLA, it places purchase orders with the Group. During the Reporting Period, no purchase order was placed by Intradak to the Group. After the Reporting Period in April 2018, the Group entered into a lottery terminals supply contract with Intradak with a contract sum of approximately HK\$1 million.

The Group has established its presence in the PRC by providing system maintenance service and game upgrading technology for the rapid-draw game, “Shi Shi Cai” in the Chongqing Municipality. The revenue generated by “Shi Shi Cai” was approximately HK\$136,000 for the Reporting Period.

The China lottery market had been full of challenges since March 2015 when the government took action to strictly prohibit all internet lottery ticket sales activities. While changing regulatory environment will unavoidably bring short-term uncertainties to the industry, we believe that proper regulatory reform will further improve the industry regulatory framework, thus leading to a healthier and sustainable market in the long run.

While new channels and games are undoubtedly attractive areas for development, as an integrated lottery service and technology provider, the Group is well positioned to capture opportunities arising from the evolution of the PRC lottery policy. We are closely monitoring the development of this market in the PRC.

The Group established a non wholly-owned subsidiary, Shenzhen Lewanwuxian Information Technology Co., Ltd., in March of 2018, which has since been engaged in games operating. It is expected to generate revenue after the first quarter of 2018.

The Group will continue pursuing opportunities to develop international projects and PRC business opportunities which will leverage our corporate expertise in the gaming and entertainment industry and diversify our business to support our goal in maximizing long-term shareholders' value.

Financial Review

The Group continues to be engaged in a single operating segment which is the lottery business. During the Reporting Period, the Group recorded revenue of approximately HK\$136,000, representing a decrease of 99% (three-month period ended 31 March 2017: HK\$9.8 million). No revenue was generated from sales of lottery terminals and parts for the sports lottery due to the particular LVMs procurement cycle of the CSLA as explained above. After the Reporting Period in April 2018, the Group has entered into a lottery terminals supply contract with Intradak with a contract sum of approximately HK\$1 million.

Operating Results

The Group recorded a loss of HK\$5.5 million for the Reporting Period, representing a decrease of 150% compared to HK\$2.2 million for the corresponding period in 2017, which was mainly attributable to the increase in share-based payment related to the share options granted on 5 January 2018, amounting HK\$2 million and the increase in rental expense for the new offices amounting to about HK\$1.7 million.

Dividend

The Board does not recommend the payment of an interim dividend for the Reporting Period (three-month period ended 31 March 2017: Nil).

Subsequent Event After the End of the Reporting Period

On 13 April 2018, the Company announced that a wholly-owned subsidiary of the Company, namely Interactive Lab Limited, was formed for exploring cutting-edge technologies and applications, including games, e-sports, virtual reality and augmented reality, blockchain technology (the "**Potential New Business**"). The Group may develop the Potential New Business through joint ventures or venture capital.

On 2 May 2018, the Company announced that Loto Interactive Information Technology (Shenzhen) Limited ("**Loto Shenzhen**"), a wholly-owned subsidiary of the Company, and Shenzhen E-sun Sky Network Information Technology Co., Ltd. ("**E-sun Sky**"), entered into a framework agreement (the "**Framework Agreement**") with Shenzhen General Lottery Technology Co., Ltd. ("**Shenzhen GenLot**") in respect of the supply and purchase of sports lottery terminals.

Under the Framework Agreement, Loto Shenzhen and E-sun Sky intend to purchase up to 10,000 units of sports lottery terminals in total from Shenzhen GenLot pursuant to separate purchase agreements to be executed.

With years of experience and extensive network established in the PRC lottery terminal market, the Company considers that entering into of the Framework Agreement would complement the Group's core business and enable the Group to broaden its source of revenue and expand its business operations with an aim to maximizing profit and return for the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three-month period ended 31 March 2018

	Notes	Three-month period ended 31 March	
		2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
REVENUE	3	136	9,788
Cost of sales		–	(9,166)
Gross profit		136	672
Other income and gains		2,233	1,101
Selling expenses		(30)	–
Administrative expenses		(6,959)	(2,016)
Research and development cost		(437)	–
Finance costs		–	–
Other expenses		(473)	(1,890)
Share of losses:		–	–
Joint ventures		–	–
LOSS BEFORE TAX		(5,530)	(2,133)
Income tax (expense)/credit	4	–	(83)
LOSS FOR THE PERIOD		(5,530)	(2,216)
Attributable to:			
Owners of the parent		(5,469)	(2,075)
Non-controlling interests		(61)	(141)
		(5,530)	(2,216)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	6		
Basic		HK (0.23) cents	HK (0.07) cents
Diluted		HK (0.23) cents	HK (0.07) cents

NOTES:

(1) BASIS OF PREPARATION

The condensed consolidated financial information has been prepared in accordance with the applicable disclosure requirements of the GEM Listing Rules. The amounts included in this quarterly interim financial information are computed based on the recognition and measurement requirements in accordance with Hong Kong Accounting Standard 34, *Interim Financial Reporting* ("HKAS 34"). However, this quarterly interim financial information does not contain sufficient information to constitute an interim financial report as defined in HKAS 34.

(2) SIGNIFICANT ACCOUNTING POLICIES

This quarterly interim financial information has been prepared under the historical cost convention. The accounting policies adopted are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2017, except for the adoption of all the new and revised Hong Kong Financial Reporting Standards, amendments and interpretations ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2018. The application of these new and revised HKFRSs in the current interim period has had no material effect on the amounts reported in this condensed consolidated financial information and/or disclosures set out in this condensed consolidated financial information.

The Group has not early applied the new and revised HKFRSs that have been issued but are not yet effective.

(3) REVENUE

An analysis of the Group's revenue for the Reporting Period is as follows:

	Three-month period ended 31 March	
	2018 HK\$'000	2017 HK\$'000
Trading of lottery terminals and parts	–	9,586
Provision of services and solutions for distribution of lottery products	136	202
	136	9,788

(4) TAXATION

	Three-month period ended 31 March	
	2018 HK\$'000	2017 HK\$'000
PRC Enterprise Income Tax-current period	–	83

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit arising from Hong Kong for the Reporting Period and its corresponding period in 2017.

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

(5) DIVIDEND

No interim dividends had been paid or declared by the Company during the Reporting Period (2017: Nil).

(6) LOSS PER SHARE

The calculation of basic loss per share for the Reporting Period is based on the unaudited loss attributable to owners of the Company of approximately HK\$5.1 million (2017: HK\$2.2 million) and on the weighted average number of approximately 3,145,935,836 (2017: 3,145,768,000) ordinary shares in issue during the Reporting Period.

The computation of diluted loss per share in 2018 and 2017 did not include the Company's outstanding share options since their assumed exercise would result in the decrease in the diluted loss per share.

(7) SHARE CAPITAL AND RESERVES

	Attributable to owners of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Share-based payment reserve HK\$'000	Other reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 January 2017 (audited)	31,456	327,878	91,987	(5,255)	3,159	(44,576)	404,649	7,900	412,549
Other comprehensive income for the period	-	-	-	-	1,259	-	1,259	(659)	600
Loss for the period	-	-	-	-	-	(17,929)	(17,929)	(644)	(18,573)
Total comprehensive income (expense) for the period	-	-	-	-	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 shares option	3	50	(22)	-	-	-	31	-	31
Transfer of share-based payments reserve upon forfeiture	-	-	(92,359)	-	-	92,359	-	-	-
At 31 December 2017 (audited)	31,459	327,928	-	(5,255)	4,418	29,854	388,404	6,597	395,001

Attributable to owners of the Company

	Share capital HK\$'000	Share premium HK\$'000	Share- based payment reserve HK\$'000	Other reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Sub-total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
At 1 January 2018 (audited)	31,459	327,928	-	(5,255)	4,418	29,854	388,404	6,597	395,001
Other comprehensive income for the period	-	-	-	-	887	(479)	408	383	791
Loss for the period	-	-	-	-	-	(5,469)	(5,469)	(61)	(5,530)
Total comprehensive income (expense) for the period	-	-	-	-	887	(5,948)	(5,061)	322	(4,739)
Acquisition of subsidiary	-	-	-	-	-	200	200	-	200
Recognition of equity- settled share-based payments	-	-	2,000	-	-	-	2,000	-	2,000
At 31 March 2018 (unaudited)	31,459	327,928	2,000	(5,255)	5,305	24,106	385,543	6,919	392,462

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.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2018, the interests and short positions of each Director and chief executive of the Company and their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

(I) Long positions in the shares and underlying shares of the Company

Share options granted by the Company

Name of Director	Number of underlying shares held pursuant to share options	Approximate percentage of total issued shares of the Company
	<i>(Notes 2 & 3)</i>	<i>(Note 1)</i>
Mr. Pan Zhengming	6,000,000	0.19%
Mr. Wang Bingzhong	31,000,000	0.99%
Ms. Huang Lilan	10,000,000	0.32%
Mr. Yuan Qiang	31,000,000	0.99%
Dr. Lu Haitian	2,000,000	0.06%
Mr. Yan Hao	2,000,000	0.06%
Mr. Lin Sen	2,000,000	0.06%

Notes:

1. As at 31 March 2018, the total number of issued shares of the Company was 3,145,935,836.
2. This represents interests held by the relevant Director as beneficial owner.
3. Details of share options granted to the Directors pursuant to the share option scheme of the Company are set out in the "Share Option Scheme" section of this report.

(II) Long positions in the shares and underlying shares of associated corporations of the Company

500.com Limited ("**500.com**") (a listed holding company of the Company)

(a) American depository shares ("ADS") of 500.com

Name of Director	Number of ADS held	Approximate percentage of total issued and outstanding shares of 500.com
	(Note 2)	(Note 1)
Mr. Pan Zhengming	240,000	0.58%
Ms. Huang Lilan	1,300	0.00%
Mr. Yuan Qiang	15,000	0.04%

(b) American depository shares options ("ADS Options") and awarded shares granted by 500.com

Name of Director	Number of underlying shares held pursuant to ADS Options	Number of awarded shares held	Total	Approximate percentage of total issued and outstanding shares of 500.com
	(Notes 2 & 3)	(Notes 2 & 4)		(Note 1)
Mr. Pan Zhengming	268,333	5,000	273,333	0.66%
Ms. Huang Lilan	20,000	-	20,000	0.05%
Mr. Yuan Qiang	26,667	-	26,667	0.06%

Notes:

1. As at 31 March 2018, the total number of issued and outstanding shares of 500.com was 41,484,790.
2. This represents interests held by the relevant Director as beneficial owner.

3. Details of the 268,333 ADS Options held by Mr. Pan Zhengming are as follows:

- 99,333 ADS Options granted on 19 June 2014 at exercise price of US\$10.00 may be exercised from 19 June 2016 to 19 June 2018
- 149,000 ADS Options granted on 19 June 2014 at exercise price of US\$10.00 may be exercised from 19 June 2017 to 19 June 2019
- 10,000 ADS Options granted on 6 January 2016 at exercise price of US\$18.51 may be exercised from 21 November 2016 to 22 November 2018
- 10,000 ADS Options granted on 16 December 2016 at exercise price of US\$13.50 may be exercised from 21 November 2017 to 22 November 2019

Details of the 20,000 ADS Options held by Ms. Huang Lilan are as follows:

- 1,667 ADS Options granted on 19 June 2014 at exercise price of US\$10.00 may be exercised from 19 June 2015 to 19 June 2018
- 5,000 ADS Options granted on 19 June 2014 at exercise price of US\$10.00 may be exercised from 19 June 2016 to 19 June 2018
- 8,333 ADS Options granted on 19 June 2014 at exercise price of US\$10.00 may be exercised from 19 June 2017 to 19 June 2019
- 5,000 ADS Options granted on 19 June 2014 at exercise price of US\$10.00 may be exercised from 19 June 2018 to 19 June 2020

Details of the 26,667 ADS Options held by Mr. Yuan Qiang are as follows:

- 1,667 ADS Options granted on 19 June 2014 at exercise price of US\$10.00 may be exercised from 19 June 2016 to 19 June 2018
- 25,000 ADS Options granted on 19 June 2014 at exercise price of US\$10.00 may be exercised from 19 June 2017 to 19 June 2019

4. Details of the 5,000 awarded shares held by Mr. Pan Zhengming are as follows:

- 5,000 awarded shares granted on 22 November 2017 will vest on 21 November 2018

Save as disclosed above, none of the Directors or chief executive of the Company and their respective associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations as at 31 March 2018.

SHARE OPTION SCHEME

At the annual general meeting of the Company held on 18 May 2012, the shareholders of the Company approved the adoption of a new share option scheme (the “**2012 Share Option Scheme**”), under which the Directors may grant options to eligible persons to subscribe for the Company’s shares, subject to the terms and conditions stipulated therein. The 2012 Share Option Scheme will expire on 17 May 2022.

Movements of share options granted under the 2012 Share Option Scheme during the Reporting Period are set out below:

Type of participants	Number of share options					As at 31 March 2018	Date of grant	Exercise price (HK\$)	Exercise period (Note)
	As at 1 January 2018	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period				
Directors									
Mr. Pan Zhengming	-	6,000,000	-	-	-	6,000,000	05.01.2018	0.20	1
Mr. Wang Bingzhong	-	31,000,000	-	-	-	31,000,000	05.01.2018	0.20	1
Ms. Huang Lilian	-	10,000,000	-	-	-	10,000,000	05.01.2018	0.20	1
Mr. Yuan Qiang	-	31,000,000	-	-	-	31,000,000	05.01.2018	0.20	1
Dr. Lu Haitian	-	2,000,000	-	-	-	2,000,000	05.01.2018	0.20	1
Mr. Yan Hao	-	2,000,000	-	-	-	2,000,000	05.01.2018	0.20	1
Mr. Lin Sen	-	2,000,000	-	-	-	2,000,000	05.01.2018	0.20	1
Mr. Wu Jian (Note 2)	-	6,000,000	-	-	-	6,000,000	05.01.2018	0.20	1
Sub-total:	-	90,000,000	-	-	-	90,000,000			
Employees	-	500,000	-	-	-	500,000	05.01.2018	0.20	1
Others	-	68,900,000	-	-	-	68,900,000	05.01.2018	0.20	1
Total:	-	159,400,000	-	-	-	159,400,000			

Notes:

1. The share options granted on 5 January 2018 are divided into 3 tranches exercisable from 5 January 2018, 5 January 2019 and 5 January 2020 respectively to 4 January 2028.
2. Mr. Wu Jian resigned as Director with effect from 23 March 2018.
3. The category “Others” represents the former directors or consultants of the Group. Consultants are individuals who rendered consultancy services in respect of the business development to the Group without receiving any compensation. The Group granted share options to them for recognizing their services similar to those rendered by employees of the Group.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2018, the interest and short positions of the persons (other than the Directors and chief executive of the Company) in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or required to be recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long positions in the shares of the Company

Name	Capacity/Nature	Number of shares held/ interested in	Approximate percentage of total issued shares of the Company
(Note 1)			
500.com Limited (" 500.com ") (Note 2)	Beneficial owner	1,278,714,329	40.65%
Mr. Law Man San Vincent (" Mr. Law ") (Note 2)	Interest in controlled corporation	1,278,714,329	40.65%
Ms. Yuan Ping (" Mrs. Law ") (Note 3)	Interest of spouse	1,278,714,329	40.65%

Notes:

- As at 31 March 2018, the total number of issued shares of the Company was 3,145,935,836.
- As at 31 March 2018, (i) Delite Limited ("**Delite**"), a company incorporated in the British Virgin Islands ("**BVI**"), is interested in a total of 24.4% voting power in 500.com; (ii) Smart Mega Holdings Limited ("**Smart Mega**"), a company incorporated in the BVI, is interested in a total of 19.04% voting power in the general meetings of 500.com. Delite is wholly owned by Jackpot International Limited, which is held by companies set up by Credit Suisse Trust Limited ("**Credit Suisse**") as trustee of The Jackpot Trust, an irrevocable discretionary trust established by Mr. Law who is the settlor, protector and one of the beneficiary subjects. Smart Mega is wholly owned by Vibrant Jade Limited, which is held by companies set up by Credit Suisse of The Vibrant Jade Trust, an irrevocable discretionary trust established by Mrs. Law as settlor and protector with Mr. Law being one of the beneficiary subjects. The total shares of 500.com held by The Jackpot Trust and the total shares of 500.com held by The Vibrant Jade Trust (together, the "**500.com Shares**") are held by Credit Suisse as trustee of both trusts. Mr. Law, by virtue of the relationships described above, is deemed to beneficially own the 500.com Shares which would entitle him to exercise approximately 43.44% voting rights in the general meetings of 500.com. Accordingly, Mr. Law is deemed to be interested in all the shares of the Company held by 500.com pursuant to the SFO.
- Mrs. Law is deemed to be interested in all shares of the Company held by Mr. Law pursuant to the SFO.

Save as disclosed above, the Company has not been notified of any other interests or short positions in the shares or underlying shares of the Company as at 31 March 2018.

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 first quarter report for the Reporting Period has not been audited by the auditor of the Company, but has been reviewed by the audit committee.

By Order of the Board
Loto Interactive Limited
Wang Bingzhong

Chief Executive Officer and Executive Director

Hong Kong, 8 May 2018

As at the date of this report, 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*