



乐透互娱

LOTO INTERACTIVE

INTERIM REPORT 2018

Loto Interactive Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8198)

www.lotoie.com

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MANAGEMENT DISCUSSION AND ANALYSIS

The board (the “**Board**”) of Directors hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (the “**Group**”) for the six-month period ended 30 June 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. 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 lottery vending machines to the CSLA lottery shops. When Intradak obtains a contract from the CSLA, it places purchase orders with the Group. During the Reporting Period, the Group’s revenue generated from the sales of lottery terminals and parts to Intradak amounted to approximately HK\$3.0 million. After the Reporting Period and as at the date of this report, Intradak placed more purchase orders and revenues generated from the sales of lottery terminals and parts for the sports lottery amounted to HK\$7.0 million.

The Group has established a 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 from “Shi Shi Cai” was approximately HK\$0.3 million for the Reporting Period.

The Group established a non wholly-owned subsidiary, Shenzhen Lewanwuxian Information Technology Co., Ltd., (“**Shenzhen Lewanwuxian**”) in March 2018, which has since been engaged in operating online games. On 12 July 2018, Shenzhen Lewanwuxian entered into an image copyright license agreement with Fashion League Group (HK) Limited (“**Fashion League**”) for three years commencing from 1 June 2018, pursuant to which, Fashion League granted to Shenzhen Lewanwuxian an intellectual property right to use the image of the animated movie, namely UNDERDOG as the image to be used in the game. Development of the game is under process. It is expected that the game will be launched and start to generate revenue after the third quarter of 2018.

On 13 April 2018, the Company announced that a wholly-owned subsidiary of the Company, namely Interactive Lab Limited ("**Interactive Lab**"), was formed for exploring cutting-edge technologies and applications, including games, e-sports, virtual reality and augmented reality and blockchain technology. Interactive Lab has established a joint venture with an independent third party business partner to develop an online rating application and provide consulting services for cryptocurrencies and has entered into an investment agreement with such business partner in respect of the cooperation.

In addition, Hong Kong Interactive Lab Limited ("**Hong Kong Lab**"), a wholly-owned subsidiary of Interactive Lab, entered into a collaborative agreement with The Hong Kong Polytechnic University ("**PolyU**") on 30 July 2018 for a term of two years commencing from 1 August 2018. Pursuant to the collaborative agreement, Hong Kong Lab and PolyU have agreed to cooperate in a project to develop a rating system for cryptocurrencies. This project is aimed at establishing a set of rating criteria on cryptocurrencies to the blockchain based platforms. After the Reporting Period and as at the date of this report, Hong Kong Lab has provided funding and technical support to PolyU to conduct research on the rating system.

The Group will continue pursuing opportunities to develop international projects and PRC business opportunities which will leverage on the Group's corporate expertise in the gaming and entertainment industry and diversify its business so as to maximize long-term shareholders' value.

Financial Review

During the Reporting Period, the Group continued to be engaged in a single operating segment which is the lottery business. Total revenue of the Group amounted to HK\$3.3 million (six-month period ended 30 June 2017: HK\$10.1 million), a decrease of approximately 67% which comprised the following:

(1) Sales of lottery terminals and parts

Revenues generated from the sales of lottery terminals and parts for the sports lottery amounted to HK\$3.0 million (six-month period ended 30 June 2017: HK\$9.6 million), representing a decrease of approximately 69%. Such decrease was mainly attributable to the procurement cycle of CSLA for lottery vending machine(s) (also known as lottery terminal(s)) ("**LVM(s)**"), which is discussed in more details in the paragraph headed "Risk relating to reliance on a major customer and a major supplier" of this report below.

During the Reporting Period, the Group's largest customer, Intradak only placed purchase orders of approximately HK\$3.0 million with the Group.

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

Revenues derived from the provision of services and solutions for the distribution of lottery products for the Reporting Period amounted to HK\$0.3 million (six-month period ended 30 June 2017: HK\$0.5 million), representing a decrease of approximately 40%.

Operating Results

The Group recorded a loss of HK\$13.2 million for the Reporting Period, compared to HK\$6.3 million in the corresponding period of 2017, which was mainly attributable to the combined effect of:

- (i) increase in share-based compensation of approximately HK\$4.0 million. The increase was primarily due to non-cash expenses arising from the share options granted in January 2018; and
- (ii) increase in rental expenses and depreciation for decoration of approximately HK\$3.5 million for the Group's new office in Hong Kong.

Outlook

The lottery market in the PRC continues to show steady growth. The Group continues to explore new business models in the lottery terminal markets, online game operating and technologies and applications business which will leverage on our corporate expertise in the gaming and entertainment industry and diversify our business so as to maximize long-term shareholders' value.

Dividend

The Board does not recommend the payment of an interim dividend for the Reporting Period (six-month period ended 30 June 2017: Nil).

Risk relating to reliance on a major customer and a major supplier

The Group's only supplier, namely Wu Sheng Computer Technology (Shanghai) Co., Ltd. (伍盛計算機科技(上海)有限公司) ("**Wu Sheng**"), accounted for 100% (30 June 2017: 100%) of the Group's total purchases; and (ii) the Group's largest customer, Intradak accounted for 91% (30 June 2017: 80%) of the Group's total revenue. This gives rise to a risk that the Group is heavily reliant on a major customer and a major supplier. However, due to the particular characteristics of the lottery industry in the PRC, it may not be commercially practicable to switch the Group's major supplier and customer prior to the commencement of the next procurement cycle.

The Group has been supplying approved lottery vending machines (also named lottery terminals) with specifications approved and selected by the CSLA upon authentication (“**Approved LVMs**”) since 2008. “Authentication” refers to the approval and selection process of LVM(s) conducted by the CSLA at the very beginning of the LVMs procurement cycle. Prior to the commencement of the LVMs procurement cycle, authorised providers of Approved LVMs to the CSLA must provide the specifications and models of the LVMs to the CSLA for evaluation and selection before they are able to begin supplying the CSLA lottery shops with the approved models of LVMs. In general, the duration of the LVMs procurement cycle is approximately 5 to 7 years. Hence, for every 5 to 7 year 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.

Intradak is one of the six authorised providers of the 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 which, in turn, the Group places purchase orders with Wu Sheng, the LVMs manufacturer.

At the very beginning of the LVMs procurement cycle, the CSLA will formulate guidelines, specifications and requirements in respect of the new LVMs for the upcoming LVMs procurement cycle. LVMs are usually divided into two categories: (i) lower-end LVMs; and (ii) higher-end LVMs. According to the past practice, the CSLA will only approve one lower-end LVM and one higher-end LVM for each authorised provider. As such, for each LVMs procurement cycle, Intradak, one of the six authorised providers, will only submit one lower-end LVM model and one higher-end LVM model manufactured by Wu Sheng for authentication. To the best knowledge of the Group, Intradak has not submitted LVMs manufactured by suppliers other than Wu Sheng for authentication.

The Group signed the contracts with Intradak and Wu Sheng separately with pricing power. Wu Sheng is responsible for the manufacturing and installation of the Approved LVMs while the Group is responsible for (i) LVMs’ inspection and product warranty; (ii) repair and maintenance services. Apart from these aforementioned services, the Group also provides market information and feedback from LVMs users to Wu Sheng so as to improve their product quality.

The Group has a long-term relationship with Wu Sheng and Intradak which can be traced back to 2008, since then the Group has enjoyed a strong relationship with Wu Sheng and Intradak and the parties have been cooperating well. The Group has worked closely with Wu Sheng to ensure customers receive consistent service quality. As mentioned above, for each procurement cycle of the CSLA, the CSLA selects the Approved LVMs through the authentication process. As such, once an Approved LVM is selected, the authorised provider would tend to provide the same Approved LVM throughout the whole LVM procurement cycle in order to avoid any unforeseeable risks, such as any incompatibility between an existing Approved LVM used by the customer and other Approved LVMs from another authorised supplier. The sourcing of Approved LVMs from Wu Sheng is solely a commercial decision based on the quality, consistency and pricing of its products. There is no indication that the Group is unable to source Approved LVMs from other suppliers.

As the purchase agreement between the Group and Wu Sheng dated 15 May 2017 is on a non-exclusive basis, the Group is entitled to source Approved LVMs from other authorised suppliers any time at its discretion. There are other Approved LVM suppliers in the market such as Intralot International Limited (“**Intralot**”) and other independent thirdparty suppliers. Intralot is a minority shareholder of Precious Success Holdings Limited, which is one of the major subsidiaries of the Company. The Group established a business relationship with Intralot since 2008. The Group has worked closely with Intralot for China Welfare Lottery Issuance Centre in the PRC. In the unlikely event that the Group is unable to continue to source from Wu Sheng, it should not be difficult for the Group to obtain supplies from Intralot as well as from other suppliers.

Therefore, in light of the close business relationship with Wu Sheng, the Directors believe that it is not commercially practicable for either party to change the current partnership prior to the end of the procurement cycle of the CSLA, even though the purchase agreement is on a non-exclusive basis. Nonetheless, in order to reduce the Group’s reliance on Wu Sheng, the Group intends to source certain Approved LVMs from other suppliers, if the terms are competitive and the quality of the LVMs is comparable, from the beginning of the next procurement cycle onwards. If other suppliers of Approved LVMs can match the commercial terms and product quality with those of Wu Sheng, the Group will endeavour to source certain of the Approved LVMs from such other suppliers.

Further information on the customers and supplier is set out below:

(i) Customers

(a) Background of the major customer and its relationship with the Group

Beijing Huancai Information Technology Ltd. (北京環彩信息技術有限公司) (“**Beijing Huancai**”), an indirect non wholly-owned subsidiary of the Company, distributes Approved LVMs to Intradak, which is one of the six authorised providers (the “**Authorised Provider(s)**”) to supply Approved LVMs to the CSLA lottery shops and is one of the dominant players in the industry. The Group has established a long-term relationship with Intradak since 2008.

Typically, there is not much incentive for an Authorised Provider to change its supplier, since each supplier would generally have already established back-end arrangements in terms of technology and manufacturing know-how required to operate a specific Approved LVM which enables them to offer the most consistent quality at a competitive price. This effectively creates a stable long-term relationship between the supplier of an Approved LVM and an Authorised Provider.

(b) Credit terms granted to the major customer

Beijing Huancai offers a 60-day credit term to Intradak in general, which is in line with those granted to other customers.

(c) Details of the subsequent settlement of trade receivables with major customers

As per the settlement record, Intradak generally settles payment to Beijing Huancai within the stipulated credit term of 60 days.

(d) Risks associated with reliance on a major customer, and measures undertaken by the Group to mitigate such risks

Given the Group’s reliance on Intradak, a major customer, in the event of any business failure by Intradak or any interruption in its business, or if it decides to discontinue its business relationship with the Group, the Group’s business and hence its operation and financial position would be adversely affected.

The Company set up a risk management taskforce under the audit committee of the Board (the “**Risk Management Taskforce**”) to oversee and assess the Group’s risk management framework and a risk management policy was adopted by the Board. The risk management policy provides a risk assessment framework to identify and evaluate significant business, operational, financial and compliance risks. During the Reporting Period, the Risk Management Taskforce reviewed the Group’s risk management framework, conduct a risk assessment and also provide solutions addressing any identified risks. Certain identified risks cover areas such as finance, governance, operations and compliance as well as strategic and planning risks. These identified areas of risk are considered to be in line with the Company’s overall risk appetite and business objectives.

(ii) Suppliers

(a) Background of the major supplier and its relationship with the Group

Wu Sheng is principally engaged in the manufacturing of lottery terminals for the CSLA and China Welfare Lottery Issuance Centre through contracting with local authorised retailers, lottery-related POS products to worldwide lottery runners. Wu Sheng is the POS machine supplier of Intradak for the CSLA. The Group has established a long-term relationship with Wu Sheng since 2008.

(b) Credit terms granted by the major supplier

Wu Sheng offers a 60-day credit term to the Group, which is in line with those granted to its other customers and also in line with the credit term provided by other suppliers to the Group.

(c) Details of the subsequent settlement of trade payable with the major supplier

As per the settlement record, the Group generally settled payment to Wu Sheng within the stipulated credit term of 60 days.

(d) Risks associated with reliance on the major supplier, and measures undertaken by the Group to mitigate such risks

Considering the Group’s concentration of purchases from Wu Sheng as a single supplier, in the event of any business failure of Wu Sheng, any interruption in its business, or it decides to discontinue its business relationship with the Group, the Group’s business and hence its operation and financial position would be adversely affected.

The Risk Management Taskforce will therefore also oversee and assess the level of risk associated with the reliance on a major supplier. The risk management policy, as described above, provides a risk assessment framework for the Group to identify and evaluate significant business, operational, financial and compliance risks. During the Reporting Period, the Risk Management Taskforce reviewed the Group's risk management framework, conduct a risk assessment and also provide solutions addressing any identified risks. Certain identified risks cover areas such as finance, governance, operations and compliance as well as strategic and planning risks. These identified areas of risk are considered to be in line with the Company's overall risk appetite and business objectives.

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. The Group cannot rule out the possibilities of ceasing to trade Approved LVMs or the business related to CSLA in the future. After the end of the Reporting Period, the Group has commenced new business in the gaming industry.

Liquidity and Financial Resources

The Group continues to manage its balance sheet carefully and maintains conservative policies in cash and financial management. As at 30 June 2018, the Group's bank balances and cash (including bank deposits with original maturity over three months) amounted to HK\$165.9 million (31 December 2017: HK\$208.1 million). Of the cash and cash equivalents as at 30 June 2018, 94% (31 December 2017: 84%) of this amount was denominated in Hong Kong Dollars ("**HK\$**"), with the remaining balance in Renminbi ("**RMB**"). The decrease in bank balance and cash was mainly due to the new investments and the operating expenses during the Reporting Period.

The Group anticipates that the substantial amount of “bank balances and cash” shown in the condensed consolidated statement of financial position as at 30 June 2018 (in aggregate amounting to HK\$165.9 million) will be deployed in new investment opportunities.

Capital Structure and Gearing Ratio

As at 30 June 2018, net current assets of the Group were HK\$212.7 million (31 December 2017: net current assets of HK\$248.7 million).

The Group did not have any bank borrowings for the Reporting Period (31 December 2017: Nil) and generally financed its operations with internal resources.

The gearing ratio of the Group (total borrowings divided by shareholders’ funds) was nil as at 30 June 2018 (31 December 2017: Nil).

Loan Receivable

On 18 October 2017, the Company granted a loan (“**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 Target is a company incorporated in the PRC and a non-wholly-owned subsidiary of the Borrower.

The principal amount of the Loan together with all accrued and unpaid interest 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.

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 do not expect that the Notes will be redeemed early.

Capital Commitment and Contingent Liabilities

As at 30 June 2018 and 31 December 2017, the Group had no significant capital commitments contracted but not provided for in the consolidated financial statements and it also did not have any significant contingent liabilities.

Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Capital Assets

Except for those disclosed in this report, there were no other significant investments held, material acquisitions, or disposals of subsidiaries during the Reporting Period. Apart from those disclosed in this report, there was no plan authorised by the Board for other material investments or additions of capital assets at the date of this report.

Charges on Group Assets

None of the Group’s assets were pledged as at 30 June 2018 and 31 December 2017.

Exposure of Fluctuations in Exchange Rates

As at 30 June 2018, all assets and liabilities of the Group were denominated in HK\$ and RMB. During the Reporting Period, the business activities of the Group were mainly denominated in HK\$ and RMB. Since the impact of foreign exchange exposure has been insignificant, no hedging or other alternatives have been implemented.

Staff and Remuneration Policy

As at 30 June 2018, the Group had a total of 18 full-time employees (30 June 2017: 14). For the Reporting Period, the employee benefits costs amounted to HK\$8.1 million (six-month period ended 30 June 2017: HK\$5.5 million). The Group continues to provide remuneration packages to employees that are in line with market practices and past performance. The Group also provides employees with other benefits such as a mandatory provident fund, medical insurance scheme, share option scheme and staff training program.

Subsequent Event After the End of the Reporting Period

As announced by the Company on 3 August 2018, 樂透互娛信息技術（深圳）有限公司 (Loto Interactive Information Technology (Shenzhen) Limited) (“**Loto Shenzhen**”), a wholly-owned subsidiary of the Company, conditionally entered into a cooperation agreement (“**Cooperation Agreement**”) with 深圳市易訊天空網絡技術有限公司 (Shenzhen E-sun Sky Network Information Technology Co., Ltd.) (“**E-sun Sky**”). Subject to the approval of the independent shareholders of the Company at the extraordinary general meeting to be convened, Loto Shenzhen conditionally agreed to supply Android sports lottery terminal(s) to E-Sun Sky, refer offline lottery ticket sales outlets to E-Sun Sky and to procure their cooperation, and procure the strategic cooperation between websites with substantial online traffic and E-Sun Sky in order to channel online traffic to offline ticket sales. For details of the Cooperation Agreement, please refer to the Company’s announcement dated 3 August 2018.

Changes since 31 December 2017

Other than the aforementioned, there were no other significant changes in the Group’s financial position or from the information disclosed under section headed “Management Discussion and Analysis” in the annual report for the year ended 31 December 2017.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six-month period ended 30 June 2018

	Notes	Three-month period ended 30 June		Six-month period ended 30 June	
		2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Revenue	3	3,115	338	3,251	10,126
Cost of sales		(3,511)	-	(3,511)	(9,116)
Gross profit		(396)	338	(260)	1,010
Other income and gains		2,359	919	4,592	2,020
Selling expenses		(88)	-	(119)	(1)
Administrative expenses		(9,933)	(4,996)	(16,892)	(8,601)
Finance costs		28	(1)	28	(10)
Other expenses		(16)	(323)	(489)	(614)
Share of profit/(losses) of joint ventures		(56)	16	(56)	16
Loss before taxation		(8,102)	(4,047)	(13,196)	(6,180)
Taxation	5	-	-	-	(83)
Loss for the period	7	(8,102)	(4,047)	(13,196)	(6,263)
Other comprehensive income					
<i>Item that will not be reclassified subsequently to profit or loss:</i>					
Exchange differences arising on translation to presentation currency		(1,734)	156	(942)	310
Total comprehensive expense for the period		(9,836)	(3,891)	(14,138)	(5,953)

	Notes	Three-month period ended 30 June		Six-month period ended 30 June	
		2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Loss for the period attributable to:					
Owner of the Company		(7,789)	(3,808)	(12,822)	(5,883)
Non-controlling interests		(313)	(239)	(374)	(380)
		(8,102)	(4,047)	(13,196)	(6,263)
Total comprehensive (expense) income attributable to:					
Owners of the Company		(9,645)	(3,713)	(14,269)	(5,723)
Non-controlling interests		(191)	(178)	131	(230)
		(9,836)	(3,891)	(14,138)	(5,953)
Loss per share					
– Basic and diluted	8	HK(0.25) cents	HK(0.12) cents	HK(0.41) cents	HK(0.19) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
Non-Current Assets			
Property, plant and equipment		2,447	355
Investment in associate		10,000	–
Investment in joint venture		8,192	–
Loan receivable		97,103	94,214
Long-term deferred expenses		4,458	1,695
Structured notes		50,101	50,086
Total Non-Current Assets		172,301	146,350
Current Assets			
Trade and other receivables	9	75,345	24,982
Structured notes		–	50,116
Amount due from related companies		2	–
Bank balances and cash		165,862	208,138
Total Current Assets		241,209	283,236
Current Liabilities			
Trade and other payables	10	22,830	29,669
Amount due to a holding company		2,342	1,447
Tax payable		3,324	3,469
Total Current Liabilities		28,496	34,585
Net Current Assets		212,713	248,651
Total Assets Less Current Liabilities		385,014	395,001

	<i>Notes</i>	As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
Capital and Reserves			
Share capital	<i>11</i>	31,459	31,459
Reserves		346,827	356,945
Equity attributable to owners of the Company		378,286	388,404
Non-controlling interests		6,728	6,597
Total Equity		385,014	395,001

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended 30 June 2018

	Attributable to owners of the parent						Total HK\$'000	Non- controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Share-based payment reserve HK\$'000	Other reserve HK\$'000	Exchange reserve HK\$'000	(Accumulated losses)/ retained earnings HK\$'000			
At 1 January 2017 (audited)	31,456	327,878	91,987	(5,255)	3,159	(44,376)	404,649	7,900	412,549
Loss for the period	-	-	-	-	-	(5,883)	(5,883)	(380)	(6,263)
Other comprehensive income/(loss) for the period	-	-	-	-	160	-	160	150	310
Total comprehensive income/(loss) for the period	-	-	-	-	160	(5,883)	(5,723)	(230)	(5,953)
Equity-settled share-based payment expense	-	-	394	-	-	-	394	-	394
Cash-settled for share-based payment	-	-	(5,000)	-	-	-	(5,000)	-	(5,000)
At 30 June 2017 (unaudited)	31,456	327,878	87,381	(5,255)	3,319	(50,459)	394,320	7,670	401,990
At 1 January 2018 (audited)	31,459	327,928	-	(5,255)	4,418	29,854	388,404	6,597	395,001
Loss for the period	-	-	-	-	-	(12,822)	(12,822)	(374)	(13,196)
Other comprehensive income for the period	-	-	-	-	(1,887)	440	(1,447)	505	(942)
Total comprehensive income/(loss) for the period	-	-	-	-	(1,887)	(12,382)	(14,269)	131	(14,138)
Acquisition of subsidiary	-	-	-	-	-	175	175	-	175
Equity-settled share-based payment expense	-	(22)	3,998	-	-	-	3,976	-	3,976
At 30 June 2018 (unaudited)	31,459	327,906	3,998	(5,255)	2,531	17,647	378,286	6,728	385,014

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month period ended 30 June 2018

	Six-month period ended June 30	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(13,196)	(6,180)
Adjustments for:		
Equity-settled share-based payment expense	3,998	394
Depreciation of property, plant and equipment	657	49
Share of losses/(profits) of joint ventures	56	(16)
Interest income	(4,205)	(1,642)
Exchange differences, net	74	(170)
	(12,616)	(7,565)
(Increase)/decrease in trade receivables	5,045	(6,243)
(Increase)/decrease in prepayments, deposits and other receivables	(7,051)	931
Increase/(decrease) in trade payables	(7,390)	(3,984)
Decrease in other payables and accruals	–	(1,304)
Increase in amounts due to related parties	1,162	–
Decrease in amount due to a fellow subsidiary	–	(2,051)
Cash used in operations	(20,850)	(20,216)
Income taxes paid	(99)	(84)
Net cash flows used in operating activities	(20,949)	(20,300)
CASH FLOWS FROM INVESTING ACTIVITIES		
Withdrawal of structured notes	–	50,000
Purchases of items of property, plant and equipment	(2,749)	(98)
Prepayment for long-term assets	(21,012)	–
Withdrawal of bank deposits with original maturity over three months	–	245,664
Placement of bank deposits with original maturity over three months	–	(112,877)
Interest received	1,386	1,389
Net cash flows from investing activities	(22,375)	184,078

	Six-month period ended June 30	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment to related party	–	(474)
Cash settlement for share options	–	(5,000)
Net cash flows used in financing activities	–	(5,474)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(43,324)	158,304
Cash and cash equivalents at beginning of year	208,138	87,483
Effect of foreign exchange rate changes, net	1,048	721
CASH AND CASH EQUIVALENTS AT END OF YEAR	165,862	246,508
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	165,862	246,508
Cash and cash equivalents as stated in the statement of cash flows	165,862	246,508

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 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 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 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 and the Reporting Period is as follows:

	Three-month period ended 30 June		Six-month period ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Trading of lottery terminals and parts	2,967	–	2,967	9,586
Provision of services and solutions for distribution of lottery products	148	338	284	540
	3,115	338	3,251	10,126

(4) SEGMENT INFORMATION

The Group's revenue and contribution to loss were solely derived from lottery business which comprises of the provision of services and solutions for distribution of lottery products, and the trading of lottery terminals and parts. The chief operating decision maker, being the Chief Executive Officer, reviews the internally reported consolidated financial information of the Group for the lottery business as a whole for purposes of resource allocation and performance assessment. The Group has two operating segments, which is the lottery business and online game operating business. During the Reporting Period, the online game operating business has not generated revenue.

The revenue of products and services is set out in note 3.

(5) TAXATION

	Three-month period ended 30 June		Six-month period ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
PRC Enterprise Income Tax – current period	–	83	–	83

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.

(6) DIVIDEND

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

(7) LOSS FOR THE PERIOD

	Three-month period ended 30 June		Six-month period ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Loss for the period has been arrived at after charging:				
Depreciation and amortisation expenses	985	38	1,021	49
Salaries, bonus and other benefits	2,294	3,458	4,122	5,479
Share option expenses	1,999	–	3,998	–
Rental expenses	1,567	270	3,118	629

(8) LOSS PER SHARE

The calculation of basic loss per share for the three-month period and the Reporting Period is based on the loss attributable to owners of the Company of approximately HK\$7,789,000 and HK\$12,822,000 (three-month period and six-month period ended 30 June 2017: HK\$3,808,000 and HK\$5,883,000) and on the weighted average number of approximately 3,145,935,836 and 3,145,935,836 (three-month period and six-month period ended 30 June 2017: 3,145,656,900 and 3,145,656,900) 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 a decrease in loss per share.

(9) TRADE AND OTHER RECEIVABLES

The Group allows credit periods ranging from 30 to 90 days to its trade customers. The following is an aged analysis of trade receivables, net of allowance for doubtful debts, presented based on the invoice date at the end of the Reporting Period:

	As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
Trade receivables:		
Within 30 days	2,159	10,457
31-90 days	–	–
91-180 days	103	5,809
181-365 days	12,372	3,432
	14,634	19,698
Other receivables	55,583	1,370
Interests receivables	487	248
Prepayments and deposits	4,641	3,666
	75,345	24,982

(10) TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables based on the invoice date at the end of the Reporting Period:

	As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
Trade payables:		
Within 30 days	149	10,256
31-90 days	–	–
91-180 days	3,155	5,518
181-365 days	8,899	2,381
	12,203	18,155
Other payables	9,606	10,006
Accruals	1,021	1,508
	22,830	29,669

(11) SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each:		
Issued and fully paid:		
At 31 December 2017 and 30 June 2018	3,145,935,836	31,459

(12) RELATED PARTY TRANSACTIONS

- a. During the Reporting Period, the Group had the following transactions with related parties:

Class of related parties	Nature of transactions	Six-month period ended 30 June	
		2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Subsidiary of a 49% non-controlling shareholder of a group company	Purchase of lottery terminals and parts	–	9,116

- b. Compensation of key management personnel

The remuneration of Directors and other members of key management during the Reporting Period is as follows:

	Six-month period ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Short-term benefits	2,500	1,966
Post-employment benefits	23	9
Share-based payments	3,998	134
	6,521	2,109

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 TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the Reporting Period.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 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 30 June 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	300,000	0.71%
Ms. Huang Lilan	5,922	0.01%
Mr. Yuan Qiang	28,073	0.07%

(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	35,000	303,333	0.72%
Ms. Huang Lilan	15,500	2,334	17,834	0.04%
Mr. Yuan Qiang	26,667	6,666	33,333	0.08%

Notes:

1. As at 30 June 2018, the total number of issued and outstanding shares of 500.com was 42,255,233.
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 2019
 - 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 2019
 - 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 15,500 ADS Options held by Ms. Huang Lilan are as follows:

- 167 ADS Options granted on 19 June 2014 at exercise price of US\$10.00 may be exercised from 19 June 2015 to 19 June 2019
- 2,000 ADS Options granted on 19 June 2014 at exercise price of US\$10.00 may be exercised from 19 June 2016 to 19 June 2019
- 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 2019
- 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 35,000 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
 - 30,000 awarded shares granted on 15 August 2017 will vest on 1 June 2019

Details of the 2,334 awarded shares held by Ms. Huang Lilan are as follows:

- 2,334 awarded shares granted on 15 August 2017 will vest on 1 June 2019

Details of the 6,666 awarded shares held by Mr. Yuan Qiang are as follows:

- 6,666 awarded shares granted on 15 August 2017 will vest on 1 June 2019

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 30 June 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 30 June 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 Lilan	-	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	-	(6,000,000)	-	84,000,000			
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	-	(6,000,000)	-	153,400,000			

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 30 June 2018, the interests 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:

1. As at 30 June 2018, the total number of issued shares of the Company was 3,145,935,836.
2. As at 30 June 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.
3. 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 30 June 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.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance in fulfilling the responsibilities to shareholders. The Company has complied with the Corporate Governance Code set out in Appendix 15 of the GEM Listing Rules during the period from 1 January 2018 to 30 June 2018.

The Company has established an audit committee, a remuneration committee and a nomination committee to ensure maintenance of a high corporate governance standard. Terms of reference of the aforesaid committees have been posted on the Company's website at www.lotoie.com under the "Corporate Governance" section.

SECURITIES DEALINGS BY DIRECTORS

The Company has adopted its own code for dealing in the Company's securities by Directors ("**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. Having made specific enquiry of the Directors, all the Directors confirmed that they have complied with the required standard set out in the Code of Securities Dealings throughout the Reporting Period.

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 interim report 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 August 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*