



Loto Interactive Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8198)

www.lotoie.com

FIRST QUARTER REPORT 2019



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This report, for which 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 for the purpose of giving information with regard to the Company. The directors of the Company, 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.

UNAUDITED CONDENSED CONSOLIDATED RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Loto Interactive Limited (the “**Company**”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the three-month period ended 31 March 2019 (the “**Reporting Period**”) as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three-month period ended 31 March 2019

	Notes	Three-month period ended 31 March	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
REVENUE	3	1,318	136
Cost of sales		(746)	–
Gross profit		572	136
Other income and gains		2,254	2,233
Selling expenses		(30)	(30)
Administrative expenses		(7,609)	(6,959)
Research and development cost		–	(437)
Finance costs		–	–
Other expenses		(220)	(473)
LOSS BEFORE TAX		(5,033)	(5,530)
Income tax expense	4	–	–
LOSS FOR THE PERIOD		(5,033)	(5,530)

		Three-month period ended 31 March	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
	Notes		
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		63	791
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(4,970)	(4,739)
LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		(5,021)	(5,469)
Non-controlling interests		(12)	(61)
		(5,033)	(5,530)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		(6,006)	(5,061)
Non-controlling interests		1,036	322
		(4,970)	(4,739)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (HK\$ cents)			
– Basic and diluted	6	(0.16)	(0.17)

NOTES:

(1) BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of the GEM Listing Rules and with Hong Kong Accounting Standard 34, Interim Financial Reporting.

(2) SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention. The same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2018, except for the adoption of all the new and revised Hong Kong Financial Reporting Standards, amendments and interpretations ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2019. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current period and prior years.

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 ended 31 March 2019 is as follows:

	Three-month period ended 31 March	
	2019 HK\$'000	2018 HK\$'000
Big data centre services	1,070	–
Distribution of mobile gaming	241	–
Provision of services and solutions for distribution of lottery products	7	136
	1,318	136

(4) TAXATION

	Three-month period ended 31 March	
	2019 HK\$'000	2018 HK\$'000
PRC Enterprise Income Tax – current period	–	–

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit arising from Hong Kong for the three-month period ended 31 March 2019 and its corresponding period in 2018.

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

(5) DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Reporting Period (31 March 2018: Nil).

(6) LOSS PER SHARE

The calculation of basic loss per share for the three-month period ended 31 March 2019 is based on the unaudited loss attributable to owners of the Company of approximately HK\$5.0 million (three-month period ended 31 March 2018: HK\$5.5 million) and on the weighted average number of approximately 3,145,935,836 (three-month period ended 31 March 2018: 3,145,935,836) ordinary shares in issue during the period.

The computation of diluted loss per share in 2019 and 2018 did not include the Company's outstanding share options since their assumed exercise would result in the decrease in the diluted loss per share.

(7) SHARE CAPITAL AND RESERVES

	Attributable to owners of the Company									
	Issued capital	Share premium	Share-based payment reserve	Other reserve	Exchange reserve	Equity investment revaluation reserve	Accumulated losses/retained earnings	Sub-Total	Non-controlling interests	Total equity
	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 period	-	-	-	-	-	-	(5,021)	(5,021)	(12)	(5,033)
Other comprehensive (loss)/income for the period	-	-	-	-	(859)	(126)	-	(985)	1,048	63
Total comprehensive (loss)/income for the period	-	-	-	-	(859)	(126)	(5,021)	(6,006)	1,036	(4,970)
Equity-settled share-based payment expense	-	-	732	-	-	-	-	732	-	732
At 31 March 2019 (unaudited)	31,459	327,928	13,330	(5,255)	1,197	-	(9,060)	359,599	7,315	366,914
At 1 January 2018 (audited)	31,459	327,928	-	(5,255)	4,418	-	29,854	388,404	6,597	395,001
Loss for the year	-	-	-	-	-	-	(34,087)	(34,087)	(694)	(34,781)
Other comprehensive (loss)/income for the year	-	-	-	-	(2,362)	126	-	(2,236)	376	(1,860)
Total comprehensive (loss)/income for the year	-	-	-	-	(2,362)	126	(34,087)	(36,323)	(318)	(36,641)
Equity-settled share-based payment expense	-	-	12,792	-	-	-	-	12,792	-	12,792
Lapsed of share option scheme	-	-	(194)	-	-	-	194	-	-	-
At 31 December 2018 (audited)	31,459	327,928	12,598	(5,255)	2,056	126	(4,039)	364,873	6,279	371,152

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is principally engaged in (i) provision of data analysis and storage services (the “**big data centre services**”), (ii) distribution of mobile gaming (the “**online game business**”) and (iii) trading of lottery terminals and parts and the provision of lottery-related technologies, systems and solutions to two state-run lottery operators in the People’s Republic of China (the “**PRC**”), namely the China Welfare Lottery Issuance Centre and China Sports Lottery Administration Centre (“**CSLA**”) (the “**lottery business**”).

Big Data Centre Services

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

In March 2019, the Group was pleased to witness that the Big Data Center for providing data analysis, storage services and ancillary administrative and consulting services in Sichuan, China, has been completed and started to generate revenue of approximately HK\$1.1 million. This big data centre services business contributed approximately 85% of the Group’s revenue of the Reporting Period.

Online Game Business

In line with the leisure and entertainment business layout of the Group’s development strategy, the Group engaged in the distribution of online mobile games since August 2018 and recorded revenue of approximately HK\$0.2 million for the Reporting Period. A new game of which the Company has exclusive distribution right is expected to be launched in May 2019.

Lottery Business

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

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

The Company will closely monitor the market condition and any development in the regulatory framework and will be proactive in seeking new opportunity to provide innovative services to the China lottery market participants while shift away from the existing low margin lottery terminals trading business. The Group cannot rule out the possibilities of ceasing to trade the approved lottery vending machines or the business related to CSLA in the future.

Financial Review

The Group is engaged in three operating segments which are the big data centre services, online game business and lottery business. Total revenue of the Group amounted to HK\$1.3 million (three-month period ended 31 March 2018: HK\$0.1 million), an increase of approximately HK\$1.2 million, which comprised the following:

(1) Big data centre services

Revenue contributed by the big data centre providing data analysis, storage services and ancillary administrative and consulting services started in March 2019, which was a new business for the Reporting Period amounted to HK\$1.1 million.

(2) Online game business

Revenue generated from online game business operated since late August 2018 amounted to HK\$0.2 million for the Reporting Period.

(3) Lottery business

During the Reporting Period, the Group recorded revenue of approximately HK\$7,000, representing a decrease of HK\$129,000 (three-month period ended 31 March 2018: HK\$136,000). No revenue was generated from sales of lottery terminals and parts for the sports lottery due to the particular procurement cycle of the CSLA as explained above.

Operating Results

The Group recorded a loss of HK\$5.0 million for the Reporting Period, representing a slight decrease of HK\$0.5 million or 9% as compared to a loss of HK\$5.5 million for the corresponding period in 2018, which was mainly attributable to the increase of revenue for the new business amounted to HK\$1.2 million, which was partially offset by the increase of related cost of sales amounted to HK\$0.7 million.

Dividend

The Directors do not recommend the payment of an interim dividend for the Reporting Period (three-month period ended 31 March 2018: Nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2019, 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 2019, 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	305,000	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	30,000	298,333	0.70%
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 31 March 2019, the total number of issued and outstanding shares of 500.com was 42,748,851.
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 30,000 awarded shares held by Mr. Pan Zhengming are as follows:

- 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 31 March 2019.

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 2019	Date of grant	Exercise price (HK\$)	Exercise period (Note)
	As at 1 January 2019	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
Sub-total:	84,000,000	-	-	-	-	84,000,000			
Employees	1,800,000	-	-	-	-	1,800,000	05.01.2018	0.20	1
Others (Note 2)	67,600,000	-	-	-	-	67,600,000	05.01.2018	0.20	1
Total:	153,400,000	-	-	-	-	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. 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 2019, 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	Number of shares held	Approximate percentage of total issued shares of the Company
			<i>(Note)</i>
500.com Limited	Beneficial owner	1,278,714,329	40.65%

Note:

As at 31 March 2019, the total number of issued shares of the Company was 3,145,935,836.

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 2019.

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 of the Company.

By Order of the Board
Loto Interactive Limited
Wang Bingzhong

Chief Executive Officer and Executive Director

Hong Kong, 7 May 2019

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*