



Loto Interactive Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8198)

www.lotoie.com

INTERIM REPORT 2019

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MANAGEMENT DISCUSSION AND ANALYSIS

The board (the “**Board**”) of directors (the “**Directors**”) of Loto Interactive Limited (the “**Company**”) hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (the “**Group**”) for the six-month period ended 30 June 2019 (the “**Reporting Period**”) as follows:

Business Review

The Group is principally engaged in (i) provision of data analysis and storage services (the “**big data centre services**”), (ii) distribution of mobile gaming (the “**online game business**”) and (iii) 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 the big data centres (the “**Big Data Centres**”) in relation to the big data centre services at the beginning of the year of 2019.

The Group operates two Big Data Centres in Sichuan, China, providing data analysis, storage services and ancillary administrative and consulting services. Revenue generated from the Big Data Centres consists of services fees and/or rental income charged on the users for provision of big data centre services and use of storage places. During the Reporting Period, the Big Data Centres generated revenue of approximately HK\$6.6 million and contributed 93% 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 and recorded revenue of approximately HK\$0.4 million for the Reporting Period.

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, in 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. During the Reporting Period, total revenue of the Group amounted to HK\$7.1 million (six-month period ended 30 June 2018: HK\$3.3 million), an increase of approximately HK\$3.8 million, which comprised the following:

(1) Big data centre services

Revenue contributed by the Big Data Centres for providing data analysis, storage services and ancillary administrative and consulting services amounted to HK\$6.6 million for the Reporting Period.

(2) Online game business

Revenue generated from online game business amounted to HK\$0.4 million for the Reporting Period.

(3) Lottery business

During the Reporting Period, the Group recorded revenue in the provision of services and solutions for distribution of lottery products of approximately HK\$0.1 million, representing a decrease of HK\$0.2 million (six-month period ended 30 June 2018: HK\$0.3 million). 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 (six-month period ended 30 June 2018: HK\$3.0 million).

Operating Results

The Group recorded a loss of HK\$14.9 million for the Reporting Period, representing an increase of HK\$1.7 million or 13% as compared to a loss of HK\$13.2 million for the corresponding period in 2018, which was mainly attributable to the combined effect of:

- (i) increase in revenue of HK\$3.8 million which was attributable to the increase in revenue generated from the big data centre business and online game business in the aggregate amount of HK\$7.0 million which was partially offset by the decrease in revenue generated from the lottery business amounted to HK\$3.2 million;
- (ii) increase in staff cost of HK\$3.2 million which was attributable to the increase in number of full-time employees which at the end of the Reporting Period was double the number as of 30 June 2018 (30 June 2019: 36; 30 June 2018: 18);
- (iii) increase in non-cash expenses arising from depreciation for the Big Data Centres of HK\$1.8 million; and
- (iv) increase in share-based compensation expenses of HK\$0.9 million which was primarily due to the grant of share options in April 2019.

Outlook

We had built two Big Data Centres in Sichuan, China, which had commenced operations in March and June 2019, respectively, to provide data analysis, storage services and ancillary administrative and consulting services. We are delighted to see the obvious growth of this new business and contribution to the Company.

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.

Dividend

The Directors do not recommend the payment of an interim dividend for the Reporting Period (six-month period ended 30 June 2018: Nil).

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 2019, the Group's bank balances and cash (including bank deposits with original maturity over three months) amounted to HK\$182.1 million (31 December 2018: HK\$198.2 million). Of the cash and cash equivalents as at 30 June 2019, 93% (31 December 2018: 91%) of this amount was denominated in Hong Kong Dollars ("HK\$"), with the remaining balance in Renminbi and United States dollars. The decrease in bank balance and cash was mainly due to the investments in new business and the operating expenses during the Reporting Period.

The Group anticipates that the substantial amount of "bank deposits with original maturity over three months" and "bank balances and cash" shown in the condensed consolidated statement of financial position as at 30 June 2019 (in aggregate amounting to HK\$182.1 million) will be deployed in new investment opportunities.

Capital Structure and Gearing Ratio

As at 30 June 2019, net current assets of the Group were HK\$229.0 million (31 December 2018: HK\$341.6 million).

The Group did not have any bank borrowings for the Reporting Period (31 December 2018: Nil) and generally financed its operations with internal resources.

The gearing ratio of the Group (total bank borrowings divided by shareholders' funds) was nil as at 30 June 2019 (31 December 2018: Nil).

Loan Receivable

On 18 October 2017, the Company granted a loan (the "**Loan**") to an independent third party, Yourich Inc Limited (the "**Borrower**"), in the principal amount of HK\$99,000,000 at the interest rate of 6% per annum for a term of two years. The 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 principal amount of the Loan together with all accrued and unpaid interests 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 24 July 2017, the Group subscribed, at par, for 24-month puttable step-up coupon notes issued by BOCI Financial Products Limited (the "**Issuer**") in a principal amount of HK\$50,000,000 (the "**2017 Notes**"). The 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.

After the Reporting Period, the total principal and related interests of the 2017 Notes have been fully redeemed on 1 August 2019.

Subscription of a Convertible Note

As announced by the Company on 19 June 2019, 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, as subscriber, entered into the convertible note agreement (the "**Convertible Note Agreement**") with 深圳芯行科技有限公司 (Shenzhen Chipchain Technologies Co., Ltd.), as debtor (the "**Debtor**"), pursuant to which Loto Shenzhen agreed to subscribe from the Debtor, an independent third party, a note (the "**Note**") in the principal amount of RMB10,000,000 for a term of six months, during which Loto Shenzhen is entitled to convert the Note into 3.33% of the equity interest in the Debtor.

Capital Commitment and Contingent Liabilities

As at 30 June 2019, the Group has outstanding capital commitments of HK\$138.7 million (31 December 2018: HK\$33.5 million), of which HK\$87.9 million (31 December 2018: HK\$22.1 million) related to property, plant and equipment which are contracted but not provided for and HK\$50.8 million (31 December 2018: HK\$11.4 million) related to contribution to subsidiaries which was contracted.

Save as disclosed above, the Group had no significant capital commitments and contingent liabilities as at 30 June 2019.

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 2019 and 31 December 2018.

Exposure of Fluctuations in Exchange Rates

As at 30 June 2019, all assets and liabilities of the Group were denominated in HK\$, RMB and USD. 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 2019, the Group had a total of 36 full-time employees (30 June 2018: 18). For the Reporting Period, the employee benefits costs amounted to HK\$12.3 million (six-month period ended 30 June 2018: HK\$8.1 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 schemes and staff training program.

Changes since 31 December 2018

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 2018.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six-month period ended 30 June 2019

	Notes	Three-month period ended 30 June		Six-month period ended 30 June	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Revenue	3	5,787	3,115	7,105	3,251
Cost of sales		(3,295)	(3,511)	(4,345)	(3,511)
Gross profit		2,492	(396)	2,760	(260)
Other income and gains		1,677	2,359	4,994	4,592
Selling expenses		(117)	(88)	(147)	(119)
Administrative expenses		(13,617)	(9,933)	(21,985)	(16,892)
Finance costs		(261)	28	(374)	28
Other expenses		(70)	(16)	(70)	(489)
Share losses of associates		(17)	(56)	(124)	(56)
Loss before taxation		(9,913)	(8,102)	(14,946)	(13,196)
Taxation	5	-	-	-	-
Loss for the period	7	(9,913)	(8,102)	(14,946)	(13,196)
OTHER COMPREHENSIVE LOSS					
Exchange differences on translation of foreign operations		(441)	(1,734)	(378)	(942)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(10,354)	(9,836)	(15,324)	(14,138)

	Notes	Three-month period ended 30 June		Six-month period ended 30 June	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
LOSS FOR THE PERIOD					
ATTRIBUTABLE TO:					
Owner of the Company		(9,726)	(7,789)	(14,747)	(12,822)
Non-controlling interests		(187)	(313)	(199)	(374)
		(9,913)	(8,102)	(14,946)	(13,196)
TOTAL COMPREHENSIVE					
LOSS FOR THE PERIOD					
ATTRIBUTABLE TO:					
Owners of the Company		(10,112)	(9,645)	(16,118)	(14,269)
Non-controlling interests		(242)	(191)	794	131
		(10,354)	(9,836)	(15,324)	(14,138)
LOSS PER SHARE					
ATTRIBUTABLE TO					
ORDINARY EQUITY					
HOLDERS OF					
THE COMPANY					
(HK\$ cents)					
– Basic and diluted	8	(0.32)	(0.25)	(0.47)	(0.41)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
Non-current Assets			
Property, plant and equipment		105,712	6,486
Investment in associates		12,765	12,959
Equity investment at fair value through other comprehensive income		10,126	10,126
Other non-current assets		5,606	–
Total Non-current Assets		134,209	29,571
Current Assets			
Loan receivables		97,150	94,221
Structured notes		50,147	50,371
Trade and other receivables	9	31,839	17,556
Bank balances and cash		182,098	198,221
Total Current Assets		361,234	360,369
Current Liabilities			
Trade and other payables	10	113,059	15,471
Amount due to the holding Company		11,382	39
Tax payable		3,278	3,278
Other current liabilities		4,492	–
Total Current Liabilities		132,211	18,788
Net Current Assets		229,023	341,581
Total Assets less Current Liabilities		363,232	371,152

	<i>Notes</i>	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
Non-current Liabilities			
Long-term payable		1,114	–
Total Non-current Liabilities		1,114	–
Net Assets		362,118	371,152
Capital and Reserves			
Share capital	11	31,586	31,459
Reserves		323,459	333,414
Equity attributable to owners of the Company		355,045	364,873
Non-controlling interests		7,073	6,279
		362,118	371,152

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended 30 June 2019

	Attributable to owners of the Company									
	Issued capital HK\$'000	Share premium HK\$'000	Share-based payment reserve HK\$'000	Other reserve HK\$'000	Exchange reserve HK\$'000	Equity investment revaluation reserve HK\$'000	(Accumulated losses)/ retained earnings HK\$'000	Sub-Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
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
At 1 January 2019 (audited)	31,459	327,928	12,598	(5,255)	2,056	126	(4,039)	364,873	6,279	371,152
Loss for the year	-	-	-	-	-	-	(14,747)	(14,747)	(199)	(14,946)
Other comprehensive (loss)/ income for the year	-	-	-	-	(1,245)	(126)	-	(1,371)	993	(378)
Total comprehensive (loss)/ income for the year	-	-	-	-	(1,245)	(126)	(14,747)	(16,118)	794	(15,324)
Equity-settled share-based payment expense	-	-	4,897	-	-	-	-	4,897	-	4,897
Issuance of ordinary shares from exercise of share options	127	1,266	-	-	-	-	-	1,393	-	1,393
At 30 June 2019 (unaudited)	31,586	329,194	17,495	(5,255)	811	-	(18,786)	355,045	7,073	362,118

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month period ended 30 June 2019

	Six-month period ended June 30	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(14,946)	(13,196)
Adjustments for:		
Equity-settled share-based payment expense	4,897	3,998
Depreciation of property, plant and equipment	2,803	657
Share of losses of associates	124	56
Interest income	(4,994)	(4,205)
Exchange differences, net	(53)	74
	(12,169)	(12,616)
(Increase)/decrease in trade receivables	(2,373)	5,045
Increase in prepayments, deposits and other receivables	(542)	(7,051)
Increase/(decrease) in trade payables	649	(7,390)
Decrease in other payables and accruals	(532)	-
Increase in amounts due to related parties	14	1,162
Cash used in operations	(14,953)	(20,850)
Income taxes paid	-	(99)
Net cash flows used in operating activities	(14,953)	(20,949)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(20,905)	(2,749)
Prepayment for long-term assets	-	(21,012)
Advance of loan to an independent third party	(11,368)	-
Interest received	1,693	1,386
Net cash flows used in investing activities	(30,580)	(22,375)

	Six-month period ended June 30	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Advance from a related party	11,256	–
Advance from an independent third party	16,279	–
Cash settlement for share options	1,393	–
Net cash flows generated from financing activities	28,928	–
NET DECREASE IN CASH AND CASH EQUIVALENTS	(16,605)	(43,324)
Cash and cash equivalents at beginning of year	198,221	208,138
Effect of foreign exchange rate changes, net	482	1,048
CASH AND CASH EQUIVALENTS AT END OF YEAR	182,098	165,862
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	182,098	165,862
Cash and cash equivalents as stated in the statement of cash flows	182,098	165,862

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.

Except for HKFRS 16, Leases, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the unaudited consolidated financial statements.

Lease

The group has initially applied HKFRS 16 from 1 January 2019. The group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the impacts on transition are set out below:

(a) Changes in the accounting policies

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain re-measurements of the lease liability. The group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019.

At the date of transition to HKFRS 16, the group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 5.375%.

As a lessee, the Group's leases are mainly rentals of offices. The right-of-use assets were measured at the amount equal to the lease liability and there were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. The adjustments recognized are as follows:

	<i>HK\$'000</i>
At 1 January 2019:	
Increase in right-of-use assets	7,822
Increase in lease liabilities	7,822

(b) Impacts on transition

On transition to HKFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities. The reconciliation of operating lease commitment to lease liabilities is set out below:

	<i>HK\$'000</i>
Operating lease commitments at 31 December 2018	18,695
Less: commitments relating to leases exempt from capitalisation: – short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(10,491)
Gross operating lease obligations at 1 January 2019	8,204
Discounting	(382)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	7,822
Analysed as:	
Current	4,492
Non-current	3,330
	7,822

(3) REVENUE

An analysis of the Group's revenue for the three-month period and the six-month period ended 30 June 2019 is as follows:

	Three-month period ended 30 June		Six-month period ended 30 June	
	2019 (Unaudited) <i>HK\$'000</i>	2018 (Unaudited) <i>HK\$'000</i>	2019 (Unaudited) <i>HK\$'000</i>	2018 (Unaudited) <i>HK\$'000</i>
Big data centre services	5,514	–	6,584	–
Online game business	203	–	444	–
Lottery business	70	3,115	77	3,251
	5,787	3,115	7,105	3,251

(4) SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Board of Directors. The Board of Directors reviews the Group's internal reporting in order to assess performance and allocate resources. The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

The Group has three (2018: two) reportable segments. The segments are managed separately as each business segment offers different products and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Big data centre services ("**Big data centre services**")
- Distribution of mobile gaming ("**Online game business**")
- Trading of lottery terminals and parts and provision of services and solutions for the distribution of lottery products ("**Lottery business**")

The revenue derived from the provision for products and services is set out in note 3.

Geographical information

The Group's operations are carried out in the PRC and revenue from external customers based on the location of goods and services delivered is derived from the PRC.

The following is an analysis of the non-current assets, analysed by the geographical area in which the assets are located:

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Non-current assets, excluding financial assets		
The PRC	100,812	263
Hong Kong	4,871	6,197
British Virgin Island ("BVI")	29	26
	105,712	6,486

The non-current asset information above is based on the locations of the assets and excludes financial instruments.

Information about major customers

Revenue from individual customers contributing over 10% of the total revenue of the Group are as follows:

	Six-month period ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Customer A ¹	4,503	–
Customer B ¹	1,496	–
Customer C ²	–	2,966

¹ Revenue from the big data centre services.

² Revenue from the trading of lottery terminals and parts.

(5) TAXATION

	Three-month period ended 30 June		Six-month period ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
PRC Enterprise Income Tax – Current period	–	–	–	–

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 six-month period ended 30 June 2019 (six-month period ended 30 June 2018: Nil).

(7) LOSS FOR THE PERIOD

	Three-month period ended 30 June		Six-month period ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Loss for the period has been arrived at after charging:				
Depreciation and amortization expense	1,761	985	2,803	1,021
Salaries, bonus and other benefits	4,069	2,294	7,407	4,122
Share option expense	4,165	1,999	4,897	3,998
Rental expense	1,632	1,567	3,010	3,118

(8) LOSS PER SHARE

The calculation of basic loss per share for the three-month period and six-month period ended 30 June 2019 is based on the loss attributable to owners of the Company of approximately HK\$9,726,000 and HK\$14,747,000 (three-month period and six-month period ended 30 June 2018: HK\$7,789,000 and HK\$12,822,000) and on the weighted average number of approximately 3,145,935,836 and 3,158,599,836 (three-month period and six-month period ended 30 June 2018: 3,145,935,836 and 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 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 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
Trade receivables:		
Within 30 days	2,761	556
31-90 days	38	258
91-180 days	24	4144
181-365 days	4,760	915
Over 1 year	4,063	3,400
	11,646	9,273
Other receivables	13,204	2,270
Deposits	4,384	39
Prepayments	2,177	2,325
Interests receivables	428	3,649
	31,839	17,556

(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 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
Trade payables:		
Within 30 days	650	–
31-90 days	92	303
91-180 days	223	–
181-365 days	–	3,007
Over 1 year	7,241	4,247
	8,206	7,557
Other payables	99,325	2,443
Consideration payables	2,274	2,283
Amount due to a shareholder of a joint venture	2,334	2,334
Accruals	920	854
	113,059	15,471

(11) SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each:		
Authorised:		
At 30 June 2019 and 31 December 2018	5,500,000,000	55,000
Issued and fully paid:		
At 1 January 2019	3,145,935,836	31,459
Exercise of share options	12,664,000	127
At 30 June 2019	3,158,599,836	31,586

(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	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Ultimate holding company	Amounts due to a related party	11,368	–
Ultimate holding company	Expenses recharge	196	–

The amounts due to a related party represents amounts due to a wholly-owned subsidiary of the ultimate holding company of the Group, which is unsecured, for a term of one year and at the interest rate of 4.35% per annum. The above financial assistance constituted a connected transaction but is fully exempt from shareholders approval, annual review and all disclosure requirements under Chapter 20 of the GEM Listing Rules.

Expense recharge for financial management services provided by 深圳市易訊天空網絡技術有限公司 (Shenzhen E-sun Sky Network Technology Co., Ltd) of HK\$196,000 constituted the continuing connected transactions of the Company but are exempt from shareholders' approval and disclosure and other requirements under Chapter 20 of the GEM Listing Rules.

- b. Compensation of key management personnel

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

	Six-month period ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Short-term benefits	4,069	2,500
Post-employment benefits	9	23
Share-based payments	4,165	3,998
	8,243	6,521

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 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	12,000,000	0.38%
Mr. Wang Bingzhong	62,000,000	1.96%
Ms. Huang Lilan	20,000,000	0.63%
Mr. Yuan Qiang	62,000,000	1.96%
Dr. Lu Haitian	4,000,000	0.13%
Mr. Yan Hao	4,000,000	0.13%
Mr. Lin Sen	4,000,000	0.13%

Notes:

1. As at 30 June 2019, the total number of issued shares of the Company was 3,158,599,836.
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	335,000	0.78%
Ms. Huang Lilan	8,248	0.02%
Mr. Yuan Qiang	34,706	0.08%

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

Name of Director	Number of underlying shares held pursuant to ADS Options	Approximate percentage of total issued and outstanding shares of 500.com
	(Notes 2 & 3)	(Note 1)
Mr. Pan Zhengming	268,333	0.62%
Ms. Huang Lilan	15,500	0.04%
Mr. Yuan Qiang	26,667	0.06%

Notes:

1. As at 30 June 2019, the total number of issued and outstanding shares of 500.com was 42,975,270.
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 2020
 - 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 2020
 - 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 2020
- 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 2020
- 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 2020
- 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 2020
- 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 2020

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 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 30 June 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
	-	6,000,000	-	-	-	6,000,000	01.04.2019	0.11	2
	6,000,000	6,000,000	-	-	-	12,000,000			
Mr. Wang Bingzhong	31,000,000	-	-	-	-	31,000,000	05.01.2018	0.20	1
	-	31,000,000	-	-	-	31,000,000	01.04.2019	0.11	2
	31,000,000	31,000,000	-	-	-	62,000,000			
Ms. Huang Lilan	10,000,000	-	-	-	-	10,000,000	05.01.2018	0.20	1
	-	10,000,000	-	-	-	10,000,000	01.04.2019	0.11	2
	10,000,000	10,000,000	-	-	-	20,000,000			
Mr. Yuan Qiang	31,000,000	-	-	-	-	31,000,000	05.01.2018	0.20	1
	-	31,000,000	-	-	-	31,000,000	01.04.2019	0.11	2
	31,000,000	31,000,000	-	-	-	62,000,000			
Dr. Lu Haitian	2,000,000	-	-	-	-	2,000,000	05.01.2018	0.20	1
	-	2,000,000	-	-	-	2,000,000	01.04.2019	0.11	2
	2,000,000	2,000,000	-	-	-	4,000,000			
Mr. Yan Hao	2,000,000	-	-	-	-	2,000,000	05.01.2018	0.20	1
	-	2,000,000	-	-	-	2,000,000	01.04.2019	0.11	2
	2,000,000	2,000,000	-	-	-	4,000,000			

Type of participants	Number of share options						Date of grant	Exercise price (HK\$)	Exercise period (Note)
	As at	Granted	Exercised			As at			
	1 January 2019	during the period	during the period (Note 4)	Lapsed during the period	Cancelled during the period	30 June 2019			
Mr. Lin Sen	2,000,000	-	-	-	-	2,000,000	05.01.2018	0.20	1
	-	2,000,000	-	-	-	2,000,000	01.04.2019	0.11	2
	2,000,000	2,000,000	-	-	-	4,000,000			
Sub-total:	84,000,000	84,000,000	-	-	-	168,000,000			
Employees	1,800,000	-	-	-	-	1,800,000	05.01.2018	0.20	1
	-	800,000	-	-	-	800,000	01.04.2019	0.11	2
	1,800,000	800,000	-	-	-	2,600,000			
Sub-total:	1,800,000	800,000	-	-	-	2,600,000			
Others (Note 3)	67,600,000	-	-	-	-	67,600,000	05.01.2018	0.20	1
	-	70,300,000	(12,664,000)	-	-	57,636,000	01.04.2019	0.11	2
	67,600,000	70,300,000	(12,664,000)	-	-	125,236,000			
Sub-total:	67,600,000	70,300,000	(12,664,000)	-	-	125,236,000			
Total:	153,400,000	155,100,000	(12,664,000)	-	-	295,836,000			

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 share options granted on 1 April 2019 are divided into 3 tranches exercisable from 1 April 2019, 1 April 2020 and 1 April 2021 respectively to 31 March 2029.
3. The category "Others" represents the 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 recognising their services similar to those rendered by employees of the Group.
4. The weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised was HK\$0.208.

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

As at 30 June 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	40.48%

Note:

As at 30 June 2019, the total number of issued shares of the Company was 3,158,599,836.

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 30 June 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.

CORPORATE GOVERNANCE PRACTICES

The Company recognises the importance of good corporate governance to safeguard the interest of the Company's shareholders (the "**Shareholders**") and achieved these by an effective board, segregation of duties with clear accountability, sound internal controls, appropriate risk assessment procedures and transparency to all the Shareholders. So far as known to the Directors, there has been no material deviation from the Code Provisions of the Corporate Governance Code (the "**CG Code**") set out in Appendix 15 to the GEM Listing Rules during the Reporting Period, except for the Code Provision C.1.2 of the CG Code as noted hereunder.

The Code Provision C.1.2 of the CG Code requires that management should provide all members of the board of directors with monthly updates to enable the board as a whole and each director to discharge their duties. Although the management of the Company did not provide a regular monthly update to the members of the Board, the management provided to the Board quarterly updates on financial information and has based on business situation, provided updated business information to the Board as and when appropriate.

The Board will continue to review and monitor the corporate governance practices of the Company to ensure compliance with the CG Code and maintain high standard of corporate governance practices.

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 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*