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2018

INTERIM REPORT



AGTech Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 8279

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

FINANCIAL HIGHLIGHTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

- Revenue of the Group for the Six-Month Period amounted to approximately HK\$61.7 million (Six months ended 30 June 2017: approximately HK\$54.1 million), representing an increase of approximately 14.0% over the corresponding period in 2017. Revenue contributions were mainly derived from lottery hardware, lottery games and systems, provision of distribution and ancillary services, games and entertainment business. Among them, the Group's lottery business has achieved significant growth: (1) the lottery hardware achieved an increase of approximately 43.5% in revenue compared to the corresponding period in 2017; (2) the lottery games and systems achieved an increase of approximately 40.8% in revenue compared to the corresponding period in 2017; and (3) the provision of distribution and ancillary services achieved an increase of approximately 190.1% in revenue compared to the corresponding period in 2017. Such increase was partially offset by a decrease in revenue of approximately 74.8% from games and entertainment.
- The profit for the Six-Month Period was approximately HK\$157.3 million (Six months ended 30 June 2017: loss of approximately HK\$437.1 million). The change from loss to profit for the Six-Month Period was mainly attributable to several non-cash and non-operating items related to the Convertible Bonds and contingent consideration payables under the Score Value Transaction.
- The Board does not recommend the payment of an interim dividend for the Six-Month Period.

INTERIM RESULTS

The Board announces the unaudited consolidated results of the Group for the three months ended 30 June 2018 (the “Three-Month Period”) and the six months ended 30 June 2018 (the “Six-Month Period”), together with the comparative unaudited figures for the corresponding period in 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

For the three months and six months ended 30 June 2018

	Notes	Three months ended 30 June		Six months ended 30 June	
		2018	2017	2018	2017
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	2	43,989	39,222	61,657	54,082
Other income		2,371	61	3,550	874
Net other gains/(losses)		(14,180)	13,827	2,625	18,818
Employee benefits expenses		(63,014)	(57,541)	(131,505)	(111,864)
Purchases of and changes in inventories		(13,181)	(6,182)	(13,190)	(7,277)
Depreciation expenses		(633)	(945)	(1,260)	(2,052)
Other operating expenses		(31,926)	(40,316)	(72,531)	(65,586)
Operating loss		(76,574)	(51,874)	(150,654)	(113,005)
Gain/(Loss) on fair value changes of convertible bonds		56,636	(163,698)	281,300	(317,640)
Gain on fair value changes of contingent consideration payables		7,457	11,876	25,653	3,432
Net finance income/(cost)		2,532	1,076	5,812	(7,147)
Share of results of investments accounted for using equity method		(2,211)	–	(2,211)	–
Profit/(Loss) before income tax		(12,160)	(202,620)	159,900	(434,360)
Income tax expense	3	(1,258)	(1,700)	(2,580)	(2,749)
Profit/(Loss) for the period	4	(13,418)	(204,320)	157,320	(437,109)

	Notes	Three months ended		Six months ended	
		30 June		30 June	
		2018	2017	2018	2017
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other comprehensive income:					
<i>Item that will not be reclassified subsequently to profit or loss</i>					
Currency translation differences		(46,112)	19,755	(10,384)	29,131
Other comprehensive income for the period, net of tax		(46,112)	19,755	(10,384)	29,131
Total comprehensive income for the period		(59,530)	(184,565)	146,936	(407,978)
Profit/(Loss) attributable to:					
Owners of the company		(12,826)	(203,821)	160,145	(437,081)
Non-controlling interests		(592)	(499)	(2,825)	(28)
		(13,418)	(204,320)	157,320	(437,109)
Total comprehensive income attributable to:					
Owners of the company		(56,438)	(184,836)	150,356	(408,994)
Non-controlling interests		(3,092)	271	(3,420)	1,016
		(59,530)	(184,565)	146,936	(407,978)
Earning/(Loss) per share					
Basic	5	(HK0.12 cent)	(HK1.83 cents)	HK1.44 cents	(HK4.03 cents)
Diluted	5	(HK0.53 cent)	(HK1.83 cents)	(HK1.02 cents)	(HK4.03 cents)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

		Unaudited	Audited
		As at	As at
		30 June	31 December
		2018	2017
	<i>Notes</i>	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment		7,030	5,421
Investment properties		53,248	54,041
Goodwill		1,109,541	1,120,548
Other intangible assets		1,742	1,742
Deferred income tax assets		6,351	6,840
Investments accounted for using equity method		53,873	291
Other receivables, deposits and prepayments		7,894	4,934
		1,239,679	1,193,817
Current assets			
Inventories		17,885	10,071
Trade receivables	6	53,406	49,178
Other receivables, deposits and prepayments		78,830	111,550
Cash and bank balances	7	2,428,552	2,624,253
		2,578,673	2,795,052
Total assets		3,818,352	3,988,869
Current liabilities			
Trade payables	8	15,159	5,327
Accruals and other payables		102,069	166,014
Current income tax liabilities		1,678	3,636
Amount due to fellow subsidiaries		28,861	9,532
Contingent consideration payables		101,851	147,504
		249,618	332,013

		Unaudited	Audited
		As at	As at
		30 June	31 December
		2018	2017
	<i>Notes</i>	HK\$'000	HK\$'000
Non-current liabilities			
Convertible Bonds	9	637,928	900,190
Deferred income tax liabilities		5,422	5,502
Provision for warranties		42,339	45,600
		685,689	951,292
Total liabilities		935,307	1,283,305
Net assets		2,883,045	2,705,564
Equity			
Share capital		22,528	22,494
Reserves attributable to owners of the Company		2,814,672	2,635,880
		2,837,200	2,658,374
Non-controlling interests		45,845	47,190
Total equity		2,883,045	2,705,564

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the Six-Month Period

	Attributable to owners of the Company												Attributable to non-controlling interests		Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Shares held for share award scheme HK\$'000	Share options reserve HK\$'000	Share awards reserve HK\$'000	Statutory reserve HK\$'000	Exchange reserve HK\$'000	Contributed surplus HK\$'000	Property revaluation reserve HK\$'000	Other reserve HK\$'000	Accumulated losses HK\$'000	Subtotal HK\$'000	HK\$'000	HK\$'000	
Balance at 1 January 2017	20,990	2,478,212	-	168,292	-	18,189	59,974	47,191	14,402	51,690	(591,068)	2,267,872	35,873	2,303,745	
Loss for the period	-	-	-	-	-	-	-	-	-	-	(437,081)	(437,081)	(28)	(437,109)	
Other comprehensive income for the period	-	-	-	-	-	-	28,087	-	-	-	-	28,087	1,044	29,131	
Total comprehensive income for the period	-	-	-	-	-	-	28,087	-	-	-	(437,081)	(408,994)	1,016	(407,978)	
Recognition of equity settled share-based payments	-	-	-	30,990	11,994	-	-	-	-	-	-	42,984	-	42,984	
Issue of shares upon conversion of convertible bonds	1,200	597,934	-	-	-	-	-	-	-	-	-	599,134	-	599,134	
Issue of shares upon exercise of share options under share option scheme	161	75,270	-	(21,263)	-	-	-	-	-	-	-	54,068	-	54,068	
Lapse of share options	-	-	-	(28,416)	-	-	-	-	-	-	28,416	-	-	-	
Issue of shares upon settlement of contingent consideration	20	9,102	-	-	-	-	-	-	(9,122)	-	-	-	-	-	
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	338	338	
Purchase of shares under share award scheme	-	-	(68,086)	-	-	-	-	-	-	-	-	(68,086)	-	(68,086)	
Transfer to accumulated losses	-	-	-	-	-	(288)	-	-	-	-	288	-	-	-	
Balance at 30 June 2017	22,371	3,160,518	(68,086)	149,993	11,994	17,901	88,061	47,191	14,402	42,568	(999,445)	2,486,978	37,227	2,524,205	
Balance at 1 January 2018	22,494	3,249,914	(167,407)	136,954	41,582	19,121	124,514	47,191	14,402	93,575	(923,966)	2,658,374	47,190	2,705,564	
Profit for the period	-	-	-	-	-	-	-	-	-	160,145	-	160,145	(2,825)	157,320	
Other comprehensive income for the period	-	-	-	-	-	-	(9,789)	-	-	-	-	(9,789)	(595)	(10,384)	
Total comprehensive income for the period	-	-	-	-	-	-	(9,789)	-	-	160,145	-	150,356	(3,420)	146,936	
Recognition of equity settled share-based payments	-	-	-	13,380	28,576	-	-	-	-	-	-	41,956	-	41,956	
Issue of shares upon exercise of share options under share option scheme	7	2,990	-	(966)	-	-	-	-	-	-	-	2,031	-	2,031	
Lapse of share options	-	-	-	(22,147)	-	-	-	-	-	-	22,147	-	-	-	
Issue of shares upon settlement of contingent consideration	27	12,135	-	-	-	-	-	-	(12,162)	-	-	-	-	-	
Purchase of shares under share award scheme	-	-	(9,892)	-	-	-	-	-	-	-	-	(9,892)	-	(9,892)	
Transfer of shares upon vesting of share awards under share award scheme	-	(1,568)	18,646	-	(17,078)	-	-	-	-	-	-	-	-	-	
Transaction with non-controlling interests	-	-	-	-	-	-	-	-	-	(5,625)	-	(5,625)	2,075	(3,550)	
Balance at 30 June 2018	22,528	3,263,471	(158,653)	127,221	53,080	19,121	114,725	47,191	14,402	75,788	(741,674)	2,837,200	45,845	2,883,045	

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the Six-Month Period

	<i>Note</i>	Six months ended	
		30 June	
		2018	2017
		HK\$'000	<i>HK\$'000</i>
Net cash used in operating activities		(124,944)	(139,214)
Net cash (used in)/generated by investing activities		(69,702)	15,669
Net cash used in financing activities		(11,411)	(42,007)
Net decrease in cash and cash equivalents		(206,057)	(165,552)
Cash and cash equivalents at the beginning of the period		2,212,503	2,339,731
Effect of foreign exchange rate changes		(1,245)	2,813
Cash and cash equivalents at the end of the period	7	2,005,201	2,176,992

Notes:

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and disclosure requirements of GEM Listing Rules.

The consolidated financial statements have not been audited by the Company’s auditors, but have been reviewed and commented on by the Company’s audit committee. The accounting policies applied and significant judgements made by management in applying the Group’s accounting policies are consistent with those of the Group’s annual financial statements for the year ended 31 December 2017.

HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (the “new and revised HKFRS”). The Group has not early adopted the new and revised HKFRS that have been issued but are not yet effective, as the Group is in the process of assessing the impact of these new and revised HKFRS on the financial performance and financial position of the Group.

Comparative figures

Certain comparative figures have been reclassified to conform with the unaudited condensed consolidated financial statements adopted for the Three-Month Period and Six-Month Period.

2. REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received and receivable from lottery hardware (including provision of related after-sales services), lottery games and systems, provision of distribution and ancillary services, games and entertainment primarily in the PRC during the Three-Month Period and the Six-Month Period and is analysed as follows:

	Three months ended 30 June		Six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)	2018 (unaudited)	2017 (unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Lottery hardware	30,154	17,425	35,606	24,816
Lottery games and systems	6,603	4,681	12,831	9,111
Provision of distribution and ancillary services	3,811	1,830	8,915	3,073
Games and entertainment	3,421	15,286	4,305	17,082
	43,989	39,222	61,657	54,082

The Group's revenue and non-current assets were mainly derived from and related to the lottery hardware, lottery games and systems, provision of distribution and ancillary services, games and entertainment business in the PRC. Hence, no geographical segment information is presented.

3. INCOME TAX EXPENSE

Income tax expenses for the Three-Month Period and Six-Month Period represent PRC Enterprise Income Tax.

4. PROFIT/(LOSS) FOR THE PERIOD

Profit/(Loss) for the period has been arrived at after charging/(crediting):

	Three months ended 30 June		Six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)	2018 (unaudited)	2017 (unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Share-based payments	20,181	27,766	41,956	42,984
Provision for warranties	1,514	622	1,514	1,069
Operating lease rental payments	6,940	3,569	12,647	7,211
Bank interest income	(12,270)	(9,751)	(24,850)	(19,112)
Interest expenses on Convertible Bonds	9,738	8,348	19,038	25,557

5. EARNING/(LOSS) PER SHARE

(a) Basic

Basic earning or loss per share is calculated by dividing the unaudited loss attributable to owners of the Company for the Three-Month Period of approximately HK\$12,826,000 and unaudited profit attributable to owners of the Company for the Six-Month Period of approximately HK\$160,145,000 (for the three months and six months ended 30 June 2017: loss of approximately HK\$203,821,000 and HK\$437,081,000 respectively) by the weighted average number of ordinary shares outstanding during the Three-Month Period and Six-Month Period of approximately 11,255,720,000 shares and 11,252,000,000 shares respectively (for the three months and six months ended 30 June 2017: approximately 11,162,834,000 shares and 10,850,631,000 shares respectively) and excluding the weighted average number of shares held for share award scheme of approximately 115,394,000 and 121,380,000 shares respectively (for the three months and six months ended 30 June 2017: approximately 23,657,000 shares and 6,811,000 shares respectively).

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has four categories of dilutive potential ordinary shares: Convertible Bonds, contingent considerations, share options and share awards. The Convertible Bonds are assumed to have been converted into ordinary shares, and the loss or profit attributable to owners of the Company is adjusted to eliminate the relevant interest expense and fair value changes. The contingent considerations are assumed to have been settled in ordinary shares, and the loss or profit attributable to owners of the Company is adjusted to eliminate the relevant fair value changes.

For the Three-Month Period and Six-Month Period, diluted loss per share is calculated by dividing the adjusted unaudited loss attributable to owners of the Company of approximately HK\$67,181,000 and HK\$127,770,000 respectively by the adjusted weighted average number of ordinary shares outstanding during the Three-Month Period and Six-Month Period of approximately 12,570,875,000 shares and 12,563,975,000 shares respectively. The computation of the diluted loss per share does not assume the exercise of the outstanding share options and the vesting of the outstanding share awards, as they would decrease the loss per share.

For the three months and six months ended 30 June 2017, the diluted loss per share is the same as the basic loss per share. The computation of the diluted loss per share does not assume the conversion of the outstanding Convertible Bonds, the exercise of the outstanding share options, the vesting of the outstanding share awards and the settlement of outstanding contingent consideration payables under the Score Value Transaction, as they would decrease the loss per share.

6. TRADE RECEIVABLES

At 30 June 2018, the ageing analysis of trade receivables based on the date of the relevant invoice or demand note was as follows:

	As at 30 June 2018 (unaudited) HK\$'000	As at 31 December 2017 (audited) HK\$'000
0 to 30 days	28,921	24,914
31 to 60 days	2,600	11,926
61 to 90 days	10,078	3,217
91 to 120 days	5,789	3,392
121 to 365 days	5,854	5,729
Over 365 days	164	–
	53,406	49,178

7. CASH AND BANK BALANCES

	As at 30 June 2018 (unaudited) HK\$'000	As at 31 December 2017 (audited) HK\$'000
Cash and cash equivalents	2,005,201	2,212,503
Fixed deposits held at bank with original maturity over three months	392,365	390,790
Pledged bank deposits	5,441	5,522
Restricted cash	25,545	15,438
	2,428,552	2,624,253

8. TRADE PAYABLES

At 30 June 2018, the ageing analysis of trade payables based on invoice date was as follows:

	As at 30 June 2018 (unaudited) HK\$'000	As at 31 December 2017 (audited) HK\$'000
0 to 30 days	12,024	2,785
31 to 60 days	1,078	858
61 to 90 days	206	8
91 to 120 days	54	3
121 to 365 days	1,392	1,197
Over 365 days	405	476
	15,159	5,327

9. CONVERTIBLE BONDS

At 30 June 2018, the Convertible Bonds in an aggregate principal amount of HK\$332,328,165 (31 December 2017: HK\$332,328,165) were outstanding. The bonds bear no interest on the principal amount. The bonds mature three years from the issue date or can be converted into Shares at the holder's or the issuer's option on or before the maturity date at the then prevailing conversion price of HK\$0.2515 subject to adjustment.

	Debt instrument (unaudited) HK\$'000	Embedded derivative (unaudited) HK\$'000	Total (unaudited) HK\$'000
At 1 January 2017	341,081	988,800	1,329,881
Conversion during the period	(122,726)	(476,408)	(599,134)
Loss on fair value changes	–	317,640	317,640
Interest expense	25,557	–	25,557
At 30 June 2017	243,912	830,032	1,073,944
At 1 January 2018	263,829	636,361	900,190
Gain on fair value changes	–	(281,300)	(281,300)
Interest expense	19,038	–	19,038
At 30 June 2018	282,867	355,061	637,928

The fair value of the conversion option embedded in the Convertible Bonds at 30 June 2018 amounted to approximately HK\$355,061,000 (31 December 2017: HK\$636,361,000).

Valuation techniques

The fair value of conversion option embedded in the Convertible Bonds was determined by using the binomial model.

Information about fair value measurement using significant unobservable inputs (level 3)-Embedded derivative of Convertible Bonds

Description	Fair value (HK\$'000)	Valuation technique	Unobservable inputs	Range (Weighted average)	Relationship of unobservable inputs to fair value
Embedded derivative of Convertible Bonds	355,061 (31 December 2017: 636,361)	Binomial model	Expected volatility of share price	45.16% (31 December 2017: 38.345%)	The higher the expected volatility, the higher the fair value

10. RELATED PARTY TRANSACTIONS**(a) Sales of services**

	Six months ended 30 June	
	2018 (unaudited) HK\$'000	2017 (unaudited) HK\$'000
Revenue of games and entertainment business from a fellow subsidiary	–	11,292
Recharge for technical services to an associate	1,472	–

(b) Purchases of goods and services

	Six months ended	
	30 June	
	2018	2017
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Recharge for operation of lottery distribution from fellow subsidiaries	1,718	142
Recharge for operation of games and entertainment business from fellow subsidiaries	711	–
Purchase of marketing services for games and entertainment business from fellow subsidiaries	23,283	–
Purchase of technology services from a fellow subsidiary	716	589
Recharge for rental services from a fellow subsidiary	80	1,903
Recharge for management and administrative services from fellow subsidiaries	2,913	1,102

(c) Key management compensation

The remuneration of the Directors (who are the key management personnel of the Group) during the period was as follows:

	Six months ended	
	30 June	
	2018	2017
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Short-term employee benefits	3,060	2,819
Share-based payments	4,096	3,309
Post-employment benefits	171	157
	7,327	6,285

(d) Loan to related party

	As at	As at
	30 June	31 December
	2018	2017
	(unaudited)	(audited)
	HK\$'000	HK\$'000
Loan to an officer	2,561	2,671

DIVIDEND

The Board does not recommend the payment of an interim dividend for the Six-Month Period (2017: Nil).

DISCUSSION AND ANALYSIS OF THE GROUP'S RESULTS AND BUSINESS

About the Group

AGTech was incorporated in Bermuda and its Shares are listed on GEM (Stock Code: 8279). AGTech is an integrated technology and services company engaged in the lottery and mobile games and entertainment market with a focus on China and selected international markets. A member of the Alibaba Group with around 400 employees, AGTech is the exclusive lottery platform of Alibaba Group and Ant Financial Group.

AGTech's businesses are broadly divided into two categories:

- Lottery (including hardware, games and systems and provision of distribution and ancillary services); and
- Games and Entertainment.

AGTech is a Gold Contributor of the World Lottery Association (WLA), an associate member of the Asia Pacific Lottery Association (APLA), and an official partner of the International Mind Sports Association (IMSA) as well as the Federation of Card Games (FCG).

Corporate Strategy And Objectives

AGTech is committed to evolving its business into a comprehensive lottery, mobile games and entertainment content and technology provider to customers around the world.

Lottery technology and services have been and will continue to be AGTech's domain expertise. To this end, we continue to support both of China's legal lottery operators, namely the Sports Lottery and the Welfare Lottery, across the full value chain by bringing together industry expertise, innovative technology and infrastructure, as well as management and operating experience into the Chinese lottery market. Further, the Group continues to leverage its deep experience in lottery in order to assist lottery authorities in areas of lottery product and business innovation, physical channel expansion, smart lottery hardware, technology and data service, marketing and promotions and more, helping to broaden the reach of lottery products in China and advance the industry as whole. As the exclusive lottery platform of Alibaba Group and Ant Financial Group, we believe that our position in both existing and potential new lottery channels is strengthened as we continue to improve upon the appeal and access of lottery products to the end consumers in China and actively contribute to the healthy growth and development of the industry.

All in all, given the Group's leading position in the industry, its commitment and continued partnerships with lottery authorities, and Alibaba Group and Ant Financial Group's vast resources, the Group believes that it is well positioned to receive the appropriate authorisation in online (internet and mobile) distribution of lottery products as and when approved by the lottery authorities.

In view of the potential approval and authorisation of online distribution of regulated lottery products in China, since 2017, the Group began leveraging its technical know-how, operating experience and in-house capabilities to expand its business in the games and entertainment industry, actively building our online presence and customer-base on Alibaba Group and Ant Financial Group's vast portfolio of networks and channels. The Group will continue to develop differentiated proprietary games and entertainment platforms with the goal of integrating unique games and entertainment content with various resources on e-commerce and e-payment platforms, ultimately creating an innovative business model to increase the Group's commercial value.

Looking forward, AGTech will continue pursuing opportunities abroad, globalising our business by offering our proprietary systems and platforms, as well as operational and technical expertise, and strategically working with leading local partners in overseas markets such as India, South East Asia and beyond.

Industry Overview

Lottery

There are two legal lottery operators in the PRC: the national welfare lottery (Welfare Lottery) and the national sports lottery (Sports Lottery).

According to information published by the MOF, during the Six-Month Period, the lottery market recorded sales of approximately RMB245.2 billion, an increase of 19.6% compared to the corresponding period in 2017. Of this, Welfare Lottery amounted to approximately RMB110.6 billion (accounting for approximately 45% of total lottery sales), representing an increase of approximately 4.2% over the corresponding period in 2017. The Sports Lottery achieved sales of approximately RMB134.6 billion (accounting for approximately 55% of total lottery sales), an increase of approximately 36.1% compared to the corresponding period in 2017.

Games and Entertainment

The proliferation of smartphones in the PRC over the last several years, coupled with ever improving content across games categories, has increased mobile games consumption significantly. New technologies, improved network infrastructure, less expensive access to high-speed data, enhanced mobile devices have all contributed to the increase of mobile content consumption, thereby driving impressive levels of innovation in mobile games and entertainment content.

As such, over 77% as of 2017 of total smartphone users are now smartphone gamers in the PRC, lagging only behind Korea in terms of penetration, as mobile gaming spread across age and gender demographics. In fact, according to the latest 2017 Global Mobile Games Industry White Paper, China has become the largest mobile game market in the world, with total revenue reaching approximately RMB92.8 billion*.

* Source: Statistica, Newszoo

India

We believe India currently holds the world's fastest growing active online users, with mobile driving the content consumption boom. According to surveys by Internet and Mobile Association of India*, Indian internet user base reached approximately 481 million in 2017, and is expected to reach approximately 500 million by June 2018. Further, according to a joint report released by India's National Association of Software and Services (NASSCOM) and App Annie, in 2016 mobile game downloads in India totaled approximately 1.6 billion, which put India fifth in the world.

* *Source: Jointly published in July 2017 by Game Publishers Association Publications Committee, Games Research Center and International Data Corporation*

Business Review

New Lottery Services

Following the success of the Sports Lottery marketing campaign in the first quarter of 2018, in which we delivered a new omni-channel experience to customers in promoting China Sports Lottery's instant scratch products by leveraging Alibaba Group and Ant Financial Group's vast resources, the Group continued to partner with lottery authorities throughout China to help reinvent the way they engage with existing and potential customers. Importantly, the marketing campaign transformed the traditional marketing model into a multi-faceted and highly effective campaign, playing an important role in promoting Sports Lottery's brand and attracting new users, fully demonstrating marketing campaigns are a core part in enhancing and advancing the lottery industry. As such, during the Six-Month Period, the Group announced collaborations with additional provincial sports lottery centers, such as those in Jilin, Hebei and Jiangsu. As announced on 1 June 2018, the Group entered into an agreement with Jilin SLAC to jointly launch a marketing and promotional campaign during the 2018 World Cup, marking the first time the Group launched this innovative marketing model directly with a provincial lottery center. During the 2018 World Cup in June and July, the Group partnered with Jilin SLAC to carry out a marketing campaign to enhance the brand awareness of China Sports Lottery and raise popularity of its sports lottery products (競猜型體育彩票產品) leveraging the enormous user base of Ant Financial Group's payment platform, Alipay and the Group's expertise in the lottery industry. In addition, on 27 June 2018, the Group announced it had won the bid from Hebei SLAC to launch a similar marketing campaign, helping to promote their signature lottery product, Big Lotto.

Importantly, on 20 June 2018, the Group announced a comprehensive strategic cooperation framework agreement with Jiangsu SLAC, covering a wide range of lottery related initiatives including business innovation, channel expansion, smart hardware terminal, technology and data service, marketing and promotion, and more. The promotion is expected to greatly strengthen the foundation and development of Jiangsu sports lottery, helping to increase brand awareness and expand sales volume. Under the cooperation, Jiangsu SLAC and the Group will both utilize resources from both parties to advance the appeal and access of lottery in the province, whose sports lottery sales volume exceeded RMB20 billion for the first time in 2017, making it the top seller of sports lottery in China. Given the considerable scale of lottery sales in Jiangsu Province, Alibaba Group and Ant Financial Group's vast resources and expansive offline retail network, and the Group's expertise and experience in lottery, the Group believes this strong combination will further improve the consumption pattern and experience of sports lottery as a whole.

Lottery Resources Channel

In addition, during the Six-Month Period, the Group successfully launched its dedicated lottery resources channel on mobile Taobao and mobile Alipay. While this lottery resources channel has not conducted any internet lottery sales, it serves as a one-stop place for many lottery-related services and resources, providing lottery players and online users in China easy access to information and resources that address various lottery needs. Tools on the lottery resources channel include displays of historical and current lottery products results, the self-claiming of instant scratch lottery winnings and more. Further, the channel compiles the locations of nearby lottery retail channels, paving the way for further integration of online and offline resources in the future. Through this channel, we hope to continue growing our online presence, and maximising the value of our business partnership with Alibaba Group and Ant Financial Group, in anticipation of the potential approval and authorisation of online distribution of lottery products in the future.

Lottery Distribution

The sales and distribution of lottery games and products

The Lottery Distribution division is active in expanding and broadening the reach of lottery to end consumers by developing unique and innovative products as well as distribution channels and networks under applicable lottery laws and regulations. To this end, we continue to work with suitable third party partners as well as the Group's shareholders, Alibaba Group and Ant Financial Group, to achieve this goal.

Alibaba Retail Channels

The Group continues to explore new ways to collaborate with Alibaba Group's network of physical retail stores in order to develop new physical lottery distribution models, further broadening the reach of lottery products to existing consumers and reaching a new customer base. These retail networks include Rural Taobao, a physical network of rural locations in China, and Alibaba's small retail format Ling Shou Tong (零售通), as well as Alibaba's franchised model stores, T-Mall franchise convenience stores. We believe that the integration of lottery products with physical retail network will create room for more opportunities in the future.

The Group's dedication to expanding the access and popularity of lottery through innovative and efficient ways is reaffirmed when the Group entered into a three-year strategic cooperation framework agreement with Guangdong SLAC as announced by the Company on 7 June 2018. Under this agreement, the Group will carry out marketing and promotion services, as well as assisting with sales and operations of Sports Lottery in offline retail channels of Alibaba Group in Guangdong Province. Given the considerable scale of lottery sales in Guangdong Province which made up over 9% of total lottery sales in 2017 in China, combined with Alibaba's vast retail network and channels, as well as the Group's expertise and experience in lottery, the Group believes this cooperation will effectively attract a new breed of customers to experience lottery, and improve the consumption pattern and experience of sports lottery products as a whole.

Lastly, thanks to its position as the exclusive lottery platform of Alibaba Group and Ant Financial Group, the Group remains well placed to take advantage of lottery sales via online (internet and mobile) channels in the event that they are approved by China lottery authorities and the Group receives the appropriate authorisation. To this end, the Group continues to closely monitor policy developments with respect to the government approval of lottery sales online. To date, in line with the relevant lottery regulations, the Group has not conducted any internet lottery sales or maintained any website to conduct such sales.

SF Lottery

Following the Group's launch of SF Express-themed instant scratch lottery ("SF-Themed Instant Scratch Lottery") in July 2017, the Group has continued to expand this innovative initiative throughout the four provinces of Guangdong, Jiangsu, Hunan and Jiangxi. SF-Themed Instant Scratch Lottery, a unique innovation in the lottery industry, was launched by SF Lottery, a joint venture established by the Group with SF Holding, and received approval from the MOF.

Lottery Games and Systems

The development and supply of lottery games, underlying software and advanced supporting systems

The Lottery Games and Systems division has a reserve of rich and attractive lottery content designed to fulfill the demands of the market and players.

Lucky Racing and e-Ball Lottery

AGT, which is owned as to 51% by the Group and as to 49% by Ladbroke Group (one of the world's largest sports betting companies), supplies China's only virtual sports lottery platform to Sports Lottery, and continues to operate the two virtual sports games in the country, after having launched its motor racing-themed virtual game "Lucky Racing" ("幸運賽車") in Hunan Province in 2011, and its football themed game "e-Ball Lottery" ("e球彩") in Jiangsu Province in 2013. "Lucky Racing" and "e-Ball Lottery" are virtual sports lottery games that are broadcasted to lottery shops via a central server and cable television, allowing customers to bet on computer generated car races or football matches respectively. To date, "Lucky Racing" and "e-Ball Lottery" have been successfully launched in traditional dedicated Sports Lottery shops in Hunan and Jiangsu provinces.

Other Lottery Games

The Group has been actively investing resources in the research and development of various new types of lottery games, and has continued to discuss with relevant lottery authorities and assist in the application of new lottery games. As of the date of this report, the Group has considerable reserve of lottery games, including mobile lottery games and digital lottery games.

Lottery Hardware

The development, sale and maintenance of lottery hardware (terminals and other lottery related equipment)

AGTech's Lottery Hardware division supplies the Sports Lottery and the Welfare Lottery and has lottery hardware deployed in multiple provinces, cities and municipalities across China. The Group is one of the leading manufacturers and suppliers in China of both paper scratch card sales hardware (instant ticket verification terminals, "IVT(s)") and traditional lottery terminals.

In view of the anticipated technology development in the hardware market, the Group believes that effective research and development activities are essential to ensure that the Group's lottery hardware business remains up-to-date and equipped with competitive technology. The Group's Lottery Hardware division continues to focus on research and development in order to broaden and improve its product spectrum and develop new hardware ranges. As such, the Group rolled out its new lottery terminal, which successfully won three hardware tenders in the provinces of Guizhou, Shanghai and Hebei in the Six-Month Period. Importantly, when compared with traditional lottery terminals, this new lottery terminal model has several special features, leveraging open software systems, as well as dual-screen and touch screen capabilities, thereby greatly elevating the overall experience for both lottery store owners and customers.

All in all, in the first half of 2018, the Group has won ten lottery hardware tenders, further strengthening the Group's leading position in China's hardware market and demonstrated the continued competitiveness of the Group's lottery terminals. With over 66,900 lottery terminal units manufactured by the Group's hardware division currently in use today, the Group has nearly half of China Sports Lottery's lottery hardware terminal market share nationwide, reaffirming our industry leading position and continued commitment in China's lottery hardware market. Looking forward, the Group will continue to pursue tenders to supply to the lottery hardware market as opportunities to bid for new contracts arise throughout the year.

Games and Entertainment*Online non-lottery games and entertainment content*

The Group is dedicated to evolving our business into a comprehensive lottery, mobile games and entertainment content and technology provider to customers around the world. With this in mind, and in view of the potential approval and authorisation of online distribution of regulated lottery products, the Group has been active in building our online presence and customer-base through various online channels by offering various types of proprietary non-lottery games and entertainment content. The Group is able to leverage our technical know-how and operating expertise in lottery to create various games and entertainment content and platforms, integrating different and unique resources and elements of e-commerce and e-payment platforms, to create a fun and healthy experience that aims to enrich online users' experience.

As such, during 2017, the Group successfully launched the games and entertainment platform on the Taobao mobile channel, uniquely combining various online games and entertainment with e-commerce resources. Having operated the platform for a period of time and gained substantial first-hand operating experience, and based on market and customer feedback, the Group recently implemented various adjustments and measures aimed at improving the overall quality as well as the sustainability of the platform.

In addition, the Group continued to contribute to the growth of mind sports in China during the Six-Month Period. The Group is an official partner of the International Mind Sports Association (IMSA), an internationally recognised association of different mind sports federations with the goal of promoting mind sports, and continues to support the Federation of Card Games (FCG), an international organization dedicated to promoting card games around the world. The Group's initiatives related to our casual and competition poker platform is consistent with our goal of establishing and building our online customer base, while demonstrating our commitment to developing and raising awareness and popularity of mind sports in China.

We continue to believe that our businesses in the Games and Entertainment division are complementary to our regulated lottery activities, and they are synergistic from a business model, market development, technical infrastructure and user experience perspective. While we are encouraged with the progress in our Games and Entertainment division thus far, given that many of the initiatives are relatively new, this division faces inherent short-term adjustments and fluctuations associated with new business initiatives. The Group will continue to refine and improve the value proposition of this new business in order to achieve sustainable scalability and growth over the long term.

International Market

Strategic expansion in selected markets overseas

Following our announcement regarding our first significant strategic international expansion in India in July 2017 to create a high quality mobile entertainment experience tailored to the Indian consumers, the Group successfully launched the mobile games and entertainment platform, Gamepind, in January 2018 through its joint venture with One97 Communications Limited.

Gamepind, a mobile games and entertainment platform offers online users with a unique online experience combining high quality and diverse set of casual games and attractive rewards. Gamepind continues to grow its user base through various marketing and promotional activities, and populating games in popular categories such as quiz, cricket-related games, e-commerce-related games, and various casual games. As user experiences continues to improve, and with the addition of more high quality games content in various categories, including card games, the Group is hopeful Gamepind will continue to increase its proposition to users and continue to build its user base, paving the way to monetize this unique platform, thus capitalizing on the significant potential of the fast growing mobile entertainment market in India.

All in all, the Group continues to believe this important collaboration lays the foundation for future collaborations for the Group as it continues to globalise its business by strategically working with leading local partners in selected overseas markets.

Sports and Entertainment Content

Importantly, during the Six-Month Period, the Group successfully launched Livecast!, a sports interactive casual product with a unique dimension of entertainment offered as a service to our partners who operate online platforms. This sporting events-based product connects sporting events with entertainment features related to live and upcoming sporting events, linked with social media features and offers attractive rewards, providing our partners an effective way to engage with customers, enhance user experience, and attract new customers through popular sports events. By offering various attractive rewards, our partners are able to leverage Livecast! as an excellent marketing and promotional tool for merchants to engage with customers in a dynamic way. Thus far, the Group has launched on nine channels throughout seven countries in five languages during the 2018 World Cup, partnering with selected online platforms of Alibaba Group, including the online-to-offline (O2O) local services platform Koubei, online ticketing platforms Tao Piao Piao and Damai, as well as Southeast Asian e-commerce platform Lazada, working with them to localize the appropriate product, and to integrate and operate the Livecast! product on each respective partner's platform. Since launch on 14 June 2018, Livecast! has helped our partners attract millions of participants to experience this unique offering, with separate channels attracting hundreds of thousands of customers participating per day, and over a million users at peak.

Business Outlook

In China's lottery industry, the Group continues to actively build on our industry leading position in both existing and potential new lottery channels. As the exclusive lottery business platform of Alibaba Group and Ant Financial Group, we expect to benefit from significant potential synergies from our cooperation with Alibaba Group and Ant Financial Group by accessing their vast portfolio of resources and channels.

The Group's continued efforts to innovate channel distribution is evidenced by our strategic cooperation agreement with Guangdong SLAC, in which the Group will leverage Alibaba Group's vast offline retail network of physical retail stores to integrate lottery products and services where appropriate. Importantly, the Group is actively helping lottery authorities reinvent the way they engage with existing and potential lottery customers. After the Group successfully implemented the marketing and promotion campaign for Sports Lottery in March 2018, the Group announced additional marketing and promotion campaigns for provincial SLACs in Jilin, Hebei and Jiangsu, reaffirming our position as a committed leader in the advancement of the PRC lottery industry as a whole. Looking forward, the Group expects to partner with additional provincial lottery authorities in developing and implementing more innovative collaborations in areas of business innovation, channel expansion, smart hardware terminal, technology and data service, marketing and promotion and more.

Importantly, the Group launched its lottery resources channel on mobile Taobao and mobile Alipay, which serves as an important one-stop place for many relevant lottery information and resources for existing and potential lottery customers. In addition to useful features such as lottery results display and self-claiming of lottery winnings, the Group plans to develop additional features in order to improve user experience. Further, the Group plans to incorporate additional strategies leveraging offline-online features to maximize the convenience of enjoying lottery to deliver a unique value proposition to users.

Apart from our virtual sports system and its first two games Lucky Racing and e-Ball Lottery, our Lottery Games and Systems division continues to develop, build and deploy regulated lottery content and systems. We will also continue to bolster our in-house development capabilities for games and systems by focusing on research and development, and continue to discuss with the relevant lottery authorities and promote the declaration of new types of lottery games.

Our Lottery Hardware division continues to be well positioned to take advantage of any new opportunities in hardware, given our leading positions in point of sale and handheld terminals and long track-record in the Chinese lottery market, which we believe is likely to demand new and more sophisticated hardware solutions as the PRC lottery hardware replacement cycle is resumed over time.

While the Group believes that the potential of the internet and mobile distribution channels in the PRC lottery markets is promising, there is still uncertainty as to the timing of the potential re-opening of the online lottery distribution market under the applicable PRC laws and regulations. In this respect, the Group continues to closely monitor policy developments with respect to the government approval of lottery sales via internet and mobile channels. We believe that any new lottery games and systems that will be approved for online sales will require robust and scalable technology in order to deliver effective and efficient monitoring and control systems. We consider that the Group is well positioned to participate in these areas, which is further strengthened by our business partnership with Alibaba Group and Ant Financial Group.

The Group has also been seeking expansion opportunities in overseas markets through acquisitions. To this end, the Group has been in the process of identifying suitable acquisition targets and has been discussing with potential targets on such potential acquisitions, including those engaged in the businesses of lottery systems and technology, lottery games and technology, online lottery games and systems and lottery operations.

The underlying industry growth of the Chinese lottery market, coupled with the numerous catalysts for strategic growth outlined above overall suggest a positive outlook for the Group for 2018.

Through our games and entertainment business, we hope to continue growing our online presence, and maximising the value of our business partnership with Alibaba Group and Ant Financial Group, in anticipation of the potential approval and authorisation of online distribution of lottery products in the future.

Looking forward, in our games and entertainment platform, we aim to continue to invest our resources to improving the overall quality as well as the sustainability of the platform, with the goal of creating a healthy and entertaining online experience to our customers.

In addition, the Group continues to actively contribute to the development of mind sports in the China sports industry. Looking forward, to further raise popularity of mind sports, the Group plans on engaging in more marketing and promotional efforts by working with and supporting international organisations such as IMSA and FCG, to organise regional offline matches and tournaments to attract existing and potential mind sports players, and in turn raising our awareness in mind sports area and helping to drive demand.

In addition, Livecast!, our unique sporting-events based social content was launched in June for the 2018 World Cup, aiming to capitalise on the growing trends in the sports entertainment sector. Looking forward, we will continue to leverage this innovative entertainment offering with additional partners globally, and continue to capture the popularity of future sporting events, including but no limited football, basketball, cricket, and more.

With respect to our international business, the Group's joint venture with One97 Communications Limited successfully launched Gamepind in January 2018, an innovative mobile platform offering a host of popular and exciting social and casual games, accessible through Paytm's app by its approximately 300 million and growing customers, as well as through its own standalone app, as well as mobile website. The Group will continue to work with Gamepind to add more Indian-tailored games and entertainment offerings across games category, including quiz, cricket-related games, e-commerce-related games, and will continue to refine and improve upon its user experience, and more actively promote and market the games product to its users. Gamepind also plans to add games in the card games category, paving the way to monetize this unique platform, thus capitalizing on the significant potential of the fast growing mobile entertainment market in India.

Outside India, the Group will continue to seek strong suitable partners in selected international markets to leverage our platforms of games and entertainment offerings and various user engagement activities, as well as technical and operation abilities, to further globalise our business.

Lastly, the Group continues to invest in its business to enhance our technology infrastructure and develop our in-house capabilities through games and lottery entertainment as a medium, working to pull together our technical resources, customer behavioral data, our games, entertainment and lottery content as well as distribution channels into a fully integrated platform in a new way, thereby generating long term sustainable shareholder value growth.

Financial Performance Review

Revenue of the Group for the Six-Month Period amounted to approximately HK\$61.7 million (Six months ended 30 June 2017: approximately HK\$54.1 million), representing an increase of approximately 14.0% over the corresponding period in 2017. Revenue contributions were mainly derived from lottery hardware, lottery games and systems, provision of distribution and ancillary services, games and entertainment business in the PRC. Such increase was due to an increase in revenue of approximately HK\$10.8 million from the sales of lottery hardware, as the Group has won multiple tenders for lottery hardware in the first half of 2018, an increase in revenue of approximately HK\$5.8 million from the provision of lottery distribution and ancillary services, primarily due to the Group's collaborations with various provincial SLACs to launch marketing campaigns for different sports lottery products during the period under review, and an increase in revenue of approximately HK\$3.7 million from lottery games and systems, primarily caused by the increase in sales volume from virtual sports lottery games. Such increase was partially offset by a decrease in revenue of approximately HK\$12.8 million from games and entertainment, primarily due to adjustments implemented in the division aimed at improving the overall quality as well as the sustainability of the business.

The profit for the Six-Month Period was approximately HK\$157.3 million (Six months ended 30 June 2017: loss of approximately HK\$437.1 million). The change from loss to profit for the Six-Month Period was mainly attributable to several non-cash and non-operating items relating to the Convertible Bonds and contingent consideration payables under the Score Value Transaction.

During the Six-Month Period, employee benefits expenses were approximately HK\$131.5 million (Six months ended 30 June 2017: approximately HK\$111.9 million). The increase was mainly due to the continued recruitment of staff across the Group to enhance its technical capability to cope with the business growth and expansion.

Liquidity and financial resources

Net cash (defined as total cash and cash equivalents less total debts, which include trade payables, accruals and other payables, amount due to fellow subsidiaries, contingent consideration payables and convertible bonds) as at 30 June 2018 were approximately HK\$1,119.3 million (as at 31 December 2017: approximately HK\$983.9 million). The total assets and net current assets of the Group as at 30 June 2018 were approximately HK\$3,818.4 million and approximately HK\$2,329.1 million respectively (as at 31 December 2017: approximately HK\$3,988.9 million and approximately HK\$2,463.0 million respectively). Current liabilities of the Group as at 30 June 2018 were approximately HK\$249.6 million (as at 31 December 2017: approximately HK\$332.0 million). The liquidity ratio (defined as current assets divided by current liabilities) of the Group as at 30 June 2018 was approximately 10.3 (as at 31 December 2017: approximately 8.4) which continuously reflect the adequacy of financial resources of the Group.

Capital structure and foreign exchange risk

During the Six-Month Period, the Group financed its capital requirement through its equity, its internally generated cash flow as well as the proceeds from the Subscription and from the exercising by grantees of the share options granted under the Share Option Schemes.

As at 30 June 2018, the Group did not have any bank borrowings. The gearing ratio (defined as bank borrowings divided by equity) of the Group as at 30 June 2018 was therefore not applicable.

As at 30 June 2018, majority of the Group's bank deposits were denominated in US\$, HK\$ and RMB. Since US\$ is pegged to HK\$, and substantially all of its revenue-generating operations, monetary assets and liabilities of the Group are conducted or transacted in functional currencies, the Group faced minimal foreign exchange risk during the Six-Month Period. The Group had neither foreign currency hedging activities nor any financial instruments for hedging purposes during the Six-Month Period.

Contingent liabilities and capital commitment

As at 30 June 2018, the Group did not have any material contingent liabilities and any material capital commitment that constituted "notifiable transactions" under Chapter 19 of the GEM Listing Rules during the Six-Month Period.

Significant investments, material acquisitions and disposals during the Six-Month Period

There were no significant investments, material acquisitions and disposals that constituted “notifiable transactions” under Chapter 19 of the GEM Listing Rules during the Six-Month Period.

Employees’ information and remuneration policies

As at 30 June 2018, the Group had 411 (as at 30 June 2017: 343) employees in the PRC and Hong Kong. Total staff costs (excluding Directors’ emoluments) for the Six-Month Period amounted to approximately HK\$124.2 million (for the six months ended 30 June 2017: approximately HK\$105.6 million).

The Group’s remuneration policies are formulated on the basis of performance and experience of individual employees and are in line with local market practices. In addition to salary, the Group also offers to its employees other fringe benefits including year-end bonus, Share Option Schemes, share award scheme, contributory provident fund, social security fund, medical benefits and training.

Charges on the Group’s assets

As at 30 June 2018, bank deposits of approximately HK\$5.4 million (as at 31 December 2017: approximately HK\$5.5 million) were held in designated bank accounts to secure letters of guarantee granted to the Group. The pledged bank deposits will be released upon the release of the relevant letters of guarantee granted to the Group.

In addition, as at 30 June 2018, a sum of approximately HK\$25.5 million (as at 31 December 2017: approximately HK\$15.4 million) was held by a trustee of the Company for purchases of award Shares under the Share Award Scheme. Such sum was not available for general use by the Group.

Save as disclosed above, as at 30 June 2018, there was no charge on the assets of the Group.

Significant changes to financial position

Inventories of the Group amounted to approximately HK\$17.9 million as at 30 June 2018 (as at 31 December 2017: approximately HK\$10.1 million). The Group's timing for sales has been historically stronger in the second half of the year and therefore the Group will usually stock up higher in the first half of the year in anticipation for the sales in the second half of the year. Inventory turnover period increased from 64 days for the year ended 31 December 2017 to 193 days for the Six-Month Period mainly due to the increase in the purchase of raw materials in the first half of 2018 to manufacture and meet the demand for the committed orders for the upcoming second half of 2018.

Trade receivables of the Group amounted to approximately HK\$53.4 million as at 30 June 2018 (as at 31 December 2017: HK\$49.2 million). Receivables turnover period increased from 66 days for the year ended 31 December 2017 to 163 days for the Six-Month Period mainly due to the fact that the Group's timing of sales has been historically stronger in the second half of the year, thus resulting in more settlement typically being made in the second half of the year which would reduce the receivable turnover days as at the end of the year.

During the Six-Month Period, a gain of approximately HK\$281.3 million was recorded from the remeasurement of the fair value of the Convertible Bonds and a gain of approximately HK\$25.7 million was recorded from the remeasurement of the fair value of the outstanding contingent consideration payables under the Score Value Transaction.

Investments accounted for using equity method amounted to approximately HK\$53.9 million as at 30 June 2018 (as at 31 December 2017: approximately HK\$0.3 million) as a result of the Group's capital contribution to its joint venture with One97 Communications Limited in India.

Significant event after the Six-Month Period

As of the date hereof, there was no significant event of the Group after the Six-Month Period.

CONVERTIBLE BONDS

During the Six-Month Period, no conversion rights attaching to the Convertible Bonds were exercised by Ali Fortune. As at 30 June 2018, Convertible Bonds in the aggregate principal amount of HK\$332,328,165 remained outstanding (the "Outstanding Convertible Bonds"). The prevailing conversion price has been adjusted to HK\$0.2515 per Share (the "Prevailing Adjusted Conversion Price"), and the maximum number of Shares that will be issued upon full conversion of the Outstanding Convertible Bonds at the Prevailing Adjusted Conversion Price is 1,321,476,477 (representing approximately 11.73% of the issued share capital of the Company as at 30 June 2018 and approximately 10.50% of the issued share capital of the Company as enlarged by such outstanding conversion Shares).

Assuming that the Outstanding Convertible Bonds were converted in full as at 30 June 2018, the respective shareholdings of the substantial shareholders of the Company would have been changed as follows:

Name of substantial Shareholders	Before conversion of Outstanding Convertible Bonds in full		Immediately after conversion of Outstanding Convertible Bonds in full	
	Number of Shares held	% of total issued Shares	Number of Shares held	% of total issued Shares
Ali Fortune	6,102,723,993	54.18	7,424,200,470	58.99
Mr. Sun Ho and his wholly-owned corporation, MAXPROFIT GLOBAL INC	2,039,328,000	18.10	2,039,328,000	16.20
Total issued Shares as at 30 June 2018	11,264,138,274		12,585,614,751	

As at 30 June 2018, the Company had cash and bank balances totalling approximately HK\$2,428.6 million, which were more than sufficient to meet its redemption obligations under the Outstanding Convertible Bonds in the aggregate principal amount of HK\$332,328,165.

As the Convertible Bonds bear no interest on the principal amount, it would be equally financially advantageous for the bondholders to convert or redeem the Convertible Bonds (and therefore the bondholders would be indifferent as to whether the Convertible Bonds are converted or redeemed) in the event that the price of each Share traded on the Stock Exchange equals the then adjusted conversion price of the Convertible Bonds.

Key terms of the Convertible Bonds:

- The Convertible Bonds bear no interest on the principal amount. However, if the Company shall pay any dividend in cash or scrip to the Shareholders, each bondholder shall be entitled to be paid interest in respect of that dividend as if the Convertible Bonds held by such bondholder have been converted into Shares in full at the applicable conversion price.
- The Convertible Bonds may be converted by the Subscriber in full or in part at any time during the period on or after the issuance date of the Convertible Bonds and up to the maturity date (which is the third anniversary of the date of issuance of such bonds), provided that, following such conversion, (i) at least 25% of the Company's total number of issued Shares are held by the public (as defined under the GEM Listing Rules); and (ii) the Company is otherwise in compliance with the public float requirements under Rule 11.23(7) of the GEM Listing Rules.
- On the other hand, the Company may, by giving prior written notice to the bondholders, require all (but not any one) of the bondholders to convert their Convertible Bonds into Shares in full at any time on or after the issuance date of the Convertible Bonds and up to a date no later than five business days prior to the aforesaid maturity date, provided that, following such conversion, (i) at least 25% of the Company's total number of issued Shares are held by the public (as defined under the GEM Listing Rules); and (ii) the Company is otherwise in compliance with the public float requirements under Rule 11.23(7) of the GEM Listing Rules.
- Following the occurrence of any special event as set out in the bond instrument in respect of the Convertible Bonds, such as change of control, each bondholder will have the right to require the Company to redeem in whole but not in part such bondholder's Convertible Bonds at 112% of the principal amount of such Convertible Bonds.
- The conversion price of the Convertible Bonds will be subject to customary anti-dilution adjustment for, among other things, consolidation, subdivision or reclassification of the Shares, capitalisation of profits or reserves, capital distribution, rights issues of Shares or options over Shares, rights issues of other securities and other dilutive events.

- If the Company shall issue Shares or grant options to subscribe for any Shares under the Score Value Transaction, or shall issue Shares under the Rainwood Options or the Consultant Options, the conversion price of the Convertible Bonds shall be adjusted in a manner so that:
 - (i) the shareholding of the Subscriber (the “Subscriber Shareholding”) in the Company (based on the number of Shares that the Subscriber acquired upon Completion and that it (or any of its affiliates) continues to hold plus such Shares that the Subscriber would acquire upon conversion of the Convertible Bonds in full) on a fully-diluted basis immediately following the issuance of such Shares and/or the grant of such options

is equal to:

- (ii) the Subscriber Shareholding immediately prior to the issuance of such Shares and/or the grant of such options.

Following such adjustment due to the grant of the options under the Score Value Transaction, the conversion price of the Convertible Bonds shall not be further adjusted when such options are exercised.

If, at the time all or any part of the Convertible Bonds are to be converted into Shares, there are outstanding options to subscribe for Shares under the Rainwood Options or the Consultant Options, the conversion price of the Convertible Bonds shall be adjusted as if such options had been exercised.

- The payment obligations of the Company under the Convertible Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable laws, at all times rank at least equally with all of the Company's other present and future direct, unsubordinated, unconditional and unsecured obligations.
- No application will be made for a listing of the Convertible Bonds.

STATUS OF USE OF PROCEEDS FROM THE SUBSCRIPTION

The net proceeds from the Subscription (the “Net Proceeds”) received by the Company upon its completion (the “Completion”) amounted to approximately HK\$2.38 billion.

As disclosed in the announcement of the Company dated 9 February 2018 (the “Re-allocation Announcement”), the Company has re-allocated the use of the Net Proceeds totalling approximately HK\$2,032 million that remained as at 31 January 2018 (the “Remaining Net Proceeds”) so as to redirect the resources towards the current business divisions of the Group and to improve the efficiency and effectiveness of the use of such Net Proceeds for the business development of the Group.

From 10 August 2016 (being the date of Completion) up to and including 31 January 2018, approximately HK\$348 million in total has been used by the Group (For breakdowns of the usage of such Net Proceeds up to and including 31 January 2018, please refer to pages 2 and 3 of the Re-allocation Announcement). From 1 February 2018 up to and including 30 June 2018, approximately HK\$221.3 million in total has been used by the Group in each of the business divisions of the Group and for investment, acquisition and general corporate purposes in the manner as set out in the table below. Net Proceeds in the sum of approximately HK\$1,810.7 million remained as at 30 June 2018, which were placed in the bank accounts of the Group.

Business divisions of the Group, or investment, acquisition or general corporate purposes, to which the Remaining Net Proceeds are intended to be allocated	Amount brought forward from 31 January 2018, re-allocated and intended to be used (as disclosed in the Re-allocation Announcement)	Amount actually used from 1 February 2018 up to and including 30 June 2018	Actual application of the Remaining Net Proceeds (with expected timeline of usage of unused proceeds and explanations for material difference from intended usage, if any)
(i) Games and Entertainment:	approximately HK\$746 million (or approximately 37% of Remaining Net Proceeds)	approximately HK\$32.7 million	The Remaining Net Proceeds were used in items (i)(a) to (i)(e). No material difference from intended usage noted.
(a) development, operation and promotion of the Chinese card game, Guan Dan, and Two-on-One Poker			The Remaining Net Proceeds allocated to “Games and Entertainment” are expected to be used on or before 31 December 2020.

Business divisions of the Group, or investment, acquisition or general corporate purposes, to which the Remaining Net Proceeds are intended to be allocated	Amount brought forward from 31 January 2018, re-allocated and intended to be used (as disclosed in the Re-allocation Announcement)	Amount actually used from 1 February 2018 up to and including 30 June 2018	Actual application of the Remaining Net Proceeds (with expected timeline of usage of unused proceeds and explanations for material difference from intended usage, if any)
(b) development, operation and promotion of the mind sports, leisure games and entertainment			
(c) research and development ("R&D") of games and entertainment content that are not subject to the applicable lottery laws and regulations in the PRC or other overseas markets			
(d) expansion and development of the Group's R&D capability in technology development for games and systems			
(e) payment of marketing fees to merchants to promote and boost online activities by online users			
(ii) Lottery Hardware, Lottery Games & Systems:	approximately HK\$200 million (or approximately 10% of Remaining Net Proceeds)	approximately HK\$48.1 million	The Remaining Net Proceeds were used in items (ii)(a) to (ii)(e).
(a) operation and development of lottery hardware and terminal production			No material difference from intended usage noted.

Business divisions of the Group, or investment, acquisition or general corporate purposes, to which the Remaining Net Proceeds are intended to be allocated	Amount brought forward from 31 January 2018, re-allocated and intended to be used (as disclosed in the Re-allocation Announcement)	Amount actually used from 1 February 2018 up to and including 30 June 2018	Actual application of the Remaining Net Proceeds (with expected timeline of usage of unused proceeds and explanations for material difference from intended usage, if any)
(b) operation and development of lottery software systems			The Remaining Net Proceeds allocated to "Lottery Hardware, Lottery Games & Systems" are expected to be used on or before 31 December 2020.
(c) development of ancillary parts for lottery hardware and terminal production			
(d) investment for lottery games			
(e) funding the remaining consideration for the Score Value Transaction contingent upon certain performance targets			
(iii) Lottery Distribution:	approximately HK\$300 million (or approximately 15% of Remaining Net Proceeds)	approximately HK\$32.6 million	The Remaining Net Proceeds were primarily used in items (iii)(b) to (iii)(d).
(a) sales, marketing and distribution of virtual lottery games			The Remaining Net Proceeds allocated to "Lottery Distribution" are expected to be used on or before 31 December 2020.
(b) sales, marketing and distribution of instant scratch lottery games			

Business divisions of the Group, or investment, acquisition or general corporate purposes, to which the Remaining Net Proceeds are intended to be allocated	Amount brought forward from 31 January 2018, re-allocated and intended to be used (as disclosed in the Re-allocation Announcement)	Amount actually used from 1 February 2018 up to and including 30 June 2018	Actual application of the Remaining Net Proceeds (with expected timeline of usage of unused proceeds and explanations for material difference from intended usage, if any)
(c) sales, marketing and distribution of other categories of lottery games			
(d) online sales, marketing and distribution of lottery products (including but not limited to the future cooperation with Taobao (China) Software Co., Ltd. and Alipay.com Co., Ltd.)			
(iv) Investment project(s) and acquisition(s):	approximately HK\$450 million (or approximately 22% of Remaining Net Proceeds)	approximately HK\$59.1 million	The Remaining Net Proceeds were used in items (iv)(a) to (iv)(d).
(a) potential investment project(s) in overseas markets in areas of lottery business and games and entertainment business			The Group has been in the process of identifying suitable acquisition targets and has been discussing with various targets on such potential acquisitions. No acquisition has been materialised yet, thus causing the delay in the use of proceeds for potential acquisition(s).
(b) potential acquisition(s) of businesses engaged in lottery business and games and entertainment business			No material difference from intended usage noted.
			The Remaining Net Proceeds allocated to "Investment project(s) and acquisition(s)" are expected to be used on or before 31 December 2020.

Business divisions of the Group, or investment, acquisition or general corporate purposes, to which the Remaining Net Proceeds are intended to be allocated	Amount brought forward from 31 January 2018, re-allocated and intended to be used (as disclosed in the Re-allocation Announcement)	Amount actually used from 1 February 2018 up to and including 30 June 2018	Actual application of the Remaining Net Proceeds (with expected timeline of usage of unused proceeds and explanations for material difference from intended usage, if any)
(c) capital investments in the Group's joint venture company established with One97 Communications Limited in India			
(d) funding provided by the Group to support business expansion and ongoing operation in overseas markets			
(v) General corporate purposes:	approximately HK\$336 million (or approximately 16% of Remaining Net Proceeds)	approximately HK\$48.8 million	The Remaining Net Proceeds were used in items (v)(a) to (v)(b).
(a) staff costs and other administrative expenses of the Group (including the costs relating to the share award scheme of the Company)			The Remaining Net Proceeds allocated to "General corporate purposes" are expected to be used on or before 31 December 2020.
(b) general working capital of the Group			
Grand total:	approximately HK\$2,032 million	approximately HK\$221.3 million	

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2018, the interests and short positions of the Directors and chief executive of the Company 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")), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows:

- a. Interests in Shares and restricted share units:

Name of Director	Number of Shares/restricted share units held			Approximate percentage held <i>(Note 1)</i>
	Personal interest	Corporate interest	Total	
Mr. Sun Ho	33,078,000 <i>(Note 2)</i>	2,006,250,000 <i>(Note 3)</i>	2,039,328,000	18.10%
Mr. Zhou Haijing	12,200,000 <i>(Note 4)</i>	–	12,200,000	0.11%
Mr. Zhang Qin	–	–	–	0%
Mr. Yang Guang	–	–	–	0%
Mr. Ji Gang	–	–	–	0%
Mr. Zou Liang	–	–	–	0%
Ms. Monica Maria Nunes	1,750,000	–	1,750,000	0.02%
Mr. Feng Qing	375,000	–	375,000	negligible
Dr. Gao Jack Qunyao	750,000	–	750,000	0.01%

Notes:

1. Based on a total of 11,264,138,274 Shares in issue as at 30 June 2018.
 2. It represents 28,578,000 Shares and 4,500,000 restricted share units (granted under the share award scheme of the Company) beneficially held by Mr. Sun Ho.
 3. These 2,006,250,000 Shares were held in the name of Maxprofit Global Inc. As Maxprofit Global Inc is beneficially and wholly-owned by Mr. Sun Ho, the chairman, executive Director & chief executive officer (“CEO”) of the Company, Mr. Sun was deemed to be interested in such Shares.
 4. It represents 3,050,000 Shares and 9,150,000 restricted share units (granted under the share award scheme of the Company) beneficially held by Mr. Zhou Haijing.
- b. Long position in the underlying Shares in respect of the share options of the Company (which were regarded as unlisted physically settled equity derivatives):

Name of Director	Date of grant	Exercise price per Share (HK\$)	Exercisable period (Note 2)	Number of underlying Shares	Approximate percentage held (Note 1)
Ms. Monica Maria Nunes	21 January 2014	1.310	21 January 2015 – 20 January 2019	125,000	0.001%
Mr. Feng Qing	1 June 2015	0.858	1 June 2016 – 31 May 2020	750,000	0.007%
Dr. Gao Jack Qunyao	1 June 2015	0.858	1 June 2016 – 31 May 2020	750,000	0.007%

Notes:

1. Based on a total of 11,264,138,274 Shares in issue as at 30 June 2018.
2. A portion of the option representing 25% of the total underlying Shares entitled under such option when it was initially granted shall be vested in the grantee of the option in each year during the exercisable period. If the grantee does not exercise such portion of the option within one year after it has been vested in him/her, such portion of the option will lapse.

- c. Long positions in shares and underlying shares of Alibaba Holding, an associated corporation of the Company within the meaning of Part XV of the SFO:

Name of Director	Nature of interests	Percentage	
		Number of shares/ underlying shares held	of issued shares of Alibaba Holding
Mr. Zhou Haijing	Beneficial and equity derivative interests	25,707 <i>(Note 1)</i>	0.001%
Mr. Zhang Qin	Beneficial and equity derivative interests	49,770 <i>(Note 2)</i>	0.002%
Mr. Yang Guang	Beneficial and equity derivative interests	22,336 <i>(Note 3)</i>	0.001%
Mr. Ji Gang	Beneficial and equity derivative interests	56,865 <i>(Note 4)</i>	0.002%
Mr. Zou Liang	Beneficial and equity derivative interests	4,040 <i>(Note 5)</i>	negligible

Notes:

1. It represents 22,807 ordinary shares and 2,900 restricted share units beneficially held by Mr. Zhou Haijing.
2. It represents 27,520 ordinary shares and 22,250 restricted share units beneficially held by Mr. Zhang Qin.
3. It represents 586 ordinary shares and 21,750 restricted share units beneficially held by Mr. Yang Guang.
4. It represents 50,915 ordinary shares and 5,950 restricted share units beneficially held by Mr. Ji Gang.
5. It represents 1,550 ordinary shares and 2,490 restricted share units beneficially held by Mr. Zou Liang.

Save as disclosed above, as at 30 June 2018, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares (in respect of share options of the Company which were regarded as unlisted physically settled equity derivatives) and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2018, so far as was known to the Directors or chief executive of the Company, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares, underlying Shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, were directly or indirectly interested in 5% or more of the issued voting shares of any other member of the Group or held any option in respect of such shares and recorded in the register kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Capacity	Number of Shares held	Number of underlying Shares entitled	Total number of Shares	Approximate percentage of issued share capital of the Company (Note 1)
Ali Fortune (Notes 2 and 8)	Beneficial owner	6,102,723,993	1,321,476,477	7,424,200,470	65.91%
Alibaba Investment Limited (Note 2)	Interest of controlled corporation	6,102,723,993	1,321,476,477	7,424,200,470 (Note 9)	65.91%
API Holdings Limited (Note 2)	Interest of controlled corporation	6,102,723,993	1,321,476,477	7,424,200,470 (Note 9)	65.91%
Alibaba Holding (Note 3)	Interest of controlled corporation	6,102,723,993	1,321,476,477	7,424,200,470 (Note 9)	65.91%
API (Hong Kong) Investment Limited (Note 4)	Interest of controlled corporation	6,102,723,993	1,321,476,477	7,424,200,470 (Note 9)	65.91%
Shanghai Yunju Venture Capital Investment Co., Ltd. (formerly known as Shanghai Yunju Investment Management Co., Ltd.) (Note 5)	Interest of controlled corporation	6,102,723,993	1,321,476,477	7,424,200,470 (Note 9)	65.91%
Ant Financial (Note 6)	Interest of controlled corporation	6,102,723,993	1,321,476,477	7,424,200,470 (Note 9)	65.91%
Hangzhou Yunbo Investment Consultancy Co., Ltd. (Note 7)	Interest of controlled corporation	6,102,723,993	1,321,476,477	7,424,200,470 (Note 9)	65.91%
Mr. Ma Yun (Note 7)	Interest of controlled corporation	6,102,723,993	1,321,476,477	7,424,200,470 (Note 9)	65.91%
Maxprofit Global Inc (Note 10)	Beneficial owner	2,006,250,000	-	2,006,250,000	17.81%

Notes:

1. Based on a total of 11,264,138,274 Shares in issue as at 30 June 2018.
2. Alibaba Investment Limited (“AIL”) and API Holdings Limited (“API Holdings”) hold 60% and 40% of the issued share capital of Ali Fortune, respectively.
3. Alibaba Holding holds 100% of the issued share capital of AIL.
4. API (Hong Kong) Investment Limited holds 100% of the issued share capital of API Holdings.
5. Shanghai Yunju Venture Capital Investment Co., Ltd. (formerly known as Shanghai Yunju Investment Management Co., Ltd.) (“Shanghai Yunju”) holds 100% of the issued share capital of API (Hong Kong) Investment Limited.

6. Ant Financial holds 100% of the equity interests in Shanghai Yunju. Hangzhou Junhan Equity Investment Partnership (Limited Partnership) (“Junhan”) and Hangzhou Junao Equity Investment Partnership (Limited Partnership) (“Junao”) hold approximately 42.28% and 34.15% of the equity interests in Ant Financial, respectively.
7. Hangzhou Yunbo Investment Consultancy Co., Ltd. (“Yunbo”) is the general partner of both Junhan and Junao, and is wholly-owned by Mr. Ma Yun.
8. As at 30 June 2018, Ali Fortune held outstanding Convertible Bonds in the aggregate principal amount of HK\$332,328,165 and the maximum number of conversion Shares that would be issued upon full conversion of such outstanding Convertible Bonds at the then adjusted conversion price of HK\$0.2515 per conversion Share as at 30 June 2018 was 1,321,476,477. The allotment and issue of the subscription Shares and the conversion Shares in respect of the Subscription under a specific mandate, together with the Whitewash Waiver, were approved by the independent Shareholders at the new special general meeting of the Company held on 30 July 2016.
9. Each of AIL, Alibaba Holding, API Holdings, API (Hong Kong) Investment Limited, Shanghai Yunju, Ant Financial, Junhan, Junao, Yunbo, and Mr. Ma Yun are taken to be interested in an aggregate of 7,424,200,470 Shares by virtue of Part XV of the SFO.
10. As disclosed in the section headed “DIRECTORS’ AND CHIEF EXECUTIVE’S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES” above, Mr. Sun Ho was deemed to be interested in these 2,006,250,000 Shares by virtue of his interest in Maxprofit Global Inc.

Save as disclosed above, as at 30 June 2018, the Directors or chief executive of the Company were not aware of any other persons (not being a Director or chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares, underlying Shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or was directly or indirectly interested in 5% or more of the issued voting shares of any other member of the Group or held any option in respect of such shares and recorded in the register kept by the Company pursuant to section 336 of the SFO.

INTERESTS OF OTHER PERSONS

As at 30 June 2018, apart from the interests in the Shares, underlying Shares and debentures of the Company and its associated corporations held by the Directors, chief executive and substantial shareholders of the Company stated above, there were no other persons with interests recorded in the register of the Company required to be kept under section 336 of the SFO.

INTERESTS IN COMPETING BUSINESS

During the Six-Month Period, none of the Directors, the controlling shareholder of the Company and their respective close associates had an interest in a business, which competes or might compete with the business of the Group.

AUDIT COMMITTEE

The audit committee of the Company comprises three independent non-executive Directors, namely, Ms. Monica Maria Nunes, Mr. Feng Qing and Dr. Gao Jack Qunyao. The audit committee is chaired by Ms. Monica Maria Nunes. The Group's unaudited condensed consolidated financial statements for the Six-Month Period have been reviewed by the audit committee of the Company, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining high standards of corporate governance in order to uphold the transparency of the Group and safeguard interests of the Shareholders.

During the Six-Month Period, the Company has adopted the applicable code provisions in the Corporate Governance Code and Corporate Governance Report (the "Code") as set out in Appendix 15 of the GEM Listing Rules, except for the following deviations:

- (a) under the Code provision A.2.1, the roles of chairman and CEO should be separate and should not be performed by the same individual. The roles of chairman and CEO of the Company were performed by the executive Director, Mr. Sun Ho, during the Six-Month Period. The Company considered that the combination of the roles of chairman and CEO could effectively formulate and implement the strategies of the Company. The Company considered that under the supervision of its Board and its independent non-executive Directors, a balancing mechanism existed so that the interests of the Shareholders were adequately and fairly represented. The Company considered that there was no imminent need to change the arrangement;

- (b) under the Code provision A.4.2, every Director should be subject to retirement by rotation at least once every three years. However, pursuant to the Bye-laws of the Company, the chairman of the Company shall not be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. During the Six-Month Period, the chairman of the Board was not subject to retirement by rotation, as the Board considered that the continuity of the office of the chairman provided the Group with strong and consistent leadership and was of great importance to the smooth operations of the Group;
- (c) under the Code provision A.2.7, the chairman of the Board should at least annually hold meetings with the non-executive Directors (including independent non-executive Directors) without the executive Directors' presence. During the Six-Month Period, the chairman of the Board did not hold such kind of private meetings with the non-executive Directors. The chairman of the Board considered that it was unnecessary as it would be more transparent to let the non-executive Directors speak out their views to all executive Directors in the full Board meetings which would be held at least four times a year. Besides, the chairman of the Board, being an executive Director himself, always welcomes all non-executive Directors to directly communicate with him via his email or phone to discuss any matters of the Company from time to time;
- (d) under the Code provision A6.6, each Director should disclose to the Company, among other things, an indication of the time involved by him/her in his/her offices held in other public companies or organisations and other significant commitments. During the Six-Month Period, no such disclosure was made by the Directors to the Company. As the Board had adopted a corporate governance practice that each Director's contributions to the Group were reviewed and discussed at the Board meeting annually (the "Annual Contributions Review"), the Board considered that assessing the time spent by each Director on his/her commitments outside the Group was not necessary for the purposes of the Annual Contributions Review and that the disclosure of the time spent by a Director in performing his/her duties did not necessarily indicate accurately the efficiency of such Director and the effectiveness of his/her work, and may therefore be misleading;

- (e) under the Code provision B.1.2, the remuneration committee should review and recommend to the Board for approval of the specific remuneration packages of senior management. The remuneration committee of the Company had reviewed its scope of duties and considered that the delegated responsibility to review and recommend to the Board to approve the specific remuneration packages of senior management should be vested in the executive Directors who have a better understanding of the level of expertise, experience and performance expected of the senior management in the daily business operations. Notwithstanding the foregoing, the remuneration committee would continue to be primarily responsible for the review and recommendation of the remuneration packages of the Directors; and

- (f) under the Code provision B.1.5, the Company should disclose details of any remuneration payable to members of senior management by band in its annual report. The Company did not make such disclosure in its annual report as the Board considered that (i) the remuneration of any newly appointed “chief executive” (as defined under the GEM Listing Rules) would have already been disclosed in the announcement previously issued by the Company in respect of such appointment in accordance with GEM Listing Rule 17.50(2)(g); (ii) the five highest paid employees within the Group had already been disclosed in the notes to the consolidated financial statements of the Group in the annual report, and (iii) giving further details of remuneration for each and every senior management staff would result in particulars of excessive length and no additional value to the Shareholders, whilst at the same time may impair the flexibility of the Group in its negotiations of remuneration packages for senior management staff (especially those who are not Directors or chief executives of the Group and hence are not supposed to be subject to the aforesaid disclosure requirement under GEM Listing Rule 17.50(2) (g)) should it need to find replacement staff or recruit additional senior personnel in the future.

(The above deviations (a) to (f) were similarly disclosed on pages 33 and 34 of the Company's annual report for the year ended 31 December 2017, and on pages 42 to 44 of the Company's interim report for the six months ended 30 June 2017.)

REQUIRED STANDARD OF DEALINGS REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings regarding securities transactions by Directors set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its code of conduct for dealings in securities of the Company by the Directors (the “Code of Conduct”). Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard of dealings set out in the Code of Conduct during the Six-Month Period.

SHARE OPTION SCHEMES

The following table sets out details and movements of the Company’s share options held by Directors, eligible employees and other eligible participants of the Group under the share option scheme adopted by the Company on 18 November 2004 (the “2004 Share Option Scheme”) and the share option scheme adopted by the Company on 23 December 2014 (the “2014 Share Option Scheme”) during the Six-Month Period:

Option type	Date of grant	Exercise price per Share (HK\$)	Exercisable period	Number of underlying Shares entitled (in respect of share options of the Company)					
				Outstanding at 1 January 2018	Granted during the Six-Month Period	Exercised during the Six-Month Period	Expired during the Six-Month Period	Forfeited during the Six-Month Period	Outstanding at 30 June 2018
Directors:									
2004 Share Option Scheme	21 January 2014	1.31	21 January 2015-20 January 2019	625,000	-	(375,000)	(125,000)	-	125,000
2014 Share Option Scheme	1 June 2015	0.858	1 June 2016-31 May 2020	2,250,000	-	(375,000)	(375,000)	-	1,500,000
Eligible employees:									
2004 Share Option Scheme	2 January 2014/ 21 January 2014	1.19/1.31	2 January 2015-20 January 2019	31,556,620	-	-	(15,184,560)	(250,000)	16,122,060
2014 Share Option Scheme	20 January 2015/ 1 June 2015	0.92/0.858	20 January 2016-31 May 2020	57,483,600	-	(450,000)	(11,236,200)	(17,600,000)	28,197,400
Other eligible participants:									
2004 Share Option Scheme	23 May 2013/ 21 January 2014	0.489/1.31	23 May 2014-20 January 2019	12,753,961	-	(1,800,000)	(1,375,000)	-	9,578,961
2014 Share Option Scheme	20 January 2015/ 7 July 2015	0.92/1.102	20 January 2016-6 July 2020	205,728,522	-	-	-	-	205,728,522
Total				310,397,703	-	(3,000,000)	(28,295,760)	(17,850,000)	261,251,943
Exercisable at the end of the period				93,681,853					98,256,853
Weighted average exercise price				HK\$1.0418					HK\$1.0550

During the Six-Month Period, no options were granted. No options were cancelled but options in respect of 17,850,000 Shares were forfeited while option in respect of 28,295,760 Shares had expired during the Six-Month Period.

During the Six-Month Period, 3,000,000 options for 3,000,000 Shares were exercised, and 3,325,000 Shares were issued by the Company pursuant to option exercises. The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK\$0.9348 per Share.

As at 30 June 2018, the number of Shares in respect of which options had been granted and remained outstanding under (i) the 2004 Share Option Scheme was 25,826,021 Shares (as at 31 December 2017: 44,935,581 Shares), representing approximately 0.23% (as at 31 December 2017: approximately 0.40%) of the Company's issued share capital as at 30 June 2018; and (ii) the 2014 Share Option Scheme was 235,425,922 Shares (as at 31 December 2017: 265,462,122 Shares), representing approximately 2.09% (as at 31 December 2017: approximately 2.36%) of the Company's issued share capital as at 30 June 2018.

Expected volatility was determined by using the historical volatility of the share prices of other companies in the similar industry over the expected life of the options. No other feature of the options granted was incorporated into the measurement of fair values. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

The variables and assumptions used in computing the fair values of the share options are based on the Directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

SHARE AWARD SCHEME

On 10 January 2018, the Board granted a total of 28,800,000 award Shares to certain eligible employees under the Share Award Scheme. During the Six-Month Period, the trustee of the Share Award Scheme (the "Trustee") has purchased a total of 8,356,000 Shares on the Stock Exchange at a total consideration of approximately HK\$9.9 million to satisfy award Shares granted under the Share Award Scheme.

The 28,800,000 award Shares granted represent approximately 0.26% of the issued share capital of the Company as at the date of this report. Based on the closing price of HK\$1.26 per Share on the date of grant of the award Shares, the market value of the 28,800,000 award Shares in aggregate is HK\$36,288,000.

During the Six-Month Period, 28,800,000 award Shares were granted by the Company pursuant to the Share Award Scheme, 13,435,000 award Shares were vested in the grantees and 11,425,000 award Shares were forfeited.

All of the 28,800,000 award Shares were granted by way of acquisition of existing Shares through on-market transactions by the Trustee. The Board shall cause to pay the Trustee the purchase price and the related expenses from the Company's cash resources. The Trustee shall purchase from the market the relevant number of award Shares and shall hold the award Shares on trust for the relevant selected participants until they are vested in such selected participants and delivered in accordance with the terms of the Share Award Scheme. There is no condition, performance target or lock up restriction attached to the award Shares.

In the event that the Board elects to issue new Shares to satisfy any award Shares to be granted under the Share Award Scheme in the future, the maximum number of new Shares so issued shall be limited to 3% of the total issued Shares as at the Adoption Date (i.e. 315,426,263 Shares). The total number of issued Shares as at the Adoption Date was 10,514,208,770.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the Six-Month Period, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the listed securities of the Company.

STATUS OF DEFERRED CONSIDERATION FOR ACQUISITION OF SCORE VALUE

Silvercreek Technology Holdings Limited (the "Purchaser", which is a wholly-owned subsidiary of the Company) completed the acquisition of a 100% equity interest in Score Value (the "Acquisition") on 8 January 2015.

Pursuant to the sale and purchase agreement in respect of the Acquisition (the "Acquisition Agreement"), the Company or the Purchaser shall be required to pay deferred consideration in a maximum amount of HK\$300 million to the vendors of Score Value (the "Vendors") upon fulfilment of certain pre-conditions at a later stage, including obtaining the approval of the relevant PRC government authority for the lottery game to be supplied by a subsidiary of Score Value (the "Game Approval Pre-condition") and meeting the profit guarantees of an average of RMB20.0 million (equivalent to approximately HK\$25.2 million) per year provided by the Vendors in respect of the Shenzhen Subsidiary of Score Value for each of the three financial years ended 31 December 2015, 2016 and 2017 as described in the paragraph headed "Deferred Consideration" on pages 9 and 10 of the Circular.

The parties to the Acquisition Agreement have mutually agreed to further extend the deadline for fulfilling the Game Approval Pre-condition to 31 December 2018. As of the date hereof, the Game Approval Pre-condition has not yet been fulfilled. Accordingly, the First Deferred Consideration, Second Deferred Consideration and Third Deferred Consideration as described under the paragraph headed "Deferred Consideration" on page 9 of the Circular have not yet been paid to the Vendors.

The Company will make further announcement(s) in due course when the status of other outstanding deferred consideration settlements can be ascertained.

CHANGE IN INFORMATION REGARDING DIRECTORS

Pursuant to the disclosure requirement under Rule 17.50A(1) of the GEM Listing Rules, there are certain changes in the information regarding the following Directors as follows:

Name of Director	Details of the change in information regarding such Director
Mr. Zhou Haijing ("Mr. Zhou")	The annual fixed salary entitled by Mr. Zhou amounts to HK\$1,732,500 with effect from 1 April 2018.
Mr. Zhang Qin ("Mr. Zhang")	The current position of Mr. Zhang has been changed to Vice President of Advertisement Business (formerly Vice President of Corporate Development) for Alibaba Group.
Dr. Gao Jack Qunyao ("Dr. Gao")	Dr. Gao is currently the Founding Partner and CEO of Beijing Times Digiwork Films Technology Co., Ltd. (Smart Cinema).

Save as disclosed above, no other information in respect of the Directors is required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules.

DEFINITIONS

In this report, unless the context otherwise requires, the following words and expressions shall have the following meanings when used herein:

“AGT”	Asia Gaming Technologies Limited, a company incorporated in Hong Kong and owned as to 51% by the Company;
“Ali Fortune” or “Subscriber”	Ali Fortune Investment Holding Limited, the controlling shareholder of the Company;
“Alibaba Group”	Alibaba Holding and its subsidiaries;
“Alibaba Holding”	Alibaba Group Holding Limited, a company incorporated in the Cayman Islands and the American depository shares of which are listed on the New York Stock Exchange;
“Alipay”	支付寶(中國)網絡技術有限公司 (Alipay.com Co., Ltd.#), a company incorporated in the PRC, and a wholly-owned subsidiary of Ant Financial;
“Ant Financial”	浙江螞蟻小微金融服務集團股份有限公司 (Ant Small and Micro Financial Services Group Co., Ltd.#) (formerly known as 浙江螞蟻小微金融服務集團有限公司 (Zhejiang Ant Small and Micro Financial Services Group Co., Ltd.#)), a company incorporated in the PRC;
“Ant Financial Group”	Ant Financial and its subsidiaries;
“Board”	the board of Directors;
“Circular”	the circular of the Company dated 8 December 2014 in respect of the Score Value Transaction;
“Company” or “AGTech”	AGTech Holdings Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on GEM;

“Consultant Options”	the options granted to consultants of the Company to subscribe for up to 156,921,390 Shares as at the date hereof pursuant to the Share Option Schemes;
“Convertible Bonds”	the convertible bonds of the Company issued to Ali Fortune under the Subscription;
“Director(s)”	the director(s) of the Company;
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the Executive Director;
“GEM”	GEM of The Stock Exchange of Hong Kong Limited;
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC;
“Macau”	the Macau Special Administrative Region of the PRC;
“MOF”	the Ministry of Finance of China;
“PRC” or “China”	the People’s Republic of China which, for the purpose of this report, excludes Hong Kong, Macau and Taiwan;
“Rainwood Options”	the options granted to Rainwood Resources Limited to subscribe for up to 212,879,224 Shares at an exercise price of HK\$0.4 per Share (subject to customary adjustment in the event of capitalisation issue) at any time during a 3-year period from 21 May 2013, which had been exercised in full on 16 March 2016;

“RMB”	Renminbi, the lawful currency of the PRC;
“Score Value”	Score Value Limited which is an indirect wholly-owned subsidiary of the Company;
“Score Value Transaction”	the acquisition of the entire equity interest in Score Value by the Company as contemplated under the agreement dated 17 November 2014 entered into between the Company, Silvercreek Technology Holdings Limited (a wholly-owned subsidiary of the Company) as the purchaser, Score Value as the target, and vendors of Score Value, pursuant to which, among other things, (i) the vendors of Score Value may be granted bonus options to subscribe for up to 166,666,666 Shares at a subscription price of HK\$1.8 per Share contingent upon certain performance targets (and such bonus options had already lapsed in November 2016); and (ii) the vendors of Score Value may be issued up to 135,135,135 Shares as part of the deferred consideration for the acquisition if certain performance targets are achieved;
“SF Holding”	順豐控股股份有限公司 (S.F. Holding Co., Ltd.#);
“SF Lottery”	順豐彩(深圳)科技發展有限責任公司 (SF Lottery (Shenzhen) Technology Development Company Limited#), a non-wholly owned subsidiary of the Company;
“Share(s)”	ordinary share(s) of HK\$0.002 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of the Share(s);
“Share Award Scheme”	share award scheme of the Company;
“Share Option Schemes”	the share option schemes of the Company adopted on 18 November 2004 and 23 December 2014 respectively;

“Shenzhen Subsidiary”	深圳中林瑞德科技有限公司 (Shenzhen Zoom Read Tech Co., Ltd.), a company incorporated in the PRC with limited liability and is an indirect wholly- owned subsidiary of Score Value;
“SLAC”	Sports Lottery Administration Centre;
“Sports Lottery”	the national sports lottery of China;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscription”	the subscription for 4,817,399,245 new Shares and Convertible Bonds in the aggregate principal amount of HK\$712,582,483 by Ali Fortune, which was completed on 10 August 2016;
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers (as amended and supplemented from time to time);
“Welfare Lottery”	the national welfare lottery of China;
“Whitewash Waiver”	a waiver from the Executive pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code in respect of the obligations of Ali Fortune to make a mandatory general offer for all of the Shares not already owned or agreed to be acquired by Ali Fortune or parties acting in concert with it which would otherwise arise as a result of (i) the allotment and issue of the Shares under the Subscription at its completion; and/or (ii) the allotment and issue of the Shares that may be issued upon conversion of the Convertible Bonds issued under the Subscription; and
“%”	per cent.

In this report, the exchange rate of HK\$1.2134 to RMB1.00 has been used for reference only.

The English translation of the Chinese company names in this report are included for reference only and should not be regarded as the official English translation of such Chinese company names.

By order of the Board
AGTech Holdings Limited
Sun Ho
Chairman & CEO

Hong Kong, 10 August 2018

As at the date of this report, the Board comprises (i) Mr. Sun Ho and Mr. Zhou Haijing as executive Directors; (ii) Mr. Zhang Qin, Mr. Yang Guang, Mr. Ji Gang and Mr. Zou Liang as non-executive Directors; and (iii) Ms. Monica Maria Nunes, Mr. Feng Qing and Dr. Gao Jack Qunyao as independent non-executive Directors.

This report will remain on the "Latest Company Announcements" page of the GEM website operated by the Stock Exchange at www.hkgem.com for at least seven days from the day of its posting and will be published on the website of the Company at www.agtech.com.