



AGTech Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 8279



2019 INTERIM REPORT

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CHARACTERISTICS OF GEM

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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 2019

- Revenue of the Group for the Six-Month Period amounted to approximately HK\$47.7 million (Six months ended 30 June 2018: approximately HK\$61.7 million), representing a decrease of approximately 22.7% over the corresponding period in 2018. Revenue contributions were mainly derived from lottery hardware, lottery games and systems, provision of lottery distribution and ancillary services, games and entertainment business in the PRC. The decrease in revenue for the Six-Month Period was primarily caused by the decrease in sales of lottery hardware of approximately HK\$16.5 million, partially offset by an increase of approximately HK\$5.9 million in revenue from the lottery games and systems.
- The loss for the Six-Month Period was approximately HK\$116.1 million (Six months ended 30 June 2018: profit of approximately HK\$157.3 million). The change from profit to loss for the Six-Month Period was mainly attributable to several non-cash and non-operating items relating to the fair value changes of the Convertible Bonds and the 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 2019 (the “Three-Month Period”) and the six months ended 30 June 2019 (the “Six-Month Period”), together with the comparative unaudited figures for the corresponding period in 2018 as follows:

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

For the three months and six months ended 30 June 2019

	Notes	Three months ended 30 June		Six months ended 30 June	
		2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Revenue	3	27,557	43,989	47,722	61,657
Other income		1,441	2,371	2,782	3,550
Net other (losses)/gains		(19,371)	(14,180)	(6,347)	2,625
Employee benefits expenses		(47,012)	(63,014)	(106,770)	(131,505)
Purchases of and changes in inventories		(2,457)	(13,181)	(6,765)	(13,190)
Depreciation expenses of property, plant and equipment		(632)	(633)	(1,239)	(1,260)
Depreciation expenses of right-of-use assets – properties		(4,932)	–	(10,483)	–
Operating lease rental expenses		–	(6,940)	–	(12,647)
Other operating expenses		(22,312)	(24,986)	(39,095)	(59,884)
Operating loss		(67,718)	(76,574)	(120,195)	(150,654)
Gain on fair value changes of convertible bonds		22,397	56,636	8,725	281,300
(Loss)/gain on fair value changes of contingent consideration payables		1,046	7,457	(2,303)	25,653
Net finance income		3,990	2,532	9,485	5,812
Share of results of investments accounted for using equity method		(4,378)	(2,211)	(10,247)	(2,211)
(Loss)/profit before income tax		(44,663)	(12,160)	(114,535)	159,900
Income tax expense	4	(493)	(1,258)	(1,583)	(2,580)
(Loss)/profit for the period	5	(45,156)	(13,418)	(116,118)	157,320

	Notes	Three months ended		Six months ended	
		30 June		30 June	
		2019	2018	2019	2018
		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		(16,310)	(46,112)	833	(10,384)
Other comprehensive income for the period, net of tax		(16,310)	(46,112)	833	(10,384)
Total comprehensive income for the period		(61,466)	(59,530)	(115,285)	146,936
(Loss)/profit attributable to:					
Owners of the company		(46,835)	(12,826)	(119,029)	160,145
Non-controlling interests		1,679	(592)	2,911	(2,825)
		(45,156)	(13,418)	(116,118)	157,320
Total comprehensive income attributable to:					
Owners of the company		(61,738)	(56,438)	(118,038)	150,356
Non-controlling interests		272	(3,092)	2,753	(3,420)
		(61,466)	(59,530)	(115,285)	146,936
(Loss)/earning per share					
Basic	6	(HK0.42 cent)	(HK0.12 cent)	(HK1.07 cents)	HK1.44 cents
Diluted	6	(HK0.47 cent)	(HK0.53 cent)	(HK1.07 cents)	(HK1.02 cents)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

		Unaudited	Audited
		As at	As at
		30 June	31 December
		2019	2018
	<i>Notes</i>	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment		6,429	6,993
Right-of-use assets		32,206	–
Investment properties		51,125	51,228
Goodwill		1,080,022	1,081,460
Other intangible assets		1,742	1,742
Deferred income tax assets		5,996	6,349
Investments accounted for using equity method		43,348	53,133
Other receivables, deposits and prepayments		19,652	14,153
		1,240,520	1,215,058
Current assets			
Inventories		32,018	16,953
Trade receivables	7	20,991	24,438
Other receivables, deposits and prepayments		94,371	83,211
Current income tax recoverable		828	–
Cash and bank balances	8	2,238,834	2,381,881
		2,387,042	2,506,483
Total assets		3,627,562	3,721,541
Current liabilities			
Trade payables	9	16,374	15,642
Accruals and other payables		80,858	128,150
Contract liabilities		15,753	12,320
Lease liabilities		20,810	–
Current income tax liabilities		241	586
Convertible bonds	10	432,003	418,818
Contingent consideration payables		79,687	77,384
		645,726	652,900

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2019	2018
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities		
Lease liabilities	11,798	–
Deferred income tax liabilities	6,822	6,778
Provision for warranties	28,102	29,132
	46,722	35,910
Total liabilities	692,448	688,810
Net assets	2,935,114	3,032,731
Equity		
Share capital	22,544	22,544
Reserves attributable to owners of the Company	2,861,068	2,961,438
	2,883,612	2,983,982
Non-controlling interests	51,502	48,749
Total equity	2,935,114	3,032,731

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
	Share capital			Shares held for			Property			Other			Subtotal			
	Share HK\$'000	Share premium HK\$'000	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	HK\$'000	
Balance at 1 January 2018	22,494	3,249,914	(167,407)	136,954	41,582	19,121	124,514	47,191	14,402	99,575	(923,866)	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)	(959)	(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		
Balance at 1 January 2019	22,544	3,269,729	(148,805)	97,384	61,311	21,139	87,687	47,191	14,402	75,788	(564,388)	2,983,982	48,749	3,032,731		
Loss for the period	-	-	-	-	-	-	-	-	-	(119,029)	(119,029)	2,911	(116,118)			
Other comprehensive income for the period	-	-	-	-	-	-	991	-	-	-	-	991	(158)	833		
Total comprehensive income for the period	-	-	-	-	-	-	991	-	-	(119,029)	(118,038)	2,753	(115,285)			
Recognition of equity settled share-based payments	-	-	-	5,022	18,546	-	-	-	-	-	-	23,568	-	23,568		
Lapse of share options	-	-	-	(18,295)	-	-	-	-	-	-	18,295	-	-			
Purchase of shares under share award scheme	-	-	(5,706)	-	-	-	-	-	-	-	-	(5,706)	(5,706)			
Transfer of shares upon vesting of share awards under share award scheme	-	(7,984)	31,766	-	(23,782)	-	-	-	-	-	-	-	-			
Transaction with shareholder	-	-	-	-	-	-	-	-	-	256	-	256	256			
Employee share-based compensation recharge	-	-	-	-	-	-	-	-	-	(450)	-	(450)	(450)			
Balance at 30 June 2019	22,544	3,261,745	(122,745)	84,111	56,075	21,139	88,678	47,191	14,402	75,594	(665,122)	2,883,612	51,502	2,935,114		

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the Six-Month Period

	<i>Note</i>	Six months ended	
		2019	2018
		HK\$'000	<i>HK\$'000</i>
Net cash used in operating activities		(154,192)	(124,944)
Net cash generated from/(used in) investing activities		28,143	(69,702)
Net cash used in financing activities		(10,808)	(11,411)
Net decrease in cash and cash equivalents		(136,857)	(206,057)
Cash and cash equivalents at the beginning of the period		2,353,368	2,212,503
Effect of foreign exchange rate changes		2,069	(1,245)
Cash and cash equivalents at the end of the period	8	2,218,580	2,005,201

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 2018, except for the adoption of new or revised standards, amendments and interpretations which are relevant to the operations of the Group and mandatory for annual periods beginning 1 January 2019.

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”). Save as disclosed in Note 2, the adoption of other new or revised HKFRS that are first effective for the current accounting period does not have a material impact to the Group’s results of operations or financial position. 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. CHANGES IN ACCOUNTING POLICIES

This note discloses the new accounting policies of HKFRS 16 Leases that have been applied from 1 January 2019 and explains the impact of the adoption on the Group's consolidated financial statements.

(a) HKFRS 16 Leases

The Group has adopted HKFRS 16 from 1 January 2019 which resulted in changes in accounting policies. In accordance with the transition provisions in HKFRS 16, the Group has adopted the modified retrospective approach for transition to the new lease standard. Under this transition approach, (i) comparative information for prior periods is not restated; (ii) the date of the initial application of HKFRS 16 is the first day of the annual reporting period in which the Group first applies the requirement of HKFRS 16, i.e. 1 January 2019; and (iii) the Group recognises the cumulative effect of initially applying the guidance as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) in the year of adoption, i.e. as at 1 January 2019.

Accounting policies

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Such determination is made on an evaluation of the substance of the arrangement, regardless of whether the arrangements take the legal form of a lease.

The Group leases various office premises. Rental contracts are typically made for fixed periods of one to three years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Before the adoption of HKFRS 16, leases in which a significant portion of the risks and rewards of ownership are retained by the lessor were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the condensed consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease. Commitments under operating leases for future periods were not recognised by the Group as liabilities.

From 1 January 2019, leases are recognised as right-of-use assets and the corresponding lease liabilities at the dates at which the leased assets are available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the condensed consolidated statement of profit or loss and other comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use assets are depreciated over the shorter of the assets' useful lives and the lease terms on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate; and
- payments of penalties for terminating the lease, if the lease term reflects the Group, as a lessee, exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate, being the rate that the lease would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar term and condition.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date, less any lease incentive received;
- any initial direct costs; and
- restoration costs.

Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- payments associated with short-term leases for all classes of underlying assets are recognised on a straight-line basis over the lease terms as expenses in the condensed consolidated statement of profit or loss and other comprehensive income. Short-term leases are leases with a lease term of 12 months or less.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 Leases and HKFRIC 4 Determining whether an Arrangement contains a Lease.

(b) Impact of adoption to the consolidated financial statements***Difference between operating lease commitments disclosed under HKAS 17 and lease liabilities recognised under HKFRS16***

The operating lease commitments disclosed as at 31 December 2018 were HK\$46,207,000, while the lease liabilities recognised as at 1 January 2019 were HK\$38,839,000.

The differences between the operating lease commitments discounted using the lessee's incremental borrowing rate and the total lease liabilities recognised in the condensed consolidated statement of financial position at the date of initial application of HKFRS 16 comprised the exclusion of non-lease components and short-term leases recognised on a straight-line basis as expenses, and different treatments on lease contracts in relation to termination options or under renewal process. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.74%.

3. 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 lottery 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		Six months ended	
	30 June		30 June	
	2019	2018	2019	2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Lottery hardware	10,096	30,154	19,064	35,606
Lottery games and systems	11,589	6,603	18,754	12,831
Provision of lottery distribution and ancillary services	4,432	3,811	7,856	8,915
Games and entertainment	1,440	3,421	2,048	4,305
	27,557	43,989	47,722	61,657

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

4. INCOME TAX EXPENSE

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

5. (LOSS)/PROFIT FOR THE PERIOD

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

	Three months ended		Six months ended	
	30 June		30 June	
	2019 (unaudited) HK\$'000	2018 (unaudited) HK\$'000	2019 (unaudited) HK\$'000	2018 (unaudited) HK\$'000
Share-based payments	13,581	20,181	23,824	41,956
Provision for warranties	454	1,514	1,142	1,514
Bank interest income	(15,921)	(12,270)	(32,119)	(24,850)
Interest expenses on Convertible Bonds	10,703	9,738	21,910	19,038

6. (LOSS)/EARNING 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\$46,835,000 and unaudited loss attributable to owners of the Company for the Six-Month Period of approximately HK\$119,029,000 (for the three months and six months ended 30 June 2018: loss of approximately HK\$12,826,000 and profit of HK\$160,145,000 respectively) by the weighted average number of ordinary shares outstanding during the Three-Month Period and Six-Month Period of approximately 11,272,342,000 shares (for the three months and six months ended 30 June 2018: approximately 11,255,720,000 shares and 11,252,000,000 shares respectively) and excluding the weighted average number of shares held for share award scheme of approximately 95,437,000 shares and 102,111,000 shares respectively (for the three months and six months ended 30 June 2018: approximately 115,394,000 shares and 121,380,000 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 share options and share awards, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options and share awards.

For the Six-Month Period, 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 and the vesting of the outstanding share awards, as they would decrease the loss per share. Contingent considerations are not treated as outstanding and are excluded from the computation of the diluted loss per share as the conditions were not satisfied as at 30 June 2019.

For the Three-Month Period, diluted loss per share is calculated by dividing the adjusted unaudited loss attributable to owners of the Company of approximately HK\$58,529,000 by the adjusted weighted average number of ordinary shares outstanding during the Three-Month Period of approximately 12,509,866,000 shares. 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. Contingent considerations are not treated as outstanding and are excluded from the computation of the diluted loss per share as the conditions were not satisfied as at 30 June 2019.

For the three months and six months ended 30 June 2018, 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 months and six months ended 30 June 2018 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.

7. TRADE RECEIVABLES

Ageing analysis of trade receivables based on the date of the relevant invoice or demand note was as follows:

	As at 30 June 2019 (unaudited) HK\$'000	As at 31 December 2018 (audited) HK\$'000
0 to 30 days	20,019	22,921
31 to 60 days	556	258
61 to 90 days	332	228
91 to 120 days	23	172
121 to 365 days	61	378
Over 365 days	–	481
	20,991	24,438

8. CASH AND BANK BALANCES

	As at 30 June 2019 (unaudited) HK\$'000	As at 31 December 2018 (audited) HK\$'000
Cash and cash equivalents	2,218,580	2,353,368
Pledged bank deposits	2,548	5,234
Restricted cash	17,706	23,279
	2,238,834	2,381,881

9. TRADE PAYABLES

Ageing analysis of trade payables based on invoice date was as follows:

	As at 30 June 2019 (unaudited) HK\$'000	As at 31 December 2018 (audited) HK\$'000
0 to 30 days	11,362	2,003
31 to 60 days	1,099	6,679
61 to 90 days	56	3,714
91 to 120 days	577	288
121 to 365 days	1,573	2,505
Over 365 days	1,707	453
	16,374	15,642

10. CONVERTIBLE BONDS

As at 30 June 2019, the Convertible Bonds in an aggregate principal amount of HK\$332,328,165 (31 December 2018: 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\$0.2493 (subject to adjustment).

	Debt instrument (unaudited) <i>HK\$'000</i>	Embedded derivative (unaudited) <i>HK\$'000</i>	Total (unaudited) <i>HK\$'000</i>
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
At 1 January 2019	303,634	115,184	418,818
Gain on fair value changes	–	(8,725)	(8,725)
Interest expense	21,910	–	21,910
At 30 June 2019	325,544	106,459	432,003

The fair value of the conversion option embedded in the Convertible Bonds at 30 June 2019 amounted to approximately HK\$106,459,000 (31 December 2018: HK\$115,184,000).

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 <i>(HK\$'000)</i>	Valuation technique	Unobservable inputs	Relationship of Range unobservable Range unobservable (Weighted average) inputs to fair value
Embedded derivative of Convertible Bonds	106,459 (31 December 2018: 115,184)	Binomial model	Expected volatility of share price	28.05% (31 December 2018: 56.36%) The higher the expected volatility, the higher the fair value

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

	Six months ended	
	30 June	
	2019	2018
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Revenue of games and entertainment business from fellow subsidiaries	7	–
Revenue of games and entertainment business from a joint venture	1,143	–
Recharge for technical services to a joint venture	977	1,472

(b) Purchases of goods and services

	Six months ended	
	30 June	
	2019	2018
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Recharge for operation of lottery distribution from fellow subsidiaries	641	1,718
Recharge for operation of games and entertainment business from fellow subsidiaries	–	711
Purchase of marketing services for games and entertainment business from fellow subsidiaries	317	23,283
Purchase of technology services from fellow subsidiaries	428	716
Recharge for rental services from a fellow subsidiary	83	80
Recharge for management and administrative services from fellow subsidiaries	2,919	2,913

(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	
	2019	2018
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Short-term employee benefits	2,690	3,060
Share-based payments	3,567	4,096
Post-employment benefits	99	171
	6,356	7,327

(d) Loan to related party

	As at	As at
	30 June	31 December
	2019	2018
	(unaudited)	(audited)
	HK\$'000	HK\$'000
Loan to an officer	2,322	2,395

(e) Amounts due from/(to) related parties

	As at	As at
	30 June	31 December
	2019	2018
	(unaudited)	(audited)
	HK\$'000	HK\$'000
Amounts due from fellow subsidiaries	19,118	18,274
Amounts due to fellow subsidiaries	(31,808)	(47,664)

DIVIDEND

The Board does not recommend the payment of an interim dividend for the Six-Month Period (2018: 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).

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.

As the exclusive lottery platform of Alibaba Group and Ant Financial Group, lottery technology and services will continue to be AGTech's domain expertise. The Group continues to leverage its lottery industry experience and innovation to support lottery authorities in areas including product development, physical channel expansion, innovative hardware, marketing services and promotions, all in assisting to broaden the reach of lottery products in China and to advance the industry as a whole.

The Group will continue to develop differentiated games and entertainment platforms with the goal of integrating unique social games and sports entertainment content, ultimately to create an innovative business model to increase the Group's commercial value.

Looking forward, AGTech will continue to pursue overseas opportunities and globalize our business through offering our proprietary systems and platforms, as well as operational and technical expertise, in addition to seeking strategic partnership with 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 MOF figures*, during the Six-Month Period, lottery market recorded sales of approximately RMB212.59 billion, a decrease of approximately 13.3% compared to the corresponding period in 2018. Of this, Welfare Lottery amounted to approximately RMB97.76 billion (approximately 46% of total lottery sales), representing a decrease of approximately 11.6% compared to the corresponding period in 2018. The Sports Lottery achieved sales of approximately RMB114.84 billion (approximately 54% of total lottery sales), representing a decrease of approximately 14.7% compared to the corresponding period in 2018.

At the beginning of 2019, Chinese lottery authorities advised on a series of operating and governing recommendations with aim to improve on risk management supervision and to promote responsible lottery. Market supervision is strengthened to ensure the healthy development of the lottery industry.

* Source: Ministry of Finance of the PRC

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 in China, thereby driving impressive levels of innovation in mobile games and entertainment content.

In fact, China has become one of the largest mobile games markets in the world. However, since the course of last year, we have noted that certain PRC government's directives were issued to closely regulate the administration of the online game industry and the PRC government had paid attention to the internet industry. This may cause uncertainties to China's overall games industry.

Business Review

New Lottery Services

Following the success of the Sports Lottery marketing campaign in 2018, in which we delivered a new omni-channel experience to customers in promoting Sports Lottery's 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.

During the Six-Month Period, the Group secured cooperation by way of lottery services with the following PRC lottery authorities :

- (a) cooperation with Guangdong SLAC to apply an enterprise intelligent office service platform to the Guangdong SLAC "network service platform" project, thus satisfying the demand on its digital management. We aim to spread the platform service to other provinces and regions in China in future;
- (b) collaboration with Tianjin SLAC to carry out corresponding marketing planning and implementation for the comprehensive range of sports lottery products according to Tianjin SLAC's timeline, and to achieve the objectives of assisting Tianjin SLAC in brand building, efficient dissemination, and expansion of new user groups, by means of multi-category media promotions of responsible lottery and public welfare;

- (c) collaboration with 中國福利彩票發行管理中心 (China Welfare Lottery Issuance and Administration Center*) on the research and application of notarizable electronic lottery draw technology based on blockchain smart contract technology. Ant Financial Group's blockchain technology will be applied in this project; and
- d) collaboration with 國家體育總局體育彩票管理中心 (SLAC of General Administration of Sport of the PRC*) to provide services on research, development and operation of AR (augmented reality) technology for China Sports Lottery's online promotion activities, to promote sports lottery products and expand its younger customer base.

Lottery Resources Channel

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 platform 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 displaying of certain historical and current lottery products results and other tools. 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 preparation for any potential approval and authorisation of online distribution of lottery products in the future.

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 of the PRC in 2011, and its football themed game "e-Ball Lottery" ("e球彩") in Jiangsu Province of the PRC 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 of the PRC respectively.

As announced by the Company on 14 November 2018, 亞博泰科科技(北京)有限公司(Asia Gaming Technologies (Beijing) Co., Ltd.) ("AGT Beijing"), a subsidiary owned as to 51% by the Group, has been awarded the technical cooperation contract in respect of e-Ball Lottery for Jiangsu SLAC. Under such contract, AGT Beijing is responsible for setting up and developing the distribution and sales management system for e-Ball Lottery for a further five-year term, including its maintenance, installation, testing, ongoing development and system upgrade as requested by Jiangsu SLAC.

Lottery Hardware

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 traditional lottery terminals, and paper scratch card sales hardware (instant ticket verification terminals, "IVT(s)").

During the Six-Month Period, the Group won six lottery hardware tenders to supply lottery terminals to the SLACs in Tianjin, Hainan, Guangxi, Guizhou, Anhui, Beijing of the PRC. This demonstrates the Group's continued industry leading position and commitment in China's lottery hardware market.

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 preparation for any 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.

Since the course of 2018, we have noted that certain PRC government's directives were issued to closely regulate the administration of the online games industry and the PRC government had paid attention to the internet industry. This may cause uncertainties to China's overall games industry. We will closely monitor any such latest government directives but believe that we are 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.

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. Given that many of the initiatives of our Games and Entertainment division are relatively new, coupled with the PRC government's directives to closely regulate the administration of the online games industry as mentioned above, our Games and Entertainment 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 Games and Entertainment business in order to achieve sustainable scalability and growth over the long term.

International Market

Strategic expansion in selected markets overseas

A joint venture of the Group with One97 Communications Limited continued to develop its mobile games and entertainment platform in India, Paytm First Games (formerly known as "Gamepind"). Paytm First Games offers players a unique online experience with popular games contents such as social games, quiz, card games and cricket-related games. The platform continues to grow its user base and user activity that benefit from Paytm and other well selected marketing channels. As the brand influence of the platform continues to grow, together with the addition of competitive games contents particularly in sports category, as demonstrated by the launch of a dedicated cricket channel in March 2019 and fantasy cricket (known as "Paytm First Captains") in May 2019, the Group is hopeful that Paytm First Games will continue to grow its user base, paving the way to monetize this unique platform, thus capitalizing on the significant potential of the fast growing mobile games and entertainment market in India.

Sporting Events Entertainment Content

During March 2019, the Group collaborated with AliExpress, the global retail platform of Alibaba Group, on a new product of "e-commerce + sports interactive entertainment" in Europe. Through choosing the correct outcome of the European Cup qualifiers, this events-based product connected sporting events with entertainment element, linked with social media features and offers attractive rewards, providing our partner an effective way to engage with customers. The Group will continue to develop unique sports entertainment products and digital solutions according to demands of the rapid growing e-commerce market internationally.

BUSINESS OUTLOOK

The Group continues to actively build on our leading position within the Chinese lottery industry. 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 continues to innovate channel distribution and leverage Alibaba Group's vast offline retail network of physical retail stores to integrate lottery products and services where appropriate. In addition, we aim to help Guangdong Sports Lottery Centre to enable the digital management of its network service platform and spread the platform service and smart lottery ancillary services to other regions of the nation, thus satisfying the demand on digital transformation of the lottery industry of PRC. The Group will work to partner with additional provincial lottery authorities in areas such as business innovation, channel expansion, smart hardware terminal, technology and data service, marketing and promotion and more.

The Group launched lottery resources channel on mobile Taobao and mobile Alipay, which serves as an important one-stop platform for many relevant lottery information and resources for existing and potential lottery customers. In addition to useful features such as lottery results display and nearby lottery retail outlets, the Group plans to develop additional features in order to improve user experience.

Our Lottery Hardware division continues to be well positioned to take advantage of any new opportunities in hardware, given our leading position 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 in the foreseeable future.

The Group is also leveraging on its existing products and technology capability to continue delivering exciting sports contents to players. We believe that having a robust sports-oriented solution package will help the Group capture opportunities in additional geographic markets as well as popular international sports events such as the ICC Cricket World Cup and the European Cup.

With respect to our international business, the Group will continue to invest in and develop fast growing mobile games and entertainment markets such as India through utilizing the Group's extensive experience on sports products, technology, and knowledge.

Outside of 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 enhancing 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, thereby generating long term sustainable growth for our shareholders.

Financial Performance Review

Revenue of the Group for the Six-Month Period amounted to approximately HK\$47.7 million (Six months ended 30 June 2018: approximately HK\$61.7 million), representing a decrease of approximately 22.7% over the corresponding period in 2018. Revenue contributions were mainly derived from lottery hardware, lottery games and systems, provision of lottery distribution and ancillary services, games and entertainment business in the PRC. Sales of lottery hardware decreased by approximately HK\$16.5 million as compared to the corresponding period in 2018. The supply of lottery hardware in the PRC is highly correlated with the replacement cycle of lottery hardware for lottery authorities. Hence, revenue in this business typically exhibits an irregular pattern and has short-term volatility. The decreases in revenue were partially offset by an increase of approximately HK\$5.9 million in revenue from the lottery games and systems.

The loss for the Six-Month Period was approximately HK\$116.1 million (Six months ended 30 June 2018: profit of approximately HK\$157.3 million). The change from profit to loss for the Six-Month Period was mainly attributable to several non-cash and non-operating items relating to the fair value changes of the Convertible Bonds and the contingent consideration payables under the Score Value Transaction.

During the Six-Month Period, other operating expenses were approximately HK\$39.1 million (Six months ended 30 June 2018: approximately HK\$59.9 million). The decrease was primarily due to the decrease in marketing and various operating expenses.

Liquidity and financial resources

Net cash (defined as total cash and cash equivalents less total debts, which include trade payables, accruals and other payables, contract liabilities, lease liabilities, contingent consideration payables and convertible bonds) as at 30 June 2019 were approximately HK\$1,573.2 million (as at 31 December 2018: approximately HK\$1,714.2 million). The total assets and net current assets of the Group as at 30 June 2019 were approximately HK\$3,627.6 million and approximately HK\$1,741.3 million respectively (as at 31 December 2018: approximately HK\$3,721.5 million and approximately HK\$1,853.6 million respectively). Current liabilities of the Group as at 30 June 2019 were approximately HK\$645.7 million (as at 31 December 2018: approximately HK\$652.9 million). The liquidity ratio (defined as current assets divided by current liabilities) of the Group as at 30 June 2019 was approximately 3.7 (as at 31 December 2018: approximately 3.8) which continuously reflects 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 and its internally generated cash flow as well as the proceeds from the Subscription.

As at 30 June 2019, 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 2019 was therefore not applicable.

As at 30 June 2019, majority of the Group's bank deposits were denominated in US\$, HK\$ and RMB. Since HK\$ is pegged to US\$, 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 2019, 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 of subsidiaries, associates and joint ventures during the Six-Month Period

There were no significant investments, material acquisitions and disposals of subsidiaries, associates and joint ventures 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 2019, the Group had 397 (as at 30 June 2018: 411) employees in the PRC and Hong Kong. Total staff costs (excluding Directors’ emoluments) for the Six-Month Period amounted to approximately HK\$100.4 million (for the six months ended 30 June 2018: approximately HK\$124.2 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 2019, bank deposits of approximately HK\$2.5 million (as at 31 December 2018: approximately HK\$5.2 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 2019, a sum of approximately HK\$17.7 million (as at 31 December 2018: approximately HK\$23.3 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 2019, there was no charge on the assets of the Group.

Significant changes to financial position

Inventories of the Group amounted to approximately HK\$32.0 million as at 30 June 2019 (as at 31 December 2018: approximately HK\$17.0 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 86 days for the year ended 31 December 2018 to 661 days for the Six-Month Period mainly due to the increase of inventories close to the current period end to meet the demand for the committed orders for the upcoming third quarter of 2019.

Trade receivables of the Group amounted to approximately HK\$21.0 million as at 30 June 2019 (as at 31 December 2018: HK\$24.4 million). Receivables turnover period increased from 80 days for the year ended 31 December 2018 to 87 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\$8.7 million was recorded from the remeasurement of the fair value of the Convertible Bonds and a loss of approximately HK\$2.3 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\$43.3 million as at 30 June 2019 (as at 31 December 2018: approximately HK\$53.1 million). The decrease was mainly due to the share of losses of the Group's investment in its joint venture with One97 Communications Limited in India.

Significant events after the Six-Month Period

On 19 July 2019, the Company received a conversion notice from Ali Fortune in respect of the exercise of conversion rights attaching to the Convertible Bonds in an aggregate principal amount of HK\$99,720,000. Accordingly, the Company has allotted and issued an aggregate of 400,000,000 Conversion Shares to the Subscriber at the conversion price of HK\$0.2493 per Conversion Share on 22 July 2019. For details, please refer to the announcement of the Company dated 22 July 2019.

Pursuant to the Bond Instrument, the Company shall redeem the remaining Convertible Bonds in an aggregate principal amount of HK\$232,608,165 on the maturity date (i.e. 10 August 2019). Further details can be found in the section headed "REDEMPTION OF CONVERTIBLE BONDS" below in this report.

Save as disclosed above, as of the date hereof, there were no significant events of the Group after the Six-Month Period.

CONVERTIBLE BONDS

According to the Subscription Agreement, the Company agreed to allot and issue to Ali Fortune and Ali Fortune agreed to subscribe for an aggregate of 4,817,399,245 new Shares and Convertible Bonds in the aggregate principal amount of HK\$712,582,483. The Subscription was completed on 10 August 2016.

As at 30 June 2019, 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\$0.2493 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 1,332,960,447 (representing approximately 11.83% of the issued share capital of the Company as at 30 June 2019 and approximately 10.57% of the issued share capital of the Company as enlarged by such outstanding Conversion Shares).

During the Six-Month Period, no conversion rights attaching to the Convertible Bonds were exercised by Ali Fortune.

Assuming that the Outstanding Convertible Bonds were converted in full as at 30 June 2019, 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	54.14	7,435,684,440	58.99
Mr. Sun Ho and his wholly-owned corporation, MAXPROFIT GLOBAL INC	2,038,098,000 (Note)	18.08	2,038,098,000 (Note)	16.17
Total issued Shares as at 30 June 2019	11,272,342,235		12,605,302,682	

(Note: These Shares do not include the 8,310,000 restricted share units granted under the Share Award Scheme which had not been vested to Mr. Sun Ho as at 30 June 2019)

As at 30 June 2019, the Company had cash and cash equivalents totalling approximately HK\$2,218.6 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. For the Six-Month Period, the diluted loss per share is the same as the basic loss per share, details please refer to note 6 to the condensed consolidated financial statements of the Company contained in this report.

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 2019, approximately HK\$573.8 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\$1,458.2 million remained as at 30 June 2019, 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 2019	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	approximately HK\$78.1 million	The Remaining Net Proceeds were used in items (i)(a) to (i)(e).
(a) <i>development, operation and promotion of the Chinese card game, GuanDan, and Two-on-One Poker</i>	(or approximately 37% of Remaining Net Proceeds) (Note: This amount will be adjusted downward to approximately HK\$513 million after deduction of approximately HK\$233 million allocated hereto, as a result of redemption of the remaining Convertible Bonds on their maturity date on 10 August 2019 as detailed in the section headed "Redemption of Convertible Bonds" below in this report.)		No material difference from intended usage noted.
(b) <i>development, operation and promotion of the mind sports, leisure games and entertainment</i>			The Remaining Net Proceeds allocated to "Games and Entertainment" are expected to be used on or before 31 December 2020.
(c) <i>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</i>			
(d) <i>expansion and development of the Group's R&D capability in technology development for games and systems</i>			
(e) <i>payment of marketing fees to merchants to promote and boost online activities by online users</i>			

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 2019	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)
(ii) Lottery Hardware, Lottery Games & Systems:	approximately HK\$200 million	approximately HK\$143.5 million	The Remaining Net Proceeds were used in items (ii)(a) to (ii)(e).
(a) <i>operation and development of lottery hardware and terminal production</i>	(or approximately 10% of Remaining Net Proceeds) (Note: This amount will remain the same at approximately HK\$200 million following the redemption of the remaining Convertible Bonds on their maturity date on 10 August 2019 as detailed in the section headed "Redemption of Convertible Bonds" below in this report.)		No material difference from intended usage noted.
(b) <i>operation and development of lottery software systems</i>			The Remaining Net Proceeds allocated to "Lottery Hardware, Lottery Games & Systems" are expected to be used on or before 31 December 2020.
(c) <i>development of ancillary parts for lottery hardware and terminal production</i>			
(d) <i>investment for lottery games</i>			
(e) <i>funding the remaining consideration for the Score Value Transaction contingent upon certain performance targets</i>			

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 2019	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)
(iii) Lottery Distribution:	approximately HK\$300 million	approximately HK\$113.9 million	The Remaining Net Proceeds were primarily used in items (iii)(a) to (iii)(d).
(a) sales, marketing and distribution of virtual lottery games	(or approximately 15% of Remaining Net Proceeds)		No material difference from intended usage noted.
(b) sales, marketing and distribution of instant scratch lottery games	(Note: This amount will remain the same at approximately HK\$300 million following the redemption of the		
(c) sales, marketing and distribution of other categories of lottery games	remaining Convertible Bonds on their maturity date on 10 August 2019		The Remaining Net Proceeds allocated to "Lottery Distribution" are expected to be used on or before 31 December 2020.
(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.)	as detailed in the section headed "Redemption of Convertible Bonds" below in this report.)		

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 2019	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)
(iv) Investment project(s) and acquisition(s):	approximately HK\$450 million	approximately HK\$69.6 million	The Remaining Net Proceeds were used in items (iv)(a) to (iv)(d).
(a) <i>potential investment project(s) in overseas markets in areas of lottery business and games and entertainment business</i>	(or approximately 22% of Remaining Net Proceeds) (Note: This amount will remain the same at approximately HK\$450 million following the redemption of the remaining Convertible Bonds on their maturity date on 10 August 2019 as detailed in the section headed "Redemption of Convertible Bonds" below in this report.)		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) <i>potential acquisition(s) of businesses engaged in lottery business and games and entertainment business</i>			No material difference from intended usage noted.
(c) <i>capital investments in the Group's joint venture company established with One97 Communications Limited in India</i>			
(d) <i>funding provided by the Group to support business expansion and ongoing operation in overseas markets</i>			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 2019	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)
(v) General corporate purposes:	approximately HK\$336 million	approximately HK\$168.7 million	The Remaining Net Proceeds were used in items (v)(a) to (v)(b).
(a) <i>staff costs and other administrative expenses of the Group (including the costs relating to the Share Award Scheme)</i>	(or approximately 16% of Remaining Net Proceeds) (Note: This amount will remain the same at approximately HK\$336 million following the redemption of the remaining Convertible Bonds on their maturity date on 10 August 2019 as detailed in the section headed "Redemption of Convertible Bonds" below in this report.)		No material difference from intended usage noted.
(b) <i>general working capital of the Group</i>			The Remaining Net Proceeds allocated to "General corporate purposes" are expected to be used on or before 31 December 2020.
Grand total:	approximately HK\$2,032 million	approximately HK\$573.8 million	

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

As at 30 June 2019, 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 of the Company:

Name of Director	Number of Shares/restricted share units held			Approximate percentage held (Note 1)
	Personal interest	Corporate interest	Total	
Mr. Sun Ho	40,158,000 (Note 2)	2,006,250,000 (Note 3)	2,046,408,000	18.15%
Ms. Hu Taoye	-	-	-	0%
Mr. Yang Guang	-	-	-	0%
Mr. Li Faguang	-	-	-	0%
Mr. Ji Gang	-	-	-	0%
Mr. Zou Liang	-	-	-	0%
Ms. Monica Maria Nunes	1,750,000	-	1,750,000	0.016%
Mr. Feng Qing	375,000	-	375,000	0.003%
Dr. Gao Jack Qunyao	750,000	-	750,000	0.007%

Notes:

1. Based on a total of 11,272,342,235 Shares in issue as at 30 June 2019.
 2. It represents 31,848,000 Shares and 8,310,000 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.
- 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)
Mr. Feng Qing	1 June 2015	0.858	1 June 2016 – 31 May 2020	375,000	0.003%
Dr. Gao Jack Qunyao	1 June 2015	0.858	1 June 2016 – 31 May 2020	375,000	0.003%

Notes:

1. Based on a total of 11,272,342,235 Shares in issue as at 30 June 2019.
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	Number of shares/ underlying shares of Alibaba Holding held	Percentage of issued shares of Alibaba Holding
Ms. Hu Taoye	Beneficial and equity derivative interests	16,507 (Note 1)	0.001%
Mr. Yang Guang	Beneficial and equity derivative interests	27,122 (Note 2)	0.002%
Mr. Li Faguang	Beneficial and equity derivative interests	18,662 (Note 3)	0.001%
Mr. Ji Gang	Beneficial and equity derivative interests	7,114 (Note 4)	negligible
Mr. Zou Liang	Beneficial and equity derivative interests	3,490 (Note 5)	negligible

Notes:

1. It represents 11,007 ordinary shares and 5,500 restricted share units of Alibaba Holding beneficially held by Ms. Hu Taoye.
2. It represents 4,872 ordinary shares and 22,250 restricted share units of Alibaba Holding beneficially held by Mr. Yang Guang.
3. It represents 2,412 ordinary shares and 16,250 restricted share units of Alibaba Holding beneficially held by Mr. Li Faguang.
4. It represents 2,564 ordinary shares and 4,550 restricted share units of Alibaba Holding beneficially held by Mr. Ji Gang.
5. It represents 1,010 ordinary shares and 2,480 restricted share units of Alibaba Holding beneficially held by Mr. Zou Liang.

- d. Long positions in shares and underlying shares of Alibaba Pictures Group Limited (“Ali Pictures”), an associated corporation of the Company within the meaning of Part XV of the SFO:

Name of Director	Nature of interests	Number of shares of Ali Pictures held	Percentage of issued shares of Ali Pictures
Mr. Zou Liang	Beneficial owner	90,000	negligible

Save as disclosed above, as at 30 June 2019, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the 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); or (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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2019, 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	1,332,960,447	7,435,684,440	65.96%
Alibaba Investment Limited (Note 2)	Interest of controlled corporation	6,102,723,993	1,332,960,447	7,435,684,440 (Note 9)	65.96%
API Holdings Limited (Note 2)	Interest of controlled corporation	6,102,723,993	1,332,960,447	7,435,684,440 (Note 9)	65.96%
Alibaba Holding (Note 3)	Interest of controlled corporation	6,102,723,993	1,332,960,447	7,435,684,440 (Note 9)	65.96%
API (Hong Kong) Investment Limited (Note 4)	Interest of controlled corporation	6,102,723,993	1,332,960,447	7,435,684,440 (Note 9)	65.96%
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	1,332,960,447	7,435,684,440 (Note 9)	65.96%
Ant Financial (Note 6)	Interest of controlled corporation	6,102,723,993	1,332,960,447	7,435,684,440 (Note 9)	65.96%
Hangzhou Yunbo Investment Consultancy Co., Ltd. (Note 7)	Interest of controlled corporation	6,102,723,993	1,332,960,447	7,435,684,440 (Note 9)	65.96%
Mr. Ma Yun (Note 7)	Interest of controlled corporation	6,102,723,993	1,332,960,447	7,435,684,440 (Note 9)	65.96%
Maxprofit Global Inc (Note 10)	Beneficial owner	2,006,250,000	–	2,006,250,000	17.80%

Notes:

1. Based on a total of 11,272,342,235 Shares in issue as at 30 June 2019.
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 42.4602% and 32.1409% 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 2019, 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\$0.2493 per conversion Share as at 30 June 2019 was 1,332,960,447. 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 7,435,684,440 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 2019, 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 2019, 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 (the "Audit Committee") 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 not been audited by the Company's auditor but have been reviewed by the Audit Committee, 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.

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 to the GEM Listing Rules. During the Six-Month Period, the Company complied with the Code except for the following deviations:

- (a) under the Code provision A.2.1, the roles of chairman and chief executive 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 independent non-executive Directors without the presence of other Directors. During the Six-Month Period, the chairman of the Board did not hold such kind of private meetings with the independent non-executive Directors. The chairman of the Board considered that it was unnecessary as it would be more transparent to let the independent non-executive Directors speak out their views to all other 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 independent 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(c), 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;

- (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; and

(g) under the Code provision E.1.5, the Company should have a policy on payment of dividends and should disclose it in its annual report. The Company did not have such policy and did not make such disclosure in its annual report as the Board considered that it would be premature to decide on its dividend policy as the Company did not have any distributable reserves calculated under the laws of Bermuda, and even if the Company will have sufficient distributable reserves to pay its dividends in the future, the Board has yet to assess the funding requirements of the Group (for instance, its working capital needs and capital expenditure) at that time before the Company could decide on the amount of dividends or proportion of net profits that it would be in a position to distribute to the Shareholders.

(The above deviations (a) to (g) were similarly disclosed on pages 29 and 31 of the Company's annual report for the year ended 31 December 2018. The above deviations (a) to (f) were similarly disclosed on pages 47 to 49 of the Company's interim report for the six months ended 30 June 2018 and the deviation (g) was a new one as a result of the introduction of the new Code provision E.1.5 which became effective on 1 January 2019.)

REQUIRED STANDARD OF DEALINGS REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less than exacting than the standard of dealings as 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 had 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 2019	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 2019
Directors:									
2004 Share Option Scheme	21 January 2014	1.31	21 January 2015-20 January 2019	125,000	-	-	(125,000)	-	-
2014 Share Option Scheme	1 June 2015	0.858	1 June 2016-31 May 2020	1,500,000	-	-	(750,000)	-	750,000
Eligible employees:									
2004 Share Option Scheme	2 January 2014/ 21 January 2014	1.19/1.31	2 January 2015-20 January 2019	15,247,060	-	-	(15,247,060)	-	-
2014 Share Option Scheme	20 January 2015	0.92	20 January 2016-19 January 2020	4,475,000	-	-	(2,137,500)	(200,000)	2,137,500
Other eligible participants:									
2004 Share Option Scheme	21 January 2014	1.31	21 January 2015-20 January 2019	1,375,000	-	-	(1,375,000)	-	-
2014 Share Option Scheme	20 January 2015/ 7 July 2015	0.92/1.102	20 January 2016-6 July 2020	155,546,390	-	-	(7,500,000)	-	148,046,390
Total				178,268,450	-	-	(27,134,560)	(200,000)	150,933,890
Exercisable at the end of the period				97,407,752					88,160,692
Weighted average exercise price				HK\$1.0923					HK\$1.0892

During the Six-Month Period, no options were granted and exercised. No options were cancelled, but options in respect of 200,000 Shares were forfeited and options in respect of 27,134,560 Shares were expired during the Six-Month Period.

As at 30 June 2019, the number of Shares in respect of which options had been granted and remained outstanding under (i) the 2004 Share Option Scheme was Nil; and (ii) the 2014 Share Option Scheme was 150,933,890 Shares (as at 31 December 2018: 161,521,390 Shares), representing approximately 1.34% (as at 31 December 2018: approximately 1.43%) of the Company's issued share capital as at 30 June 2019.

The fair values of options granted in previous years were calculated using the binomial model, details of which are as follows:

	Date of grant		
	7 July 2015	1 June 2015	20 January 2015
Number of shares to be issued upon exercise of options granted	300,312,280	72,944,800	52,200,000
Estimated fair values of options granted (rounded to HK\$'000)	HK\$143,454	HK\$29,474	HK\$22,915
Significant inputs into the model:			
Closing share price at date of grant	HK\$1.0200	HK\$0.8400	HK\$0.9200
Exercise price	HK\$1.1020	HK\$0.8580	HK\$0.9200
Expected volatility	66.39%-75.55%	66.59%-73.87%	65.85%-72.71%
Expected life of options	2-5 years	2-5 years	2-5 years
Risk-free interest rate	0.401%-1.156%	0.444%-1.104%	0.344%-0.971%
Dividend yield	Nil	Nil	Nil

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 17 May 2019, the Board granted a total of 55,200,000 award Shares to certain eligible employees under the Share Award Scheme. The 55,200,000 award Shares granted represent approximately 0.47% of the issued share capital of the Company as at the date of this report. Based on the closing price of HK\$0.45 per Share on the date of grant of the award Shares, the market value of the 55,200,000 award Shares in aggregate is HK\$24,840,000.

During the Six-Month Period, the trustee of the Share Award Scheme (the "Trustee") purchased a total of 11,824,000 Shares on the Stock Exchange at a total consideration of approximately HK\$5.7 million to satisfy award Shares granted under the Share Award Scheme.

During the Six-Month Period, 55,200,000 award Shares were granted by the Company pursuant to the Share Award Scheme, 23,502,500 award Shares were vested in the grantees and 18,775,000 award Shares were forfeited.

All of the 55,200,000 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 OUTSTANDING DEFERRED CONSIDERATION FOR THE SCORE VALUE TRANSACTION

Pursuant to the Score Value 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 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, according to the then exchange rate of HK\$1.26 to RMB1.00) per year provided by such 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 Score Value Circular.

As of the date hereof, the Game Approval Pre-condition has not yet been fulfilled but the parties to the Score Value Agreement have mutually agreed to further extend the deadline for fulfilment of such pre-condition to 31 December 2019. 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 Score Value Circular have not been paid to the vendors of Score Value.

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

CHANGE IN INFORMATION REGARDING DIRECTOR

Pursuant to the disclosure requirement under Rule 17.50A(1) of the GEM Listing Rules, Mr. Zou Liang's current position has been changed to general manager of Strategic Development Department of Alibaba Group (formerly a senior director of the Public Services Department of Ant Financial Group).

REDEMPTION OF CONVERTIBLE BONDS

Pursuant to the terms of the Convertible Bonds, Ali Fortune shall have the right to convert all or part of its Convertible Bonds into Shares 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 bonds, i.e. 10 August 2019) (the “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. Moreover, unless previously redeemed, converted, purchased and cancelled, the Company shall redeem each Convertible Bond at its principal amount with accrued and unpaid interest thereon on the Maturity Date.

As at the date of this report, Ali Fortune is interested in approximately 55.71% of the issued capital of the Company. In order to maintain a public float of not less than 25% of the Company’s total number of issued Shares and to allow some buffer for the Company to grant and/or vest further award Shares under the Share Award Scheme to/in the directors of the Group who are regarded as “connected persons” of the Company under the GEM Listing Rules, the conversion rights attaching to the remaining Convertible Bonds as at the date of this report will not be further exercised by Ali Fortune.

Pursuant to the Bond Instrument, the Company shall redeem the remaining Convertible Bonds in an aggregate principal amount of HK\$232,608,165 on the Maturity Date. Such redemption amount shall be deducted from the remaining Net Proceeds from the Subscription currently held by the Company. Net Proceeds from the Subscription in the sum of approximately HK\$1,458.2 million remained as at 30 June 2019, which were more than sufficient to meet the Company’s redemption obligations under the outstanding principal amount of Convertible Bonds. Immediately after such redemption, the Net Proceeds will be reduced in the sum of HK\$232,608,165 on the Maturity Date. Details of breakdown will be reflected and disclosed in the “status of the use of proceeds from the Subscription” section in the forthcoming third quarterly results announcement and report of the Group for the nine months ending 30 September 2019 accordingly.

DEFINITIONS

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

“Adoption Date”	17 March 2017, being the date on which the Company adopted the Share Award Scheme;
“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, a company incorporated in the British Virgin Island and 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;
“Bond Instrument”	the instrument executed as deed by the Company on 10 August 2016 constituting the Convertible Bonds in the form set out in the Subscription Agreement
“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 77,773,198 Shares as at the date hereof pursuant to the Share Option Schemes;
“Conversion Shares”	new Shares to be issued upon the exercise of the conversion rights under the Convertible Bonds;
“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;
“Purchaser”	Silvercreek Technology Holdings Limited, a wholly-owned subsidiary of the Company, the purchaser in respect of the Score Value Transaction;
“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, an indirect wholly-owned subsidiary of the Company, the target in respect of the Score Value Transaction;
“Score Value Agreement”	the sale and purchase agreement dated 17 November 2014 entered into between the Company, the Purchaser, Score Value and the Vendors in respect of the Score Value Transaction;
“Score Value Circular”	the circular of the Company dated 8 December 2014 in respect of the Score Value Transaction;

“Score Value Transaction”	the acquisition of the entire equity interest in Score Value by the Company as contemplated under the Score Value Agreement;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“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 adopted on 17 March 2017;
“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;
“Subscription Agreement”	the subscription agreement dated 4 March 2016 and entered into between the Company, Ali Fortune (the Subscriber), Mr. Sun Ho and Maxprofit Global Inc. in relation to the Subscription;
“Taobao”	淘寶（中國）軟件有限公司(Taobao (China) Software Co., Ltd.#), a company incorporated in the PRC and a subsidiary of Alibaba Holding;
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers (as amended and supplemented from time to time);
“Vendors”	Immense Wisdom Limited and King Achieve Limited, the vendors in respect of the Score Value Transaction;
“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\$1.1559 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, 9 August 2019

As at the date of this report, the Board comprises (i) Mr. Sun Ho and Ms. Hu Taoye as executive Directors; (ii) Mr. Yang Guang, Mr. Li Faguang, 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.