

2018 Interim Report

China
LotSynergy

China LotSynergy Holdings Limited

華彩控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock code: 1371

* For identification purposes only

INTERIM FINANCIAL STATEMENTS

The Board of Directors (the "Board" or the "Directors") of China LotSynergy Holdings Limited (the "Company") hereby presents the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2018, together with the comparative unaudited figures for the corresponding periods in 2017, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Unaudited	
		Six months ended 30 June	
	Notes	2018 HK\$'000	2017 HK\$'000
Revenue	2	89,899	99,062
Costs of sales and services	3	<u>(42,875)</u>	<u>(52,533)</u>
Gross profit		47,024	46,529
Other income	4	2,233	6,837
Other (losses)/gains – net	5	(2,167)	24,815
General and administrative expenses		(95,251)	(94,670)
Share option expenses		<u>(11,503)</u>	<u>(8,958)</u>
Operating loss	6	(59,664)	(25,447)
Finance costs	7	(14,196)	(17,616)
Share of loss of a joint venture		<u>(1,169)</u>	<u>(2,276)</u>
Loss before income tax		(75,029)	(45,339)
Income tax expense	8	<u>(4,831)</u>	<u>(15,815)</u>
Loss for the period		<u><u>(79,860)</u></u>	<u><u>(61,154)</u></u>
Loss attributable to:			
Owners of the Company		(79,709)	(60,667)
Non-controlling interests		<u>(151)</u>	<u>(487)</u>
		<u><u>(79,860)</u></u>	<u><u>(61,154)</u></u>
Loss per share attributable to owners of the Company for the period			
– basic	9	<u><u>(0.88) HK Cent</u></u>	<u><u>(0.71) HK Cent</u></u>
– diluted	9	<u><u>(0.88) HK Cent</u></u>	<u><u>(0.71) HK Cent</u></u>

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME**

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Loss for the period	(79,860)	(61,154)
Other comprehensive expense for the period:		
Currency translation differences	(10,358)	—
Total comprehensive expense for the period	<u>(90,218)</u>	<u>(61,154)</u>
Attributable to:		
Owners of the Company	(85,970)	(60,667)
Non-controlling interests	(4,248)	(487)
Total comprehensive expense for the period	<u>(90,218)</u>	<u>(61,154)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Unaudited As at 30 June 2018 HK\$'000	Audited As at 31 December 2017 HK\$'000
Non-current assets			
Property, plant and equipment		307,221	329,839
Intangible assets		463,496	466,573
Investment in an associate		4,797	4,797
Investment in a joint venture		5,120	6,634
Available-for-sale financial assets		4,792	7,316
Deferred income tax assets		5,298	5,298
		<u>790,724</u>	<u>820,457</u>
Current assets			
Inventories		14,834	19,091
Accounts receivable	10	108,708	96,522
Prepayments, deposits and other receivables		629,063	557,213
Cash and bank balances		98,838	193,478
		<u>851,443</u>	<u>866,304</u>
Total assets		<u>1,642,167</u>	<u>1,686,761</u>
Current liabilities			
Accounts payable	11	1,548	5,348
Accruals and other payables		57,431	39,546
Amount due to a joint venture		6,879	6,634
Tax payable		6,828	7,752
Bank borrowings		137,399	163,699
Convertible bonds	12	174,800	276,630
		<u>384,885</u>	<u>499,609</u>
Net current assets		<u>466,558</u>	<u>366,695</u>
Total assets less current liabilities		<u>1,257,282</u>	<u>1,187,152</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)**

		Unaudited As at 30 June 2018 HK\$'000	Audited As at 31 December 2017 HK\$'000
Non-current liabilities			
Deferred income tax liabilities		<u>47,027</u>	<u>48,070</u>
		<u>47,027</u>	<u>48,070</u>
Net assets		<u>1,210,255</u>	<u>1,139,082</u>
Equity attributable to owners of the Company			
Share capital	13	24,399	21,388
Reserves	14	1,456,331	1,307,874
Accumulated losses		<u>(614,824)</u>	<u>(538,777)</u>
		865,906	790,485
Non-controlling interests		<u>344,349</u>	<u>348,597</u>
Total equity		<u>1,210,255</u>	<u>1,139,082</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited Six months ended 30 June 2018				Total HK\$'000
	Attributable to owners of the Company				
	Share capital HK\$'000	Reserves HK\$'000	Accumulated losses HK\$'000	Non- controlling interests HK\$'000	
Balance as at 1 January 2018	21,388	1,307,874	(538,777)	348,597	1,139,082
Comprehensive expense					
Loss for the period	-	-	(79,709)	(151)	(79,860)
Other comprehensive expense:					
Currency translation differences	-	(6,261)	-	(4,097)	(10,358)
Total other comprehensive expenses	-	(6,261)	-	(4,097)	(10,358)
Total comprehensive expenses	-	(6,261)	(79,709)	(4,248)	(90,218)
Placing of new shares	2,586	116,502	-	-	119,088
Release of revaluation reserve upon depreciation of leasehold land and building	-	(121)	121	-	-
Share option scheme:					
- value of employee services	-	2,659	-	-	2,659
- value of other participants' services	-	8,844	-	-	8,844
- share options exercised	425	28,815	-	-	29,240
Redemption of convertible bonds	-	(1,981)	3,541	-	1,560
Total transactions with owners in their capacity as owners	3,011	154,718	3,662	-	161,391
Balance as at 30 June 2018	24,399	1,456,331	(614,824)	344,349	1,210,255

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONT'D)

	Unaudited Six months ended 30 June 2017				
	Attributable to owners of the Company				
	Share capital HK\$'000	Reserves HK\$'000	Accumulated losses HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
Balance as at 1 January 2017	21,388	1,352,856	(439,661)	338,337	1,272,920
Comprehensive expense					
Loss for the period	-	-	(60,667)	(487)	(61,154)
Other comprehensive (expenses)/income:					
Currency translation differences	-	(269)	-	269	-
Total other comprehensive (expenses)/income	-	(269)	-	269	-
Total comprehensive expenses	-	(269)	(60,667)	(218)	(61,154)
Release of revaluation reserve upon depreciation of leasehold land and building	-	(121)	121	-	-
Share option scheme:					
- value of employee services	-	4,529	-	-	4,529
- value of other participants' services	-	4,429	-	-	4,429
- vested share options expired	-	(2,600)	2,600	-	-
Reversal of deferred tax previously recognised on equity component of convertible bonds	-	9,957	-	-	9,957
Redemption of convertible bonds	-	(43,740)	(1,363)	-	(45,103)
Recognition of equity component of convertible bonds	-	2,961	-	-	2,961
Total transactions with owners in their capacity as owners	-	(24,585)	1,358	-	(23,227)
Balance as at 30 June 2017	21,388	1,328,002	(498,970)	338,119	1,188,539

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Operating cash flows before changes in working capital	(15,342)	(26,111)
Changes in working capital	(65,450)	(50,714)
Income tax paid	(5,755)	(15,529)
	<hr/>	<hr/>
Net cash used in operating activities	(86,547)	(92,354)
Net cash generated from investing activities	3,471	433,351
Net cash generated from/(used) in financing activities	5,684	(425,632)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(77,392)	(84,635)
Effect of foreign exchange rate changes	(1,257)	-
Cash and cash equivalents at beginning of the period	177,487	250,001
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	98,838	165,366
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NOTES TO CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standards 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

The principal accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated financial statements are consistent with those used in the preparation of the Group's audited financial statements for the year ended 31 December 2017.

The directors of the Company made an assessment as of the date of initial application of amended Hong Kong Financial Reporting Standards ("HKFRS") 10 "Consolidated Financial Statements" in 2013 and concluded that the adoption of HKFRS 10 does not change any of the control conclusions reached by the Group in respect of its involvement with the investees as at 1 January 2013 and after.

The Group has adopted the standards, amendments and interpretations that have been issued and effective for the accounting periods beginning on or after 1 January 2018. The adoption of such standards, amendments and interpretations did not have material effect on these financial statements.

2. REVENUE AND SEGMENT INFORMATION

The Group is a technology and operation service provider of lottery systems, terminal equipment and gaming products in the China's lottery market. The principal businesses of the Group cover various lottery products ranging from video lottery, computer ticket game and KENO-type lottery, to new media lottery. An analysis of the Group's turnover for the periods is as follows:

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Revenue		
Income from provision of lottery terminals and systems	67,524	59,234
Income from sales of equipment	22,152	39,394
Income from provision of consultancy services	223	434
	89,899	99,062

2. REVENUE AND SEGMENT INFORMATION (CONT'D)

The Group's revenue and contribution to loss were mainly derived from the provision of technology and operation service for lottery systems, terminal equipments and gaming products in the China's lottery market, which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the Group's senior management for purposes of resource allocation and performance assessment. Accordingly, no segment analysis is presented other than entity-wide disclosures.

Geographical information – Revenue from external customers

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
People's Republic of China ("PRC")	85,697	95,801
Cambodia	4,202	3,261
	<u>89,899</u>	<u>99,062</u>

The revenue information above is based on the locations of the customers.

3. COSTS OF SALES AND SERVICES

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Depreciation of lottery terminals	18,473	13,765
Business tax	886	736
Cost of inventories recognised as expense	15,701	26,539
Repairs and maintenance	633	557
Others	7,182	10,936
	<u>42,875</u>	<u>52,533</u>

4. OTHER INCOME

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Interest income from bank deposits and others	2,233	6,837

5. OTHER (LOSSES)/GAINS – NET

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Impairment of available-for-sale financial assets	(2,524)	(507)
Loss on disposal of a subsidiary	(79)	–
Fair value gain on financial assets at fair value through profit or loss	–	12,576
Loss on initial recognition of convertible bonds	–	(48,450)
Fair value gain on embedded derivatives of convertible bonds	–	42,400
Gain on redemption of convertible bonds	–	19,882
Gain on disposal of property, plant and equipment	–	14
Foreign exchange gains/(losses)	436	(1,100)
	(2,167)	24,815

6. OPERATING LOSS

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Operating loss is stated after charging:		
Staff costs (excluding share options expenses)	58,755	64,533
Depreciation of other items of property, plant and equipment	5,381	5,823

7. FINANCE COSTS

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Interest expenses on bank borrowings	1,971	1,922
Interest expenses on convertible bonds	12,225	15,694
	<u>14,196</u>	<u>17,616</u>

8. INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Current tax		
– PRC Enterprise Income Tax	5,741	11,499
Deferred tax		
– Origination and reversal of temporary differences	(910)	4,316
	<u>4,831</u>	<u>15,815</u>

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits arising in or derived from Hong Kong during the six months ended 30 June 2018 (2017: Nil).

Taxation in the PRC has been calculated at the applicable rates of tax prevailing in the jurisdictions in which the Group operates.

9. LOSS PER SHARE

Basic and diluted loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of 9,046,174,736 (2017: 8,555,307,333) ordinary shares in issue during the year.

The computation of diluted loss per share for the six months ended 30 June 2018 and 2017 did not assume the conversion of convertible bonds and the exercise of share options since their conversion and exercise would reduce the loss per share.

**10. ACCOUNTS RECEIVABLE**

Ageing analysis of accounts receivable is as follows:

	Unaudited As at 30 June 2018 HK\$'000	Audited As at 31 December 2017 HK\$'000
Less than three months	30,445	20,406
Over three months but less than one year	10,434	8,652
Over one year	67,829	67,464
	<hr/> 108,708 <hr/>	<hr/> 96,522 <hr/>

11. ACCOUNTS PAYABLE

Ageing analysis of accounts payable is as follows:

	Unaudited As at 30 June 2018 HK\$'000	Audited As at 31 December 2017 HK\$'000
Less than three months	651	3,653
Over three months but less than one year	263	1,015
Over one year	634	680
	<hr/> 1,548 <hr/>	<hr/> 5,348 <hr/>

12. CONVERTIBLE BONDS

	Unaudited As at 30 June 2018 HK\$'000	Audited As at 31 December 2017 HK\$'000
Liability component:		
New Option 1 Bonds	174,800	173,385
New Option 2 Bonds	–	100,841
	174,800	274,226
Derivatives component:		
New Option 1 Bonds	–	2,404
	174,800	276,630

The movement of liability component and derivatives component of the New Option 1 Bonds for the period is set out below:

	Liability component HK\$'000	Derivatives component HK\$'000	Total HK\$'000
At 1 January 2018	173,385	2,404	175,789
Interest charged	8,246	–	8,246
Interest paid	(6,524)	–	(6,524)
Fair value change	843	(2,404)	(1,561)
Redeemed	(1,150)	–	(1,150)
At 30 June 2018	174,800	–	174,800

The movement of liability component of the New Option 2 Bonds for the period is set out below:

	HK\$'000
At 1 January 2018	100,841
Interest charged	3,979
Interest paid	(2,740)
Redeemed	(102,080)
At 30 June 2018	–

**13. SHARE CAPITAL**

	Unaudited Authorised ordinary shares of HK\$0.0025 each	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2018 and 30 June 2018	16,000,000,000	40,000
	Unaudited Issued and fully paid ordinary shares of HK\$0.0025 each	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2018	8,555,307,333	21,388
Shares options exercised	170,000,000	425
Issued placing shares	1,034,500,000	2,586
At 30 June 2018	9,759,807,333	24,399

14. RESERVES

	Unaudited								Total HK\$'000
	Six months ended 30 June 2018								
	Share premium HK\$'000	Convertible bond equity reserve HK\$'000	Capital reserve HK\$'000	Other reserve HK\$'000	Currency translation reserve HK\$'000	Share-based compensation reserve HK\$'000	Revaluation reserve HK\$'000	Available- for-sale investments HK\$'000	
Balance as at 1 January 2018	1,295,307	1,981	15,158	(42,657)	(43,132)	70,811	10,146	260	1,307,874
Placing of new shares	116,502	-	-	-	-	-	-	-	116,502
Share option scheme:									
- value of employee services	-	-	-	-	-	2,659	-	-	2,659
- value of other participants' services	-	-	-	-	-	8,844	-	-	8,844
- share options exercised	33,575	-	-	-	-	(4,760)	-	-	28,815
Redemption of convertible bonds	-	(1,981)	-	-	-	-	-	-	(1,981)
Release of revaluation reserve upon depreciation of leasehold land and building	-	-	-	-	-	-	(121)	-	(121)
Currency translation differences - overseas subsidiaries	-	-	-	-	(6,261)	-	-	-	(6,261)
Balance as at 30 June 2018	1,445,384	-	15,158	(42,657)	(49,393)	77,554	10,025	260	1,456,331

	Unaudited								Total HK\$'000
	Six months ended 30 June 2017								
	Share premium HK\$'000	Convertible bond equity reserve HK\$'000	Capital reserve HK\$'000	Other reserve HK\$'000	Currency translation reserve HK\$'000	Share-based compensation reserve HK\$'000	Revaluation reserve HK\$'000		
Balance as at 1 January 2017	1,295,307	33,783	15,158	(41,615)	(76,068)	115,904	10,387		1,352,856
Share option scheme:									
- value of employee services	-	-	-	-	-	4,529	-		4,529
- value of other participants' services	-	-	-	-	-	4,429	-		4,429
- vested share options expired	-	-	-	-	-	(2,600)	-		(2,600)
Reversal of deferred tax previously recognised on equity component of convertible bonds	-	9,957	-	-	-	-	-		9,957
Redemption of convertible bonds	-	(43,740)	-	-	-	-	-		(43,740)
Recognition of equity component of convertible bonds	-	2,961	-	-	-	-	-		2,961
Release of revaluation reserve upon depreciation of leasehold land and building	-	-	-	-	-	-	(121)		(121)
Currency translation differences - overseas subsidiaries	-	-	-	-	(269)	-	-		(269)
Balance as at 30 June 2017	1,295,307	2,961	15,158	(41,615)	(76,337)	122,262	10,266		1,328,002

**15. OPERATING LEASE COMMITMENTS**

As at 30 June 2018, the Group had aggregate future minimum lease payments under non-cancellable operating lease in respect of rented premises as follows:

	Unaudited As at 30 June 2018 HK\$'000	Audited As at 31 December 2017 HK\$'000
Within one year	11,762	13,574
In the second to fifth years inclusive	17,841	18,098
Over five years	23,967	24,312
	<hr/> 53,570 <hr/>	<hr/> 55,984 <hr/>

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is engaged in the provision of technology and operation services for lottery systems, terminal equipments and gaming products in the China's lottery market. The principal businesses of the Group cover various lottery products ranging from video lottery ("VLT"), computer-generated ticket games ("CTG") and KENO-type lottery to new media lottery. By building up its technical competencies, expanding into new markets and upholding high standards of corporate governance, the Group has established a solid foundation and an outstanding corporate brand name, providing it with comprehensive capabilities for sustainable development.

China's Lottery Market

Chinese lottery has been scoring big on World Cup, in the first half of 2018, with lottery sales reached RMB245.2 billion, 19.6% higher than the same period a year earlier, figures from the Ministry of Finance ("MOF") showed. Welfare Lottery sales rose 4.2% year-on-year ("YOY") to RMB110.59 billion, while Sports Lottery sales surged by 36.1% YOY to RMB134.6 billion. Lotto, which is the industry's main source of revenue, recorded 6.8% YOY sales growth, accounting for 55.9% of total lottery sales. Single Match Games ("SMG") sales skyrocketed by 80.2% YOY, accounting for 29.8% of total lottery sales. VLT sales grew 1.3% YOY, accounting for 9.5% of total lottery sales. Paper-based Scratch Card sales and KENO sales declined by 10.6% YOY and 33.3% YOY, accounting for 4.7% and 0.1% of total lottery sales respectively. Notably, it is the first time that Sports Lottery sales for the first six months exceeded RMB100 billion, and also both the Welfare Lottery and Sports Lottery sold more than RMB100 billion for the first six months. Thanks to the explosive growth in sales attributed to the World Cup, SMG sales accounted for 50.3% of total sales in June. It is the first time that SMG's single-month sales outpace that of Lotto's in recent years. The remarkable lottery sales performance during the 2018 World Cup is set to be a smash hit for Chinese lottery industry, which will be relished by lottery players and analyzed thoroughly by professionals. Coexistence of high speed and high qualities, together with progress made in parallel with all kinds of lottery types and precincts are the critical factors for taking great strides in China's lottery sphere.

Business Review and Outlook

Video Lottery Business

China Welfare Lottery Video Lottery (“Welfare VLT”) Business

As a technology-rich product, Welfare VLT plays a vital role in China’s lottery industry. The Group is the exclusive terminal equipment provider for Welfare VLT. Welfare VLT was one of the driving forces of nationwide Welfare Lottery, marking an increase in sales amounted to RMB23.36 billion, and accounted for nearly 10% of the nation’s total lottery sales in the first half of 2018.

Dongguan Tianyi Electronic Company Limited (“DGTY”), a subsidiary of the Group, has been the supplier of Welfare VLT terminal for 15 years since 2003. It has unique and unmatched experience, capabilities and qualification given its continual investment in Welfare VLT terminal manufacturing and R&D. The terminal developed and manufactured by DGTY is the only Welfare VLT terminal approved and confirmed by all three ministries including the MOF, the Ministry of Public Security and the Ministry of Civil Affairs. DGTY has made three generations of Welfare VLT terminal replacements and upgrades in the last 15 years, supplying a total number of over 70,000 units of terminals. For the six months ended 30 June 2018, approximately 41,500 units of the third-generation terminals have been placed in over 2,000 Welfare VLT halls across 28 provinces, cities, autonomous regions and municipalities in China, supporting the entire Welfare VLT sales nationwide.

DGTY’s Welfare VLT supply contract expired on 28 June 2015. According to the supply contract agreed by both parties, DGTY has the full ownership of the approximately 41,500 units of terminals generating all the sales of Welfare VLT. The Group decided to maintain the Welfare VLT terminals it provided in fully operational condition, so as to support the sustained and healthy growth as well as the distribution of Welfare VLT. Riding on the superb quality of DGTY’s third generation terminals, the sales of Welfare VLT has continued its upward climb and achieved satisfactory performance, notwithstanding the absence of new terminal over the last four years. DGTY was well recognised by the market thanks to its strong technological prowess and integrated service capabilities.

According to legally binding documents that the Group sent to China Welfare Lottery Center (“CWLC”) and Beijing China Lottery Online Technology Company Limited (“CLO”) along with unanimous accreditation reached by domestic civil law experts, DGTY shall be paid for the provision of these terminals for Welfare VLT’s continued use after the expiry of the supply contract.

In order to protect the Group's lawful rights and interests, DGTy has filed a civil action with the People's High Court of Beijing, claiming the compensation from CLO for the continued use of terminals after the expiry of the supply contract. Judgment of People's High Court of Beijing ("the Judgement") was delivered on 10 August 2018 after two public hearings.

Pursuant to the Judgement, DGTy's claims in relation to claiming cooperation remuneration and partial interest from CLO is in conformity with facts, has legal basis and should therefore be supported. People's High Court of Beijing ruled that CLO is required to pay DGTy cooperation remuneration for 1 June 2015 to 26 March 2017 which amounted to RMB1,360,211,853 and partial interest calculated at the benchmark interest rates published by the People's Bank of China within 10 days after the effective date of judgment.

CLO is still engaged in Welfare VLT business with continued use of Welfare VLT terminals provided by DGTy after 26 March 2017, coupled with the evidentiary validity of the facts and validity of the outcome of the case identified in the Judgment, should the Judgment come into effect, the Group shall have the right to require CLO to pay for the continued use of the Welfare VLT terminals in accordance with the specifications set out in the Judgment. Of course, it is also possible that a settlement may be reached by the parties and a new cooperation plan may be negotiated.

CWLC is now actively realigning its business plan, smoothing out the partnerships, implementing policies and strengthening the market management. The Group believes that the Welfare VLT, a flagship lottery type of Welfare Lottery, will get back into robust growth mode under the management of CWLC. The Group proactively assists CWLC and provincial sales institutions, delivering better product and service to Welfare VLT, bolstering its steady, sustainable and rapid development, and making the greatest contribution to the China's lottery business.

CTG Business

On the Welfare Lottery CTG side, Guangdong Province, which is served by the Group, remained the largest provincial Welfare Lottery market in China with sales reached approximately RMB7.02 billion in the first half of 2018. In addition, Chongqing Welfare Lottery CTG and Shanghai Welfare Lottery CTG, both are served by the Group, recorded sales of approximately RMB1.00 billion and RMB2.04 billion respectively. Meanwhile, Beijing Bestinfo Cyber Technology Co., Ltd. ("Bestinfo"), the wholly owned subsidiary of the Group, won another bid for Guangdong Welfare Lottery in June this year. Bestinfo will continue to

provide Welfare CTG Lottery information system service for a three-year term. Shanghai Welfare Lottery's new generation lottery information management system, developed by the Group, passed the acceptance test in June 2018. The new system will provide more versatile and effective technical means for Shanghai Welfare Lottery to achieve standardized management.

The first half of 2018 has been a fruitful year for the Group's Sports Lottery CTG terminal business. The Group won bids for the Sports Lottery CTG terminal procurement programmes of Guangxi, Hunan, Guizhou, Jiangsu and others, expanding its business to 18 provinces. The Group will leverage its unique technology and product advantages to ensure business from more provinces in the latter half of 2018. Meanwhile, the Group will continue to maintain its collaboration with domestic and international terminal manufacturers to provide leading products, including lottery terminals, printers and scanners etc.

The Group's Cambodian CTG business, in collaboration with Khmer Pool Welfare Lottery Co., Ltd, recorded stable growth in the first half of 2018. The system was successfully upgraded to carry out cross-platform terminal services and made accessible to both standard and handheld terminals, bringing the Cambodian players more convenient betting service. The CTG system, developed by the Group for Cambodian Sports Lottery, is running smoothly with rising sales. The Group will ride on the successful experience in Cambodia to explore other overseas markets proactively.

New Media Lottery Business (New Retail & Lottery Intelligence)

In the first half of the year, the Group continued to maintain its close ties with several provincial lottery authorities, actively explored new product and new model in new surroundings, attached great attention to new lottery retail and smart lottery, and opened up new development roadmap of lottery through product and channel innovations.

New lottery retail is breaking new ground and entering a golden period on the back of the huge lottery market with its steady development, in addition to the breath of national new retail market. Facing new opportunities, the Group has taken the lead in developing total solution for new lottery retail by new product, new model and new operation, lowering the betting threshold, optimizing betting convenience and experience, combining online and offline channels seamlessly, and luring a wider range of high-end customers.

The Group has been actively developing cross-industry cooperation with sectors of domestic large chain stores, service, financial and retail to jointly open up a new model of lottery sales. Capitalizing the advantage of offline physical channel and achieving easy betting and prize claim by artificial intelligence technology with the new model, and this kind of new and simplified way of betting is more in line with the customary use of the consumer group consist of post-80s and post-90s generations.

On the smart lottery, the Group has stepped up its R&D efforts in artificial intelligence for lottery and others, and fully used of innovative technologies such as intelligent hardware, the Internet of Things and big data etc. across the lottery retail channels.

The Group has continuously developed new product lines, and has developed intelligent lottery store system, intelligent lottery payment system, intelligent lottery marketing platform, intelligent lottery big data service system and other intelligent hardware and application management systems that are servicing at lottery authorities and point-of-sale, offering total solution to lottery authorities and retail channel with an objective to expand and shake up sales channel.

The Group has researched and developed a number of new proprietary intelligent lottery equipment in regard to the characteristics of the new retail channels and the needs of new potential consumer group. The new proprietary intelligent lottery equipment operation does not require specialized sales personnel and thus users can make the purchase on their own, distinguishing it from traditional lottery sales terminal. At the same time, the equipment supports a wide range of lottery types and suitable for all kind of sales environment locating in commercial space, with cutting edge features like novel appearance, small size, low cost, ease of operation and maintenance, etc. The equipment has passed the standard for testing set by the lottery authorities and can achieve rapid deployment in cities.

The Group has successfully entered into a strategic cooperation framework agreement with Inner Mongolia Autonomous Region Sports Lottery Administration Centre (“IMSLAC”) in July. Under the framework agreement, the Group will leverage on its operating and marketing experiences in online and offline channels, strengths in big data collection and new proprietary intelligent lottery equipment, so as to actively assist Inner Mongolia to explore new lottery sales channels, offer lottery players enhanced betting experience and expand customer base. Meanwhile, the Group will also assist IMSLAC on

new development of pilot lottery sales, triggering and tapping lottery players' purchasing needs, harnessing its services advantage and several new technology resources such as artificial intelligence.

In future, the Group will empower the lottery authorities in light of the new situation and the new norm, develop the products and solutions that are closer to users and market, and make a positive contribution to the healthy development of China's lottery market.

Conclusion

The Group's focus on building its own technology and product offering has enabled it to cover VLT terminal, CTG terminal, CTG core transaction system, CTG management system, CTG game development and design, Paper-based Scratch Card integrated management system, new media lottery sales management system, new media lottery big data analysis system, and new media lottery game development and design etc. in addition, the Group has developed extensive operations and service capabilities for VLT, CTG and new media lottery.

China's lottery saw a serious boost in the first half of 2018, particularly during the World Cup, illustrating that the industry still has huge growth potential. There is mounting demand in new channels, channel reconstruction, new games and new gameplay to breathe new life into the market.

As a leading market participant, the Group has showed its dedication to the lottery industry for over a decade with extensive investment and accountability and has amassed substantial amount of resources in government relations, technologies and customers. The Group is looking for changes amid development, rooting in China while expanding into Southeast Asian and other overseas lottery markets.

Financial Review

In the first half of 2018, the Group recorded a turnover of approximately HK\$89.9 million (the first half of 2017: approximately HK\$99.1 million), representing a decrease of approximately 9.3% over the same period of last year. Loss attributable to owners of the Company for the first half of 2018 amounted to approximately HK\$79.7 million (the first half of 2017: approximately HK\$60.7 million).

DGTY's Welfare VLT supply contract expired on 28 June 2015. According to the supply contract agreed by both parties, DGTY has the full ownership of the approximately 41,500 units of terminals generating all the sales of Welfare VLT. The Group decided to maintain the Welfare VLT terminals it provided in fully operational condition, so as to support the sustained and healthy growth as well as the distribution of Welfare VLT. Riding on the superb quality of DGTY's third generation terminals, the sales of Welfare VLT has continued its upward climb and achieved satisfactory performance, notwithstanding the absence of new terminal over the last four years. According to legally binding documents that the Group sent to CWLC and CLO along with unanimous accreditation reached by domestic civil law experts, DGTY shall be paid for the provision of these terminals for Welfare VLT's continued use after the expiry of the supply contract.

In order to protect the Group's lawful rights and interests, DGTY has filed a civil action with the People's High Court of Beijing, claiming the compensation from CLO for the continued use of terminals after the expiry of the supply contract. The Judgement was delivered on 10 August 2018 after two public hearings. Pursuant to the Judgement, DGTY's claims in relation to claiming cooperation remuneration and partial interest from CLO is in conformity with facts, has legal basis and should therefore be supported. People's High Court of Beijing ruled that CLO is required to pay DGTY cooperation remuneration for 1 June 2015 to 26 March 2017 which amounted to RMB1,360,211,853 and partial interest calculated at the benchmark interest rates published by the People's Bank of China within 10 days after the effective date of judgment. Of which the cooperation remuneration amount ruled under the Judgement, RMB54,835,734 was attributed to being the remuneration under the period of VLT supply contract which DGTY has already recognized as revenue and receivable in 2015. The Group is awaiting CLO to pay the remuneration pursuant to the Judgement. Until then, the Group will recognize the remaining cooperation remuneration delivered under the Judgement as revenue.

Liquidity, Financial Resources, Gearing Ratio and Capital Structure

The Group believes that it has adequate financial resources to fund its capital and operating requirements. At 30 June 2018, the Company had an outstanding corporate guarantee for unlimited amount for total banking facilities of property installment loans of approximately HK\$148.3 million (at 31 December 2017: HK\$164.9 million), an outstanding corporate guarantee limited to approximately HK\$17 million (at 31 December 2017: HK\$17 million) for a banking facility of a property installment loan of approximately HK\$17 million (at 31 December 2017: HK\$17 million), and an outstanding corporate

guarantee for unlimited amount for credit facilities of investment purpose of US\$5 million (at 31 December 2017: US\$5 million) and overdraft for liquidity purpose of US\$25 million (at 31 December 2017: US\$25 million).

The Group had outstanding bank borrowings at 30 June 2018 of approximately HK\$137.4 million (at 31 December 2017: HK\$163.7 million). At 30 June 2018, the bank borrowings and banking facilities of the Group were secured by (i) leasehold land and buildings of the Group with a carrying amount of approximately HK\$156.9 million (at 31 December 2017: HK\$158.7 million); (ii) bank deposits of Nil (at 31 December 2017: HK\$7.5 million); and (iii) an unlimited personal guarantee executed by a substantial shareholder of the Company.

Pursuant to the placing agreement entered into between the Company and the placing agent on 13 April 2018, the Company has allotted and issued an aggregate of 1,034,500,000 new ordinary shares of the Company on 26 April 2018 to at least six independent individual investors at a price of HK\$0.116 each under the general mandate granted to the Directors of the Company by its shareholders at the annual general meeting of the Company held on 1 June 2017. The directors of the Company were of the view that the placing would enable the Company to broaden its shareholders' base and strengthen the financial position of the Company, which is in the interests of the Group and the shareholders of the Company as a whole. The closing price per share of the Company on 13 April 2018, being the date of the placing agreement, was HK\$0.142. The net issue price per placing share (after deduction of the placing commission and other related expenses) was approximately HK\$0.115. The net proceeds from the placing, after deduction of all placing commission and other related expenses, amount to approximately HK\$119 million. The net proceeds of the placing of approximately HK\$89.4 million were intended to be used for the repayment upon redemption of existing convertible bonds, approximately HK\$15 million for the development of ordinary business in oversea and the remaining balance for general working capital. As at 30 June 2018, all the net proceeds of the placing has been utilized for the abovementioned purposes.

As at 1 January 2018, the outstanding convertible bonds of the Company were: (i) 7.5% convertible bonds due 2019 in the aggregate principal amount of HK\$175.95 million (the "New Option 1 Bonds"); and (ii) 8% convertible bonds due 2019 in the aggregate principal amount of HK\$100 million (the "New Option 2 Bonds"). The New Option 1 Bonds shall be convertible into the Shares of the Company at conversion price of HK\$0.24 each. The New Option 2 Bonds shall be convertible into the Shares of the Company at conversion price of HK\$0.92 each. With effective from 26 April 2018, due to the placing of shares of the Company, the conversion price of the New Option 1 Bonds had been adjusted from HK\$0.24 to HK\$0.23 pursuant to the terms and conditions of the New Option 1 Bonds.

During the period under review, no New Option 1 Bonds and New Option 2 Bonds had been converted into the shares of the Company by the bondholders. During the period, the Company received notifications from bondholders that total principal amount of HK\$101.15 million of put options will be exercised under the terms and conditions of the New Option 1 Bonds and New Option 2 Bonds. The Company had redeemed and cancelled the New Option 1 Bonds in the principal amount of HK\$1.15 million with unpaid interest in amount of approximately HK\$1.17 million on 9 April 2018 off exchange. The Company had also redeemed and cancelled the New Option 2 Bonds in the principal amount of HK\$100 million with unpaid interest in amount of approximately HK\$102.65 million on 9 May 2018 off exchange and that there is no outstanding New Option 2 Bonds remained in issue thereafter.

As at 30 June 2018, the total outstanding principal amount of the New Option 1 Bonds was HK\$174.8 million. The maximum number of shares of the Company that will be issued upon conversion of all the outstanding New Option 1 Bonds was 760,000,000 shares.

The Group's total equity amounted to approximately HK\$1,210.3 million at 30 June 2018 (at 31 December 2017: HK\$1,139.1 million). At 30 June 2018, net current assets of the Group amounted to approximately HK\$466.6 million (at 31 December 2017: HK\$366.7 million), including approximately HK\$98.8 million in cash and deposits with banks and financial institutions (at 31 December 2017: HK\$193.5 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 30 June 2018 was approximately 26.3% (at 31 December 2017: 32.5%).

Exposure to Exchange Rates Fluctuations

All the Group's assets, liabilities and transactions are denominated either in Hong Kong dollar, United States dollar or Renminbi. Foreign exchange risk arising from the normal course of operations is considered to be minimal.

Pledge of Assets

At 30 June 2018, the Group's leasehold land and buildings at net book value of approximately HK\$156.9 million (at 31 December 2017: HK\$158.7 million) were pledged to banks to secure the bank borrowings granted to the Group. At 30 June 2018, the Group's cash deposits of Nil (at 31 December 2017: HK\$7.5 million) were pledged to financial institutions to secure the credit facilities granted to the Group.

Contingent Liabilities

At 30 June 2018, the Group did not have any material contingent liabilities (at 31 December 2017: Nil).

Staff

As at 30 June 2018, the Group employed 286 (2017: 319) staff. The management believes that the competence of employees is a major contributing factor to the Group's sustained growth and advancement in profitability. Staff remuneration is based on performance and experience. In addition to basic salary, benefits for employees include a performance-related bonus, contributory provident fund, medical insurance and regulated employees' social security program in China. The Group also adopted a share option scheme under which options may be granted to eligible staff based on individual performance. Training programs for staff are provided as and when required. The Group will further strengthen its team buildup, in order to offer enhanced services for China's lottery market.

SHARE OPTION SCHEME

As at 30 June 2018, there were options for 495,625,000 shares of HK\$0.0025 each in the share capital of the Company granted by the Company pursuant to the share option scheme, as adopted by the shareholders of the Company on 18 May 2012 (the "2012 Option Scheme"), were valid and outstanding.

Movements of share options granted under the 2012 Option Scheme during the six months ended 30 June 2018:

	Date of grant	Exercise price per Share HK\$	Exercise period from until		No. of Shares under the options					
					held as at the beginning of the period	granted during the period	exercised during the period	cancelled during the period	lapsed during the period	held as at the end of the period
2012 Option Scheme										
(i) Name of Director										
Ms. CHAN Tan Na, Donna	14/07/2014	0.690	14/07/2017	13/07/2018	10,000,000	-	-	-	-	10,000,000
	19/01/2018	0.172	20/01/2018	19/01/2019	-	6,000,000	-	-	-	6,000,000
	19/01/2018	0.172	20/01/2019	19/01/2020	-	6,000,000	-	-	-	6,000,000
Mr. WU Jingwei	14/07/2014	0.690	14/07/2017	13/07/2018	10,000,000	-	-	-	-	10,000,000
	19/01/2018	0.172	20/01/2018	19/01/2019	-	6,000,000	-	-	-	6,000,000
	19/01/2018	0.172	20/01/2019	19/01/2020	-	6,000,000	-	-	-	6,000,000
Mr. LI Zi Kui	14/07/2014	0.690	14/07/2017	13/07/2018	5,000,000	-	-	-	-	5,000,000
	19/01/2018	0.172	20/01/2018	19/01/2019	-	3,000,000	-	-	-	3,000,000
	19/01/2018	0.172	20/01/2019	19/01/2020	-	3,000,000	-	-	-	3,000,000
Mr. HUANG Shenglan	14/07/2014	0.690	14/07/2017	13/07/2018	100,000	-	-	-	-	100,000
	19/01/2018	0.172	20/01/2018	19/01/2019	-	50,000	-	-	-	50,000
	19/01/2018	0.172	20/01/2019	19/01/2020	-	50,000	-	-	-	50,000
Mr. CHAN Ming Fai	14/07/2014	0.690	14/07/2017	13/07/2018	100,000	-	-	-	-	100,000
	19/01/2018	0.172	20/01/2018	19/01/2019	-	50,000	-	-	-	50,000
	19/01/2018	0.172	20/01/2019	19/01/2020	-	50,000	-	-	-	50,000
Mr. CUI Shuming	14/07/2014	0.690	14/07/2017	13/07/2018	100,000	-	-	-	-	100,000
	19/01/2018	0.172	20/01/2018	19/01/2019	-	50,000	-	-	-	50,000
	19/01/2018	0.172	20/01/2019	19/01/2020	-	50,000	-	-	-	50,000
(ii) Continuous Contract Employees										
	14/07/2014	0.690	14/07/2017	13/07/2018	79,600,000	-	-	-	-	79,600,000
	19/01/2018	0.172	20/01/2018	19/01/2019	-	44,100,000	-	-	-	44,100,000
	19/01/2018	0.172	20/01/2019	19/01/2020	-	44,100,000	-	-	(5,900,000)	38,200,000
(iii) Other Participants										
	14/07/2014	0.690	14/07/2017	13/07/2018	75,525,000	-	-	-	-	75,525,000
	29/10/2014	0.840	29/10/2015	28/10/2018	46,000,000	-	-	-	-	46,000,000
	29/10/2014	0.840	29/10/2017	28/10/2020	11,600,000	-	-	-	-	11,600,000
	19/01/2018	0.172	20/01/2018	19/01/2019	-	205,000,000	(170,000,000)	-	-	35,000,000
	19/01/2018	0.172	20/01/2019	19/01/2020	-	25,000,000	-	-	-	25,000,000
	29/01/2018	0.180	30/01/2018	29/01/2019	-	85,000,000	-	-	-	85,000,000
	Total:					<u>238,025,000</u>	<u>433,500,000</u>	<u>(170,000,000)</u>	<u>-</u>	<u>(5,900,000)</u>

Notes:

- The options are recognised as expenses in the accounts in accordance with HKFRS 2.
- For the share options granted during the period: (i) the closing price per Share immediately before the date of grant of 19 January 2018 was HK\$0.174; and (ii) the closing price per Share immediately before the date of grant of 29 January 2018 was HK\$0.184.
- For the share options exercised under 2012 Option Scheme during the year, the weighted average closing price of Share immediately before the date on which the options for 170,000,000 Shares were exercised was approximately HK\$0.168.



4. The fair value of the options granted during the six months ended 30 June 2018 was estimated as the date of grant using the Black-Scholes pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Date of grant	19 January 2018	19 January 2018	29 January 2018
Exercise period	20 January 2018 to 19 January 2019	20 January 2019 to 19 January 2020	30 January 2018 to 29 January 2019
Risk-free interest rate (%)	0.81	1.11	0.75
Expected volatility (%)	62	55	62
Expected life of options (year)	0.5	1.5	0.5
Dividend yield (%)	0	0	0
Share price (HK\$ per share)	0.17	0.17	0.18

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The fair value of the options granted during the period was estimated as below:

Date of grant	19 January 2018	19 January 2018	29 January 2018
Exercise period	20 January 2018 to 19 January 2019	20 January 2019 to 19 January 2020	30 January 2018 to 29 January 2019
Fair value per share option	0.028	0.045	0.031

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

As at 30 June 2018, the interests and short positions of the Directors and chief executive of the Company (including those interests and short positions which were taken or deemed to have interests and short positions under the provisions of the Securities and Futures Ordinance (the "SFO")) 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) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"), were as follows:

(1) Interests in the Shares of the Company

Name of Director	Number of Shares			Total	Approximate percentage of the Company's issued share capital
	Beneficial interests	Family interests	Corporate interests		
Ms. CHAN Tan Na, Donna	40,000,000(L)	-	-	40,000,000(L)	0.41%(L)
Mr. WU Jingwei	82,200,000(L)	-	-	82,200,000(L)	0.84%(L)
Mr. LI Zikui	28,000,000(L)	-	-	28,000,000(L)	0.29%(L)
Mr. HUANG Shenglan	1,100,000(L)	-	-	1,100,000(L)	0.01%(L)
Mr. CUI Shuming	2,000,000(L)	-	-	2,000,000(L)	0.02%(L)

Note:

- The letter "L" denotes long position(s).

(2) Interests in the Underlying Shares of the Company

As at 30 June 2018, certain Directors of the Company had the interests in respect of options to subscribe for the shares of the Company under the option scheme. Details of their interests in the share options of the Company are separately disclosed in the section "Share Option Scheme" of this report.

Save as otherwise disclosed above, as at 30 June 2018, none of the Directors or chief executive of the Company had, or were deemed under the SFO to have, 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 the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 30 June 2018, according to the register required to be kept by the Company under Section 336 of the SFO, the following persons (other than the Directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company:

Interests in the Shares and Underlying Shares of the Company

Name of Shareholder	Number of Shares				Approximate percentage interest in the Company's issued share capital
	Beneficial interests	Family interests	Corporate interests	Total	
Ms. LAU Ting	266,974,373(L)	242,486,426(L)	727,213,326(L)	1,236,674,125(L) (Note 1)	12.67%(L)
Mr. CHAN Shing	242,486,426(L)	266,974,373(L)	727,213,326(L)	1,236,674,125(L) (Note 1)	12.67%(L)
BFAM Partners (Cayman) Limited	-	-	732,500,000(L)	732,500,000(L) (Note 2)	7.51%(L)
Fuchs Benjamin Aaron	-	-	732,500,000(L)	732,500,000(L) (Note 2)	7.51%(L)
Tencent Holdings Limited	-	-	594,034,513(L)	594,034,513(L)	6.09%(L)
Favor King Limited	-	-	512,492,594(L)	512,492,594(L) (Note 1)	5.25%(L)

Notes:

1. For the corporate interests, 75,052,874 shares were held by Hang Sing which was wholly owned by Orient Strength, a company which was wholly-owned by Ms. LAU Ting. 137,735,546 shares were held by Strong Purpose, a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 512,492,594 shares were held by Glory Add which was wholly owned by Favor King Limited, a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 1,932,312 shares were held by Burwill Holdings Limited of which Ms. LAU Ting and Mr. CHAN Shing were the controlling shareholders. The shares of the family interests were owned by Ms. LAU Ting. As Mr. CHAN Shing is the spouse of Ms. LAU Ting, the interests of each of Ms. LAU Ting and Mr. CHAN Shing were deemed to be the interests of each other.
2. These are the same lot of interest. Those are derivative interests.
3. The letter "L" denotes long position(s).

Save as disclosed above, as at 30 June 2018, there was no person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

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

Save as the placing of shares and redemption of convertible bonds disclosed in this report, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2018.

AUDIT COMMITTEE

The Company's Audit Committee currently comprises the three Independent Non-executive Directors of the Company, namely Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Mr. CUI Shuming. The unaudited interim results of the Group for the six months ended 30 June 2018 have been reviewed by the Audit Committee.

CORPORATE GOVERNANCE

The Company has complied with all the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules (the “Code”) throughout the six months ended 30 June 2018, except for the deviations as disclosed below:

The Chairperson of the Company, Ms. CHAN Tan Na, Donna, currently also assumes the role of the Chief Executive Officer. Although the Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual, the Board considers that given the nature of the Group’s businesses which requires considerable market expertise, the vesting of the two roles provides the Group with stable and consistent leadership and allows for more effective planning and implementation of long term business strategies. The Board will continuously review the effectiveness of the structure to balance the power and authority of the Board and the management. Although some of the Non-Executive Directors of the Company are not appointed for a specific term as is stipulated in Code provision A.4.1, all of them are subject to retirement by rotation in accordance with the Bye-laws of the Company. The Board will ensure the retirement of each Director, other than the one who holds the office as Chairperson or Managing Director, by rotation at least once every three years. The Chairperson is not subject to retirement by rotation as is stipulated in Code provision A.4.2 as the Board considers that the continuity of office of the Chairperson provides the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group. Mr. HUANG Shenglan was absent from the 2018 annual general meeting of the Company as is stipulated in Code provision A.6.7 and E.1.2 due to his other important engagement.

The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers appropriate.

DIRECTOR’S SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard of dealings set out in the Model Code during the six months ended 30 June 2018.

On behalf of the Board
CHAN Tan Na, Donna
Chairperson

Hong Kong, 28 August 2018

As at the date of this report, the Board comprises Ms. CHAN Tan Na, Donna, Mr. WU Jingwei and Mr. LI Zi Kui as Executive Directors; and Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Mr. CUI Shuming as Independent Non-Executive Directors.