

2019 Interim Report



China LotSynergy Holdings Limited

華彩控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock code: 1371

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 2019, together with the comparative unaudited figures for the corresponding periods in 2018, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Unaudited	
		Six months ended 30 June	
		2019	2018
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Revenue	2	84,573	89,899
Costs of sales and services	3	(47,371)	(42,875)
		<hr/>	<hr/>
Gross profit		37,202	47,024
Other income	4	1,331	2,233
Other losses — net	5	(1,181)	(2,167)
General and administrative expenses		(73,785)	(95,251)
Share option expenses		(3,987)	(11,503)
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Operating loss	6	(40,420)	(59,664)
Finance costs	7	(16,521)	(14,196)
Share of loss of a joint venture		(1,465)	(1,169)
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Loss before income tax		(58,406)	(75,029)
Income tax expense	8	(1,722)	(4,831)
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Loss for the period		(60,128)	(79,860)
		<hr/>	<hr/>
Loss attributable to:			
Owners of the Company		(57,860)	(79,709)
Non-controlling interests		(2,268)	(151)
		<hr/>	<hr/>
		(60,128)	(79,860)
		<hr/>	<hr/>
Loss per share attributable to owners of the Company for the period			<i>Restated</i>
— basic	9	(5.85) HK Cent	(8.81) HK Cent
		<hr/>	<hr/>
— diluted	9	(5.85) HK Cent	(8.81) HK Cent
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**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Loss for the period	(60,128)	(79,860)
Other comprehensive expense for the period: <i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	—	(10,358)
Total comprehensive expense for the period	<u>(60,128)</u>	<u>(90,218)</u>
Attributable to:		
Owners of the Company	(57,860)	(85,970)
Non-controlling interests	<u>(2,268)</u>	<u>(4,248)</u>
Total comprehensive expense for the period	<u>(60,128)</u>	<u>(90,218)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited As at 30 June 2019 HK\$'000	Audited As at 31 December 2018 HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		258,763	279,358
Intangible assets		453,158	455,217
Interests in associates		43,576	35,572
Investment in a joint venture		3,210	4,675
Financial assets at fair value through profit or loss		7,399	8,561
Deferred income tax assets		5,607	5,607
		771,713	788,990
Current assets			
Inventories		24,272	18,850
Accounts receivable	10	96,605	83,574
Prepayments, deposits and other receivables		580,483	584,369
Cash and bank balances		106,667	146,021
		808,027	832,814
Total assets		1,579,740	1,621,804
Current liabilities			
Accounts payable	11	2,649	456
Accruals and other payables		53,188	49,910
Contract liabilities		7,038	3,043
Amount due to a joint venture		7,538	7,550
Tax payable		2,885	7,043
Bank borrowings		252,500	262,274
Convertible bonds	12	174,800	172,480
		500,598	502,756
Net current assets		307,429	330,085
Total assets less current liabilities		1,079,142	1,119,048

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

		Unaudited	Audited
		As at	As at
		30 June	31 December
		2019	2018
	<i>Notes</i>	HK\$'000	HK\$'000
Non-current liabilities			
Deferred income tax liabilities		<u>46,068</u>	<u>46,854</u>
Net assets		<u>1,033,074</u>	<u>1,072,194</u>
Equity attributable to owners of the Company			
Share capital	13	25,062	24,399
Reserves	14	1,389,559	1,375,614
Accumulated losses		<u>(718,771)</u>	<u>(667,311)</u>
		696,850	732,702
Non-controlling interests		<u>337,224</u>	<u>339,492</u>
Total equity		<u>1,033,074</u>	<u>1,072,194</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited				
	Six months ended 30 June 2019				
	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 2019	24,399	1,375,614	(667,311)	339,492	1,072,194
Comprehensive expense					
Loss for the period	-	-	(57,860)	(2,268)	(60,128)
Total other comprehensive expense	-	-	-	-	-
Total comprehensive expenses	-	-	(57,860)	(2,268)	(60,128)
Release of revaluation reserve upon depreciation of leasehold land and building	-	(121)	121	-	-
Share option scheme:					
— value of employees' services	-	206	-	-	206
— value of other participants' services	-	3,781	-	-	3,781
— share options exercised before the Share Consolidation	425	13,175	-	-	13,600
— share options exercised after the Share Consolidation	238	3,183	-	-	3,421
— vested share options expired	-	(6,279)	6,279	-	-
Total transactions with owners in their capacity as owners	663	13,945	6,400	-	21,008
Balance as at 30 June 2019	25,062	1,389,559	(718,771)	337,224	1,033,074

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

	Unaudited				
	Six months ended 30 June 2018				
	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 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 employees' 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	<u>24,399</u>	<u>1,456,331</u>	<u>(614,824)</u>	<u>344,349</u>	<u>1,210,255</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Operating cash flows before changes in working capital	(18,844)	(15,342)
Changes in working capital	(5,112)	(65,450)
Income tax paid	(5,880)	(5,755)
	<hr/>	<hr/>
Net cash used in operating activities	(29,836)	(86,547)
Net cash generated from investing activities	2,465	3,471
Net cash (used in)/generated from financing activities	(3,962)	5,684
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(31,333)	(77,392)
Effect of foreign exchange rate changes	–	(1,257)
Cash and cash equivalents at beginning of the period	138,000	177,487
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Cash and cash equivalents at end of the period	106,667	98,838
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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 2018.

The Directors 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 2019. 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 businesses of the Group include video lottery, computer ticket games and KENO-type lottery, new media lottery, and other trading business. An analysis of the Group's revenue for the periods is as follows:

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Sales of lottery-related equipment	26,776	22,152
Provision of maintenance services	6,206	223
General trading	2,773	–
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Revenue from contracts with customers (within the scope of HKFRS 15)	35,755	22,375
Lease income from lottery terminals and systems	48,818	67,524
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Total revenue	84,573	89,899
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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 equipment, gaming products in the China's lottery market, which is regarded as a single operating and 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	
	2019	2018
	HK\$'000	HK\$'000
People's Republic of China ("PRC")	81,800	85,697
Others	2,773	4,202
	<u>84,573</u>	<u>89,899</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	
	2019	2018
	HK\$'000	HK\$'000
Depreciation of lottery terminals	16,184	18,473
Business tax	536	886
Cost of inventories recognised as expense	22,851	15,701
Repairs and maintenance	903	633
Others	6,897	7,182
	<u>47,371</u>	<u>42,875</u>

4. OTHER INCOME

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Interest income from bank deposits and others	1,331	2,233



5. OTHER LOSSES — NET

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Fair value loss on financial assets at fair value through profit or loss	(1,162)	—
Impairment of available-for-sale financial assets	—	(2,524)
Loss on disposal of a subsidiary	—	(79)
Foreign exchange (losses)/gains	(19)	436
	<u>(1,181)</u>	<u>(2,167)</u>

6. OPERATING LOSS

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Operating loss is stated after charging:		
Staff costs (excluding share options expenses)	50,052	58,755
Depreciation of other items of property, plant and equipment	4,893	5,381
	<u>4,893</u>	<u>5,381</u>

7. FINANCE COSTS

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Interest expenses on bank borrowings	7,298	1,971
Interest expenses on convertible bonds	9,223	12,225
	<u>16,521</u>	<u>14,196</u>

8. INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax		
— PRC Enterprise Income Tax	2,508	5,741
Deferred tax		
— Origination and reversal of temporary differences	(786)	(910)
	<u>1,722</u>	<u>4,831</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 2019 (2018: 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 988,980,734 (2018: 904,617,473 adjusted for the effect of the Share Consolidation on 14 June 2019) ordinary shares in issue during the year.

The computation of diluted loss per share for the six months ended 30 June 2019 and 2018 did not assume the exercise of share options and the conversion of convertible bonds since their exercise and conversion would reduce the loss per share.

10. ACCOUNTS RECEIVABLE

Ageing analysis of accounts receivable is as follows:

	Unaudited	Audited
	As at 30 June 2019 <i>HK\$'000</i>	As at 31 December 2018 <i>HK\$'000</i>
Less than three months	25,422	13,542
Over three months but less than one year	6,430	5,782
Over one year	64,753	64,250
	<u>96,605</u>	<u>83,574</u>

**11. ACCOUNTS PAYABLE**

Ageing analysis of accounts payable is as follows:

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2019	2018
	HK\$'000	HK\$'000
Less than three months	2,282	174
Over three months but less than one year	156	15
Over one year	211	267
	<u>2,649</u>	<u>456</u>

12. CONVERTIBLE BONDS

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2019	2018
	HK\$'000	HK\$'000
Liability component:		
New Option 1 Bonds	<u>174,800</u>	<u>172,480</u>

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

	HK\$'000
At 1 January 2019	172,480
Interest charged	9,223
Interest paid	<u>(6,903)</u>
At 30 June 2019	<u>174,800</u>

13. SHARE CAPITAL

	Unaudited Authorised ordinary shares of HK\$0.025 each	
	Number of shares	HK\$'000
At 1 January 2019 and 30 June 2019	<u>1,600,000,000</u>	<u>40,000</u>
	Unaudited Issued and fully paid ordinary shares of HK\$0.025 each	
	Number of shares	HK\$'000
At 1 January 2019	9,759,807,333	24,399
Share options exercised before the Share Consolidation	170,000,000	425
Share Consolidation	(8,936,826,600)	-
Share options exercised after the Share Consolidation	9,500,000	238
At 30 June 2019	<u>1,002,480,733</u>	<u>25,062</u>

14. RESERVES

	Unaudited Six months ended 30 June 2019						
	Share premium 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	Total HK\$'000
Balance as at 1 January 2019	1,445,383	15,158	(42,657)	(64,759)	12,584	9,905	1,375,614
Share option scheme:							
— value of employees' services	-	-	-	-	206	-	206
— value of other participants' services	-	-	-	-	3,781	-	3,781
— share options exercised before the Share Consolidation	14,875	-	-	-	(1,700)	-	13,175
— share options exercised after the Share Consolidation	3,468	-	-	-	(285)	-	3,183
— vested share options expired	-	-	-	-	(6,279)	-	(6,279)
Release of revaluation reserve upon depreciation of leasehold land and building	-	-	-	-	-	(121)	(121)
Balance as at 30 June 2019	<u>1,463,726</u>	<u>15,158</u>	<u>(42,657)</u>	<u>(64,759)</u>	<u>8,307</u>	<u>9,784</u>	<u>1,389,559</u>

14. RESERVES (CONT'D)

	Unaudited								
	Six months ended 30 June 2018								
	Share premium	Convertible bond equity reserve	Capital reserve	Other reserve	Currency translation reserve	Share-based compensation reserve	Revaluation reserve	Available-for-sale investments	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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 employees' 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	<u>1,445,384</u>	<u>-</u>	<u>15,158</u>	<u>(42,657)</u>	<u>(49,393)</u>	<u>77,554</u>	<u>10,025</u>	<u>260</u>	<u>1,456,331</u>

15. OPERATING LEASE COMMITMENTS

As at 30 June 2019, 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 2019 HK\$'000	Audited As at 31 December 2018 HK\$'000
Within one year	9,453	17,344
In the second to fifth years inclusive	19,551	24,566
Over five years	17,401	19,278
	<u>46,405</u>	<u>61,188</u>

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is engaged in the provision of technology and operation services for 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 ("VLT"), computer-generated ticket games ("CTG") and KENO-type lottery to new media lottery, and continue to explore and develop other potential businesses, including trading business. 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. The Group has gradually established a development layout at domestic and international levels by making great efforts to open up international markets over the past years.

China's Lottery Market

According to figures published by the Ministry of Finance ("MOF"), China's lottery market continued to grow in the first half of 2019, with total lottery sales of RMB212.596 billion, down 13.3% from a year earlier. Welfare Lottery sales dropped by 11.6% year-on-year ("YOY") to RMB97.757 billion, whereas Sports Lottery sales shrank 14.7% YOY to RMB114.839 billion. Single Match Games ("SMG"), Paper-based Scratch Card, Video Lottery and KENO saw rise in sales compared with last year, while Lotto reported reduced sales. Lotto, which is still the industry's main source of revenue, posted a 18.9% drop YOY in sales to RMB111.225 billion, accounting for 52.3% of total lottery sales. SMG sales declined 14.8% YOY to RMB62.292 billion, accounting for 29.3% of total lottery sales. Scratch Card sales increased 19.8% to RMB13.812 billion, accounting for 6.5% of total lottery sales. Video Lottery sales grew 7.8% YOY to RMB25.190 billion, accounting for 11.8% of total lottery sales. KENO sales rose 24.1% to RMB0.077 billion, accounting for 0.1% of total lottery sales.

The China's lottery market has shown a trend of sustainable healthy development in recent years. In order to strictly control the lottery market risks, further highlight the public welfare and social responsibility of the state's lottery and foster the healthy development of the lottery industry, the MOF, the Ministry of Civil Affairs ("MOCA") and the General Administration of Sport of China jointly issued "Notice on Strengthening the Management of Prizes and Promotion of High Frequency Games" and "Notice on Revised Rules of High Frequency Games and SMG, and Intensified Lottery Market Governance" in January 2019, adjusting the rules of the high frequency games and SMG, altering the range of betting multiples,

strengthening the management of terminal sales, and discontinuing the prize and promotions. Those new rules, which reinforcing the market regulations of the high frequency games and SMG, will promote the long-term healthy development of the lottery industry albeit there may be some impact on the sales in the short run.

In the first half of this year, the MOCA and the General Administration of Sport of China revealed the use of funds for Year 2018 respectively. Budget for the lottery funds of the MOCA in 2018 was RMB2.987 billion, designating for civil affairs and related public welfare undertakings; while RMB2.987 billion lottery funds was spent by the General Administration of Sport of China, of which 70% used for the development of mass sports and 30 % used for financing competitive sports. From the initial issuance to the end of 2018, China's Welfare Lottery has raised more than RMB600 billion lottery funds, whereas Sports Lottery has raised more than RMB430 billion. The lottery has made outstanding contributions to the development of various public works projects undertaken in China.

Business Review and Outlook

Video Lottery Business

As a technology-rich product, VLT plays a vital role in China's lottery industry. The Group is the exclusive terminal equipment provider for China Welfare Lottery Video Lottery — VLT ("Welfare VLT"). Welfare VLT was one of the driving forces of nationwide Welfare Lottery, with its sales increased by 7.8% YOY to RMB25.19 billion, accounted for 25.8% of Welfare Lottery sales and 11.8% of the nation's total lottery sales respectively in the first half of 2019.

Dongguan Tianyi Electronic Company Limited ("DGTY"), a subsidiary of the Group, has been the supplier of Welfare VLT terminal for 16 years since 2003. 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 MOCA. DGTY has made three generations of terminal replacements and upgrades in the last 16 years, supplying a total number of over 70,000 units of terminals. For the six months ended 30 June 2019, 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 in 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. Estimably, sales of Welfare VLT has continued its upward climb and achieved satisfactory performance on the back of the superb quality of DGTY's third generation terminals, notwithstanding the absence of new terminal over the last four years. DGTY was well recognized by authorities and players thanks to its strong technological prowess and integrated service capabilities.

According to legally binding documents that the Group sent to China Welfare Lottery Issuance and Administration Centre ("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. "The Civil Judgement" No. 65 (2016) of the People's High Court of Beijing was delivered on 10 August 2018, which ruled that CLO is required to pay DGTY cooperation remuneration amounted to approximately RMB1.36 billion and partial interest. CLO appealed to the Supreme People's Court. The Supreme People's Court held two hearings, and that an outcome is awaited.

The Group is equipped with the largest dedicated VLT terminal production capacity in China and even in the world, with the most extensive technical tools and experience in design, development, testing and production quality control of video lottery terminal.

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 will deliver the newest product that brings together the advanced international technology and Chinese market, proactively assists CWLC and provincial sales institutions, delivering better product and service, bolstering CWLC's 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 RMB6 billion in the first half of 2019. Shanghai Welfare Lottery CTG, which is also served by the Group, recorded sales of RMB2.04 billion. Meanwhile, Guangzhou San Huan Yong Xin Technology Company Limited, a subsidiary of the Group, won a bid for the procurement of Welfare Lottery computer ticket game betting terminals and technical service for Chongqing Welfare Lottery Issuance Centre recently. In the next five years, the Group will provide 3,000 lottery betting terminals and related services to Chongqing Welfare Lottery Issuance Centre (“Chongqing Welfare Lottery”). This is the Group’s second time winning the bid in Chongqing Welfare Lottery since our first winning in 2013.

In the first half of 2019, the Group’s Sports Lottery CTG terminal business recorded sustained growth with successively won bids for the Sports Lottery CTG terminal procurement programmes of Guangxi, Inner Mongolia and other provinces, in spite of shrinking Sports Lottery sales, restricted rules of high frequency games and SMG, and sinking demand on CTG terminal. Meanwhile, the Group won bids for the Sports Lottery after-sales service procurement programmes in the provinces of Guizhou, Liaoning and others, achieving breakthrough in terminal after-sales service weighed on its excellent service capacities.

The Group’s overseas Sports Lottery CTG terminal business recorded full-fledged growth in the first half of 2019. The CTG system, developed by the Group for Khmer Pool Welfare Lottery Co., Ltd and Cambodian Sports Lottery, is running smoothly. The African lottery has posted explosive growth in recent years with a growth rate of 13.8% YOY in 2018, according to the statistics for fiscal year 2018 from World Lottery Association. At the same time, mobile phone penetration rate exceeds 70% in Africa while mobile payment has become ubiquitous in countries such as Ghana and Kenya, where more than 2/3 of transaction comes from mobile payment. The Group will bring the advanced lottery products and technologies to African market in the context of favourable market conditions, and it is expected to be launched in Ghana this year. The Group will become the first Chinese lottery company successfully landing in Africa.

New Business Development

New Retail, AI

In the first half of 2019, the Group continued to maintain good relations with lottery authorities and actively explore new products and new models in the new environment.

The traditional lottery sales channel already cannot meet the purchasing needs of its diversified customer base and the need for digitalised and integrated lottery retail channel is gradually arising, resulting from the rise of electronic payments and artificial intelligence. China's lottery industry is undergoing developmental revolution in terms of channel realignment and innovation. Under new circumstances, lottery authorities also continue to beef up the foundation of sales channels and enhance management practices.

In response to these development opportunities, the Group has taken the lead to introduce the notion of new lottery retail, opening up new ideas of lottery business expansion by product and channel innovations.

The Group has stepped up its R&D efforts in artificial intelligence for lottery and others, fully used of innovative technologies such as intelligent hardware, the Internet of Things and big data etc. across the lottery retail channels, namely operation, management, marketing and others, and developed cloud AI-based smart lottery outlets total solution. The solution consisted of intelligent terminal products, as well as a full range of intelligent hardware and software products that are servicing at lottery authorities and point-of-sale, namely intelligent storefront management system, intelligent payment system, intelligent marketing and sales platform, smart lottery big data service system and others. The cloud AI-based smart lottery outlets total solution not only effectively solves the survival and development problem of traditional lottery outlets, but also enriches its vitality, offers players with new experience, allows a better regulated and healthier operation environment, and provides the authorities with anew intelligent management tools.

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.

Sustainable Technologies and Innovations

At present, burgeoning digitisation, artificial intelligence, cloud computing and innovative intelligent device have profound impact on every individual and organisation. The Group has been maintaining a leading industry position in terms of technology applications on the back of its continuous enhancement and upgrade, extensive research and development effort with strong sense of crisis and innovation.

The Group focused on the lottery trading system in addition to applied artificial intelligence technology to lottery, optimising underlying core technology, enhancing trading engine, constantly advancing the transaction performance and reliability, and underpinning big data analysis. At the same time, draw on the concept of financial technology, the Group has been conducting in-depth research on analysis model and machine learning of user operation, forming a set of user data operation system, and using business intelligence tools to analyse the effect of operation activities, enabling data visualisation, data linkage, and algorithm-based market response prediction.

In November 2018, China LotSynergy Enterprises Limited, an indirect wholly owned subsidiary of the Group, officially entered into a strategic cooperation agreement with 寧波軟銀天宏創業投資管理合伙企業 (有限合伙), a corporation controlled by SB China Capital ("SBCVC") and 中城智慧科技有限公司, a company invested by SBCVC. The parties will cooperate on international lottery market and financial payments technology application, bringing Africa and Southeast Asia into a new era of smart payments by seamless combination of lottery, authentication technology and payments technology application.

Trading Business

The Group believes that it can maintain its competitive advantage through innovation and creative, hence, the Group continues to explore other potential businesses. In the first half of 2019, the Group deployed and launched trading business for various types of goods through its existing networks and resources for the purpose of generating income and enhancing the Group's competitiveness. The Group will continue to review the effectiveness of the relevant business.

Conclusion

In the past two years, Chinese lottery has been changing from simply pursuing sales volume and speed to quality and social benefits, with special emphasis on building up and carrying out responsible lottery, so as to foster a healthy industry ecosystem. Chinese lottery industry has entered the “era of quality”, which means great challenges and opportunities to the industry, especially for professional lottery companies.

The Group noted that lottery issuance and sales authorities proactively reformed every related aspect of lottery issuance and sales in the first half of this year, while professional lottery companies actively engaged in the tides of reform. The Group is pleased to see that lottery sales gradually rallied in the first half of this year, and the market remained dynamic. There is no doubt that China’s lottery market could be worth trillions.

With its continuous investment and in-depth understanding of the lottery industry for more than a decade, the Group will bring its edges together and look for wide range of cooperation in terms of sales channels, gaming products, lottery security, supporting systems, operating systems, among others, making contribution to the development of a responsible, reliable, healthy and sustainable China’s lottery ecosystem. The Group will foster the internationalisation of lottery while rooting in China, continue to explore and innovate a more diverse business model.

Financial Review

In the first half of 2019, the Group recorded a turnover of approximately HK\$84.6 million (the first half of 2018: approximately HK\$89.9 million), representing a decrease of approximately 5.9% over the same period of last year. Loss attributable to owners of the Company for the first half of 2019 amounted to approximately HK\$57.9 million (the first half of 2018: approximately HK\$79.7 million).

DGTY’s Welfare VLT supply contract expired in 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. 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 Civil Judgement ("Judgement") was delivered on 10 August 2018, which ruled that CLO is required to pay DGTY cooperation remuneration amounted to RMB1,360,211,853 and partial interest. Of which the cooperation remuneration amount ruled under the Judgement, RMB54,835,734 was attributed to being the remuneration under the period of Welfare VLT supply contract which DGTY has already recognized as revenue and receivable in 2015. CLO appealed to the Supreme People's Court. The Supreme People's Court held two hearings, and the outcome is awaited.

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 2019, the Company had an outstanding corporate guarantee limited to approximately HK\$240 million (at 31 December 2018: HK\$240 million) for a banking facility of an uncommitted revolving loan of approximately HK\$240 million (at 31 December 2018: HK\$240 million); and an outstanding corporate guarantee limited to approximately HK\$23 million (at 31 December 2018: HK\$23 million) for a banking facility of a short term secured loan of approximately HK\$23 million (at 31 December 2018: HK\$23 million).

The Group had outstanding bank borrowings at 30 June 2019 of approximately HK\$252.5 million (at 31 December 2018: HK\$262.3 million). At 30 June 2019, 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\$153.4 million (at 31 December 2018: HK\$155.6 million); and (ii) a personal guarantee executed by a director of the Company.

By an ordinary resolution passed at the Company's annual general meeting on 13 June 2019, every ten (10) issued and unissued ordinary shares of HK\$0.0025 each in the share capital of the Company has been consolidated into one (1) ordinary share of HK\$0.025 each in the share capital of the Company (the "Share Consolidation") with effective on 14 June 2019. Following the Share Consolidation, the authorised share capital of the Company are HK\$40 million divided into 1,600,000,000 shares of the Company with par value of HK\$0.025 each. As at 30 June 2019, 1,002,480,733 shares of the Company have been issued. The board lot size has also been changed from 20,000 to 10,000 shares of the Company upon the effective of the Share Consolidation.

Details of the Share Consolidation are set out in the Company's announcements dated 18 April 2019 and 13 June 2019 and the Company's circular dated 30 April 2019.

At 1 January 2019, the outstanding convertible bonds of the Company were 7.5% convertible bonds due 2019 in the aggregate principal amount of HK\$174.8 million (the "New Option 1 Bonds"). The New Option 1 Bonds shall be convertible into the shares of the Company at conversion price of HK\$0.23 each. On 28 March 2019, the Company and the holders of New Option 1 Bonds entered into the supplemental trust deed to extend the maturity date from 7 April 2019 to 7 November 2019 and amend the conversion price from HK\$0.23 to HK\$0.20 with effect from 28 March 2019. Pursuant to the supplemental trust deed, the interest for the extended period from 7 April 2019 to 7 November 2019 will be charged at 8.5% per annum and payable in arrear on 7 November 2019. With effect from 14 June 2019, due to the Share Consolidation, the conversion price of the New Option 1 Bonds had been adjusted from HK\$0.20 to HK\$2 per shares of the Company.

During the period under review, no New Option 1 Bonds had been converted into the shares of the Company by the bondholders. At 30 June 2019, 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 87,400,000 shares of the Company.

The Group's total equity amounted to approximately HK\$1,033.1 million at 30 June 2019 (at 31 December 2018: HK\$1,072.2 million). At 30 June 2019, net current assets of the Group amounted to approximately HK\$307.4 million (at 31 December 2018: HK\$330.1 million), including approximately HK\$106.7 million in cash and deposits with banks and financial institution (at 31 December 2018: HK\$146 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 30 June 2019 was approximately 34.6% (at 31 December 2018: 33.9%).

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 2019, the Group's leasehold land and buildings at net book value of approximately HK\$153.4 million (at 31 December 2018: HK\$155.6 million) were pledged to banks to secure the bank borrowings granted to the Group.

Contingent Liabilities

At 30 June 2019, the Group did not have any material contingent liabilities (at 31 December 2018: Nil).

Staff

As at 30 June 2019, the Group employed 249 (2018: 286) full time employees. 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 the Share Consolidation had taken effect on 14 June 2019, adjustments were made to the exercise prices and the number of shares of the Company falling to be issued in respect of the outstanding share options in accordance with the terms and conditions of the share option scheme, as adopted by the shareholders of the Company on 18 May 2012 (the "2012 Option Scheme") and the Listing Rules. As at 30 June 2019, there were options for 42,625,000 shares were valid and outstanding.

Movements of share options granted under the 2012 Option Scheme during the six months ended 30 June 2019:

	Date of grant	Exercise price per Share HK\$	Exercise period from	Exercise period 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
(i) Name of Director										
Ms. CHAN Tan Na, Donna	19/01/2018	1.72	20/01/2018	19/01/2019	600,000	-	-	-	(600,000)	-
	19/01/2018	1.72	20/01/2019	19/01/2020	600,000	-	-	-	-	600,000
Mr. WU Jingwei	19/01/2018	1.72	20/01/2018	19/01/2019	600,000	-	-	-	(600,000)	-
	19/01/2018	1.72	20/01/2019	19/01/2020	600,000	-	-	-	-	600,000
Mr. LI Zi Kui	19/01/2018	1.72	20/01/2018	19/01/2019	300,000	-	-	-	(300,000)	-
	19/01/2018	1.72	20/01/2019	19/01/2020	300,000	-	-	-	-	300,000
Ms. ZHU Xinxin	19/01/2018	1.72	20/01/2019	19/01/2020	300,000	-	-	-	-	300,000
Mr. HUANG Shenglan	19/01/2018	1.72	20/01/2018	19/01/2019	5,000	-	-	-	(5,000)	-
	19/01/2018	1.72	20/01/2019	19/01/2020	5,000	-	-	-	-	5,000
	31/05/2019	0.36	01/06/2019	30/11/2019	-	100,000	-	-	-	100,000
Mr. CHAN Ming Fai	19/01/2018	1.72	20/01/2018	19/01/2019	5,000	-	-	-	(5,000)	-
	19/01/2018	1.72	20/01/2019	19/01/2020	5,000	-	-	-	-	5,000
	31/05/2019	0.36	01/06/2019	30/11/2019	-	100,000	-	-	-	100,000
Mr. CUI Shuming	19/01/2018	1.72	20/01/2018	19/01/2019	5,000	-	-	-	(5,000)	-
	19/01/2018	1.72	20/01/2019	19/01/2020	5,000	-	-	-	-	5,000
	31/05/2019	0.36	01/06/2019	30/11/2019	-	100,000	-	-	-	100,000
(ii) Continuous Contract Employees	19/01/2018	1.72	20/01/2018	19/01/2019	3,750,000	-	-	-	(3,750,000)	-
	19/01/2018	1.72	20/01/2019	19/01/2020	3,450,000	-	-	-	-	3,450,000
(iii) Other Participants	29/10/2014	8.40	29/10/2017	28/10/2020	1,160,000	-	-	-	-	1,160,000
	19/01/2018	1.72	20/01/2018	19/01/2019	3,500,000	-	-	-	(3,500,000)	-
	19/01/2018	1.72	20/01/2019	19/01/2020	2,500,000	-	-	-	-	2,500,000
	29/01/2018	1.80	30/01/2018	29/01/2019	8,500,000	-	-	-	(8,500,000)	-
	08/01/2019	0.80	09/01/2019	08/01/2020	-	27,000,000	(17,000,000)	-	-	10,000,000
	31/05/2019	0.36	01/06/2019	30/11/2019	-	32,900,000	(9,500,000)	-	-	23,400,000
Total:					<u>26,190,000</u>	<u>60,200,000</u>	<u>(26,500,000)</u>	<u>-</u>	<u>(17,265,000)</u>	<u>42,625,000</u>

Notes:

1. The options are recognised as expenses in the accounts in accordance with HKFRS 2.
2. The exercise price and number of the outstanding share option has been adjusted to reflect the Share Consolidation. The exercise price and number of the share option which was exercised or lapsed before the effective date of the Share Consolidation has also been adjusted for purpose of comparison.
3. The weighted average closing price of Share immediately before the dates on which the options for 26,500,000 Shares were exercised was approximately HK\$0.632 (number and price of the shares has been adjusted to reflect the Share Consolidation).
4. The closing price of the share of the Company immediately before the dates of options were granted on 8 January 2019 and 31 May 2019 were HK\$0.78 and HK\$0.34 respectively (price of the shares has been adjusted to reflect the Share Consolidation).
5. The fair value of the options granted during the six months ended 30 June 2019 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 and have been adjusted to reflect the Share Consolidation. The following table lists the inputs to the model used:

Date of grant	8 January 2019	31 May 2019
Exercise period	9 January 2019 to 8 January 2020	1 June 2019 to 30 November 2019
Risk-free interest rate (%)	1.64	1.87
Expected volatility (%)	51	58
Expected life of options (year)	0.5	0.25
Dividend yield (%)	0	0
Share price (HK\$ per share)	0.80	0.36

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	8 January 2019	31 May 2019
Exercise period	9 January 2019 to 8 January 2020	1 June 2019 to 30 November 2019
Fair value per share option	0.10	0.03

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

As at 30 June 2019, 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		Approximate percentage of the Company's issued share capital
	Beneficial interests	Total	
Ms. CHAN Tan Na, Donna	4,620,000 (L)	4,620,000 (L)	0.46% (L)
Mr. WU Jingwei	8,220,000 (L)	8,220,000 (L)	0.82% (L)
Mr. LI Zikui	2,800,000 (L)	2,800,000 (L)	0.28% (L)
Ms. ZHU Xinxin	1,500,000 (L)	1,500,000 (L)	0.15% (L)
Mr. HUANG Shenglan	110,000 (L)	110,000 (L)	0.01% (L)
Mr. CUI Shuming	200,000 (L)	200,000 (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 2019, 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 2019, 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 Part XV 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 2019, 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	91,509,437 (L)	24,248,642 (L)	72,721,331 (L)	188,479,410 (L) (Note 1)	18.80% (L)
Mr. CHAN Shing	24,248,642 (L)	91,509,437 (L)	72,721,331 (L)	188,479,410 (L) (Note 1)	18.80% (L)
BFAM Partners (Cayman) Limited	-	-	73,250,000 (L)	73,250,000 (L) (Note 2)	7.31% (L)
Fuchs Benjamin Aaron	-	-	73,250,000 (L)	73,250,000 (L) (Note 2)	7.31% (L)
Tencent Holdings Limited	-	-	59,403,451 (L)	59,403,451 (L)	5.93% (L)
Favor King Limited	-	-	51,249,259 (L)	51,249,259 (L) (Note 1)	5.11% (L)

Notes:

1. For the corporate interests, 7,505,287 shares were held by Hang Sing Overseas Limited which was wholly owned by Orient Strength Limited, a company which was wholly-owned by Ms. LAU Ting. 13,773,554 shares were held by Strong Purpose Corporation, a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 51,249,259 shares were held by Glory Add Limited which was wholly owned by Favor King Limited, a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 193,231 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 and Mr. CHAN Shing respectively. 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 2019, 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.

CHANGES OF DIRECTORSHIP AND DIRECTOR'S BIOGRAPHIES

1. Ms. ZHU Xinxin has been appointed as an Executive Director of the Company with effect from 18 June 2019.
2. Mr. CHAN Ming Fai has ceased to be a director of Alita Resources Limited (formerly known as "Alliance Mineral Assets Limited") from the conclusion of its extraordinary general meeting held on 11 July 2019.



DISCLOSEABLE TRANSACTION

The Board announced that on 12 August 2019, Capital Way Financial Holdings Limited, an indirect wholly-owned subsidiary of the Company, has entered into an agreement in relation to the acquisition of the entire issued shares of Qing Yu International Holding Limited at an aggregate consideration of HK\$9,000,000, which is settled as to (i) HK\$3,000,000 in cash; and (ii) the issue of a promissory note. Upon completion, the Qing Yu International Holding Limited become an indirect wholly-owned subsidiary of the Company. Qing Yu International Holding Limited, together with its subsidiaries, are principally engaged in R&D, processing, production and sales of natural and health food. The Group believes that this acquisition can strengthen its financial position by developing the business of production and sales of natural and health food at a lower cost and higher efficiency.

CHANGES OF ADDRESSES OF REGISTERED OFFICE AND BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The registered office of the Company has been relocated to Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda with effect from 15 July 2019. The Bermuda principal share registrar and transfer office of the Company has also been relocated to 4th Floor North, Cedar House, 41 Cedar Avenue, Hamilton HM 12, Bermuda with effect from 19 July 2019.

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

Save as 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 2019.

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 2019 have been reviewed by the Audit Committee.

CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") under Appendix 14 of the Listing Rules throughout the six months ended 30 June 2019, 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 2019 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.



REQUIRED STANDARD OF DEALING REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings regarding securities transactions by directors set out in the Model Code as its code of conduct for dealings in securities of the Company by the Directors (the “Code of Conduct”). Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the Code of Conduct during the six months ended 30 June 2019.

On behalf of the Board
CHAN Tan Na, Donna
Chairperson

Hong Kong, 22 August 2019

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