

2020 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 of China LotSynergy Holdings Limited (the "Company") (the "Board" or the "Directors") 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 2020, together with the comparative unaudited figures for the corresponding period in 2019, as follows:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
		<b>2020</b>	<b>2019</b>
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
Revenue	2	<b>45,078</b>	84,573
Costs of sales and services	3	<b>(32,396)</b>	(47,371)
Gross profit		<b>12,682</b>	37,202
Other income	4	<b>1,761</b>	1,331
Other gains/(losses) – net	5	<b>2,953</b>	(1,181)
General and administrative expenses		<b>(68,033)</b>	(73,785)
Share option expenses		<b>–</b>	(3,987)
Operating loss	6	<b>(50,637)</b>	(40,420)
Finance costs	7	<b>(25,482)</b>	(16,521)
Share of loss of a joint venture		<b>(263)</b>	(1,465)
Loss before income tax		<b>(76,382)</b>	(58,406)
Income tax credit/(expense)	8	<b>1,186</b>	(1,722)
Loss for the period		<b>(75,196)</b>	(60,128)
<b>Loss attributable to:</b>			
Owners of the Company		<b>(70,442)</b>	(57,860)
Non-controlling interests		<b>(4,754)</b>	(2,268)
		<b>(75,196)</b>	(60,128)
<b>Loss per share attributable to owners of the Company for the period</b>			
– basic	9	<b>(6.84) HK Cent</b>	(5.85) HK Cent
– diluted	9	<b>(6.84) HK Cent</b>	(5.85) HK Cent

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Loss for the period	<b>(75,196)</b>	(60,128)
Other comprehensive expense for the period: <i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	<u>1,432</u>	<u>–</u>
Total comprehensive expense for the period	<u><b>(73,764)</b></u>	<u>(60,128)</u>
<b>Attributable to:</b>		
Owners of the Company	<b>(70,442)</b>	(57,860)
Non-controlling interests	<u><b>(3,322)</b></u>	<u>(2,268)</u>
<b>Total comprehensive expense for the period</b>	<u><b>(73,764)</b></u>	<u>(60,128)</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		<b>Unaudited</b>	Audited
		<b>As at</b>	As at
		<b>30 June</b>	31 December
		<b>2020</b>	2019
<i>Notes</i>		<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Non-current assets</b>			
		<b>102,881</b>	130,170
		<b>39,000</b>	–
		<b>141,183</b>	180,614
		<b>442,028</b>	445,751
		<b>2,847</b>	2,847
		<b>2,155</b>	2,418
		<b>4,794</b>	7,583
		<b>734,888</b>	769,383
<b>Current assets</b>			
		<b>24,494</b>	13,660
	10	<b>78,776</b>	73,620
		<b>164,216</b>	159,533
		<b>53,909</b>	64,726
		<b>321,395</b>	311,539
<b>Total assets</b>		<b>1,056,283</b>	1,080,922
<b>Current liabilities</b>			
	11	<b>8,447</b>	2,918
		<b>40,286</b>	41,384
		<b>17,407</b>	18,992
		<b>7,890</b>	7,902
		<b>40,000</b>	–
		<b>5,390</b>	6,396
		<b>242,522</b>	245,500
		<b>11,250</b>	9,169
	12	<b>159,727</b>	147,400
		<b>532,919</b>	479,661
<b>Net current liabilities</b>		<b>(211,524)</b>	(168,122)
<b>Total assets less current liabilities</b>		<b>523,364</b>	601,261

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

	<b>Unaudited</b>	Audited
	<b>As at</b>	As at
	<b>30 June</b>	31 December
	<b>2020</b>	2019
<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
<b>Non-current liabilities</b>		
Deferred income tax liabilities	<b>37,861</b>	38,233
Lease liabilities	<b>28,708</b>	31,511
	<u><b>66,569</b></u>	<u>69,744</u>
<b>Net assets</b>	<u><b>456,795</b></u>	<u>531,517</u>
<b>Equity attributable to owners of the Company</b>		
Share capital	<i>13</i> <b>25,737</b>	25,737
Reserves	<i>14</i> <b>1,383,896</b>	1,389,169
Accumulated losses	<b>(1,245,450)</b>	(1,179,323)
	<b>164,183</b>	235,583
<b>Non-controlling interests</b>	<u><b>292,612</b></u>	<u>295,934</u>
<b>Total equity</b>	<u><b>456,795</b></u>	<u>531,517</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited Six months ended 30 June 2020				
	Attributable to owners of the Company				
	Share capital <i>HK\$'000</i>	Reserves <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Non- controlling interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance as at 1 January 2020	25,737	1,389,169	(1,179,323)	295,934	531,517
Comprehensive expense					
Loss for the period	-	-	(70,442)	(4,754)	(75,196)
Other comprehensive expense					
Currency translation differences	-	(1,260)	-	1,432	172
Total comprehensive expenses	-	(1,260)	(70,442)	(3,322)	(75,024)
Release of revaluation reserve upon depreciation of leasehold land and building	-	(121)	121	-	-
Revaluation surplus on transfer of owner-occupied property to investment property	-	302	-	-	302
Share option scheme: - vested share options expired	-	(4,194)	4,194	-	-
Total transactions with owners in their capacity as owners	-	(4,013)	4,315	-	302
<b>Balance as at 30 June 2020</b>	<b>25,737</b>	<b>1,383,896</b>	<b>(1,245,450)</b>	<b>292,612</b>	<b>456,795</b>

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

	Unaudited				
	Six months ended 30 June 2019				
	Attributable to owners of the Company				
	Share capital <i>HK\$'000</i>	Reserves <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Non- controlling interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
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)
Other comprehensive expense					
Currency translation differences	—	—	—	—	—
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 employee services	—	206	—	—	206
– value of other participants' services	—	3,781	—	—	3,781
– share options exercised before share consolidation	425	13,175	—	—	13,600
– share options exercised after 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 CASH FLOWS

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Operating cash flows before changes in working capital	<b>(13,003)</b>	(18,844)
Changes in working capital	<b>23,745</b>	(5,112)
Income tax refunded/(paid)	<b>180</b>	(5,880)
	<hr/>	<hr/>
Net cash generated from/(used in) operating activities	<b>10,922</b>	(29,836)
Net cash generated from investing activities	<b>2,018</b>	2,465
Net cash used in financing activities	<b>(15,907)</b>	(3,962)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	<b>(2,967)</b>	(31,333)
Effect of foreign exchange rate changes	-	-
Cash and cash equivalents at beginning of the period	<b>56,876</b>	138,000
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	<b>53,909</b>	106,667
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## NOTES TO CONDENSED CONSOLIDATED 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 2019.

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 2020. The adoption of such standards, amendments and interpretations did not have material effect on these financial statements.

### 2. REVENUE AND SEGMENT INFORMATION

An analysis of the Group's revenue for the periods is as follows:

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>HK\$'000</b>	HK\$'000
Sales of lottery terminals and related equipment	<b>4,518</b>	26,776
Sales of natural and health food	<b>5,250</b>	–
Provision of technical and maintenance services	<b>1,591</b>	6,206
General trading	–	2,773
	<hr/>	<hr/>
Revenue from contracts with customers (within the scope of HKFRS 15)	<b>11,359</b>	35,755
Lease income from operating leases	<b>33,719</b>	48,818
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Total revenue	<b>45,078</b>	84,573
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## 2. REVENUE AND SEGMENT INFORMATION (CONT'D)

The Group's reportable segments are as follows:

1. Lottery systems, terminal equipment and related products – Provision of technology and operation services for lottery systems, terminal equipment and gaming products, and sales of lottery terminals and related equipment
2. Natural and health food – Research and development, processing, production and sales of natural and health food

### (a) Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segments:

	<b>Unaudited</b>		
	<b>Six months ended 30 June 2020</b>		
	<b>Lottery systems, terminal equipment and related products HK\$'000</b>	<b>Natural and health food HK\$'000</b>	<b>Total HK\$'000</b>
Segment revenue:			
Revenue from contracts with customers (within the scope of HKFRS 15)	6,109	5,250	11,359
Lease income	33,719	–	33,719
	<u>39,828</u>	<u>5,250</u>	<u>45,078</u>
Revenue from external customers	<u>39,828</u>	<u>5,250</u>	<u>45,078</u>
Segment loss	<u>(12,192)</u>	<u>(1,361)</u>	<u>(13,553)</u>
Interest income			1,761
Fair value loss on financial assets at fair value through profit or loss			(2,789)
Finance costs			(25,482)
Share of loss of a joint venture			(263)
Unallocated expenses			(36,056)
Loss before income tax			<u>(76,382)</u>

## 2. REVENUE AND SEGMENT INFORMATION (CONT'D)

## (a) Segment revenue and results (Cont'd)

	Unaudited Six months ended 30 June 2019		
	Lottery systems, terminal equipment and related products <i>HK\$'000</i>	Natural and health food <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue:			
Revenue from contracts with customers (within the scope of HKFRS 15)	35,755	–	35,755
Lease income	48,818	–	48,818
	<u>          </u>	<u>          </u>	<u>          </u>
Revenue from external customers	84,573	–	84,573
	<u>          </u>	<u>          </u>	<u>          </u>
Segment profit	5,965	–	5,965
	<u>          </u>	<u>          </u>	
Interest income			1,331
Fair value loss on financial assets at fair value through profit or loss			(1,162)
Finance costs			(16,521)
Share of loss of a joint venture			(1,456)
Unallocated expenses			(46,563)
			<u>          </u>
Loss before income tax			(58,406)
			<u>          </u>

## 2. REVENUE AND SEGMENT INFORMATION (CONT'D)

### (b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

	<b>Unaudited As at 30 June 2020 HK\$'000</b>	Audited As at 31 December 2019 HK\$'000
<b>Segment assets</b>		
Lottery systems, terminal equipment and related products	<b>717,223</b>	752,123
Natural and health food	<b>3,040</b>	4,627
	<hr/>	<hr/>
Total segment assets	<b>720,263</b>	756,750
Interests in associates	<b>2,847</b>	2,847
Investment in a joint venture	<b>2,155</b>	2,418
Unallocated	<b>331,018</b>	318,907
	<hr/>	<hr/>
Consolidated assets	<b>1,056,283</b>	1,080,922
	<hr/> <hr/>	<hr/> <hr/>
<b>Segment liabilities</b>		
Lottery systems, terminal equipment and related products	<b>45,540</b>	34,945
Natural and health food	<b>16,541</b>	22,095
	<hr/>	<hr/>
Total segment liabilities	<b>62,081</b>	57,040
Unallocated	<b>537,407</b>	492,365
	<hr/>	<hr/>
Consolidated liabilities	<b>599,488</b>	549,405
	<hr/> <hr/>	<hr/> <hr/>

## 2. REVENUE AND SEGMENT INFORMATION (CONT'D)

### Geographical information

Information about the Group's revenue from external customers is presented based on the location of the customers.

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
People's Republic of China ("PRC")	44,039	84,573
Others	1,039	—
	<u>45,078</u>	<u>84,573</u>

## 3. COSTS OF SALES AND SERVICES

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Depreciation of lottery terminals	19,236	16,184
Amortisation of intangible assets	5,493	5,522
Business tax	399	536
Cost of inventories recognised as expense	4,589	22,851
Repairs and maintenance	121	903
Others	2,558	1,375
	<u>32,396</u>	<u>47,371</u>

## 4. OTHER INCOME

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Interest income from bank deposits and loan receivables	1,761	1,331

## 5. OTHER GAINS/(LOSSES) – NET

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Fair value loss on financial assets at fair value through profit or loss	<b>(2,789)</b>	(1,162)
Rental income	<b>83</b>	–
Development fee income	<b>6,153</b>	–
Gain on disposal of fixed assets	<b>236</b>	–
Foreign exchange losses	<b>(730)</b>	(19)
	<b>2,953</b>	(1,181)

## 6. OPERATING LOSS

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Operating loss is stated after charging:		
Staff costs (excluding share options expenses)	<b>41,980</b>	50,052
Depreciation of other items of property, plant and equipment	<b>3,343</b>	4,893

## 7. FINANCE COSTS

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest expenses on bank borrowings	<b>10,385</b>	7,298
Interest expenses on lease liabilities	<b>870</b>	–
Effective interest expenses on convertible bonds	<b>12,327</b>	9,223
Other interest expenses	<b>1,900</b>	–
	<b>25,482</b>	16,521

## 8. INCOME TAX CREDIT/(EXPENSE)

	Unaudited	
	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax		
– PRC Enterprise Income Tax	811	(2,508)
Deferred tax		
– Origination and reversal of temporary differences	375	786
	<u>1,186</u>	<u>(1,722)</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 2020 (2019: 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 1,029,480,733 (2019: 988,980,734) ordinary shares in issue during the year.

The computation of diluted loss per share for the six months ended 30 June 2020 and 2019 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	As at
	30 June	31 December
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Less than three months	9,670	9,932
Over three months but less than one year	2,870	249
Over one year	66,236	63,439
	<u>78,776</u>	<u>73,620</u>

## 11. ACCOUNTS PAYABLE

Ageing analysis of accounts payable is as follows:

	<b>Unaudited As at 30 June 2020 HK\$'000</b>	Audited As at 31 December 2019 HK\$'000
Less than three months	<b>7,777</b>	1,113
Over three months but less than one year	<b>388</b>	942
Over one year	<b>282</b>	863
	<b>8,447</b>	2,918

## 12. CONVERTIBLE BONDS

	<b>Unaudited As at 30 June 2020 HK\$'000</b>	Audited As at 31 December 2019 HK\$'000
<b>Liability component:</b>		
New Option 1 Bonds	<b>159,727</b>	147,400

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

	<b>HK\$'000</b>
At 1 January 2020	<b>147,400</b>
Interest charged	<b>12,327</b>
Interest paid	-
<b>At 30 June 2020</b>	<b>159,727</b>

## 13. SHARE CAPITAL

	Unaudited Authorised ordinary shares of HK\$0.025 each	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2020 and 30 June 2020	<b>1,600,000,000</b>	<b>40,000</b>

	Unaudited Issued and fully paid ordinary shares of HK\$0.025 each	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2020 and 30 June 2020	<b>1,029,480,733</b>	<b>25,737</b>

## 14. RESERVES

	Unaudited Six months ended 30 June 2020						
	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Currency translation reserve <i>HK\$'000</i>	Share-based compensation reserve <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance as at 1 January 2020	1,471,249	15,158	(42,657)	(72,731)	8,486	9,664	1,389,169
Share option scheme: – vested share options expired	–	–	–	–	(4,194)	–	(4,194)
Revaluation surplus on transfer of owner- occupied property to investment property	–	–	–	–	–	302	302
Release of revaluation reserve upon depreciation of leasehold land and building	–	–	–	–	–	(121)	(121)
Currency translation differences – Overseas subsidiaries	–	–	–	(1,260)	–	–	(1,260)
<b>Balance as at 30 June 2020</b>	<b>1,471,249</b>	<b>15,158</b>	<b>(42,657)</b>	<b>(73,991)</b>	<b>4,292</b>	<b>9,845</b>	<b>1,383,896</b>

## 14. RESERVES (CONT'D)

	Share premium HK\$'000	Capital reserve HK\$'000	Unaudited Six months ended 30 June 2019			Share-based compensation reserve HK\$'000	Revaluation reserve HK\$'000	Total HK\$'000
			Other reserve HK\$'000	Currency translation reserve 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 employee services	–	–	–	–	206	–	206	
– value of other participants' services	–	–	–	–	3,781	–	3,781	
– share options exercised before share consolidation	14,875	–	–	–	(1,700)	–	13,175	
– share options exercised after 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>	

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (2019: 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 natural & health food business and 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*

China's lottery market recorded a 41.7% decline in total sales to RMB123.9 billion in the first half of 2020, pursuant to the sales data released by the Ministry of Finance ("MOF"). Welfare Lottery sales fell by 39.4% year-on-year ("YOY") to RMB59.288 billion, while Sports Lottery sales down 43.7% YOY to RMB64.612 billion. In terms of lottery types, sales of Lotto, Single Match Games ("SMG"), Paper-based Scratch Card, VLT and KENO have all gone down. Lotto, which is the industry's main source of revenue, posted a 18.9% YOY drop to RMB90.223 billion in its sales, accounting for 72.7% of total lottery sales. SMG sales tumbled 72.6% YOY to RMB17.082 billion, accounting for 13.8% of total lottery sales. Paper-based Scratch Card sales dropped 16.8% YOY to RMB11.493 billion, accounting for 9.3% of total lottery sales. VLT sales dived by 79.9% YOY to RMB5.065 billion, accounting for 4.1% of total lottery sales. KENO sales decreased 51.1% YOY to RMB0.038 billion, accounting for 0.1% of total lottery sales.

The Chinese lottery market experienced the record long market closure in its history, a 49-day shutdown as a result of all operation of physical lottery stores had been suspended since 22 January, caused by the Coronavirus Disease 2019 (the "COVID-19") in the first half of 2020. Football leagues and mainstream basketball tournaments in more than 44 countries around the world were halted due to the COVID-19 pandemic, less than a week after China's lottery relaunched in 11 March, extracting a heavy toll on Jing Cai ("竞彩"), a major lottery type of Sports Lottery.

Before that, the Chinese government had made continuous and strengthening efforts on monitoring, so as 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. 12 ministries of the PRC, including the MOF, the General Administration of Sports, the Ministry of Civil Affairs ("MOCA"), jointly announced a ban on online and telephone lottery sales in 2018. The MOF, the MOCA and the General Administration of Sport of China jointly issued "Notice on Strengthening the Management of Payout 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 payout and promotions. In July 2020, telephone sales of Shandong Sports Lottery and Hainan Sports Lottery were halted successively because of fiscal policy. China's lottery sales plummeted in the first half of 2020, hitting by double whammy as a ban on online and telephone lottery tickets sales added to the implementation of conservative policies such as strengthening the new regulations on the market governance of high frequency games and SMG as well as outbreak of COVID-19.

In the light of the normalization of the pandemic, the MOF requires lottery authorities at all levels to resume lottery issuance and sales in an orderly manner, bringing prevention and control needs of the COVID-19 pandemic and practical work together. Thanks to the prevention and control measures have been winning the day, the lottery space across the mainland is backing on its feet. At present, the national lottery market sees a steady recovery momentum with national sales have increased for 4 months in a row.

## ***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 decreased by 79.9% YOY to RMB5.064 billion in the wake of suspension of lottery sales due to the COVID-19 pandemic, accounted for 8.5% of Welfare Lottery sales and 4.1% of the state's total lottery sales respectively in the first half of 2020.

Dongguan Tianyi Electronic Company Limited (“DGTY”), a subsidiary of the Group, has been the supplier of Welfare VLT terminal for 17 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 17 years, supplying a total number of over 70,000 units of terminals. For the six months ended 30 June 2020, 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 five years and hit by the COVID-19. 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.

On 11 May 2020, CWLC published a statement on the suspension of the Welfare VLT, ordering the suspension of the sales of seven video lottery games, such as Welfare VLT “serial treasure (“連環奪寶”)” and so on, with effect from 31 July 2020, 5:00pm.

At present, a slew of upgrades and replacements of video lottery system and terminal have been carried out by CWLC. Seven video lottery games, such as Welfare VLT “serial treasure”, have been suspended since 31 July, while the new video lottery games have not been approved by the MOF, and thus the back-to-back transition between the old and new versions of the systems and games is no longer possible. Seven video lottery games, such as Welfare VLT “serial treasure”, have been supporting the successful development of Welfare VLT over the past 17 years. New video lottery is exposed to market risks, given that the unapproved new games, along with the implementation of a series of stringent regulatory policies, such as “real name mechanism” and “daily limit of RMB200”.

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. The Group will deliver the newest product that brings together the advanced international technology and Chinese market with proactive participation, endeavoring 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 RMB4.289 billion in the first half of 2020. Shanghai Welfare Lottery CTG, which is also served by the Group, recorded sales of RMB1.636 billion.

In the first half of 2020, China’s lottery market faced with plight of suspension, restricted rules of high frequency games and SMG, and sinking demand on CTG terminal in various regions. The group has been swimming upstream with its Sports Lottery CTG terminal business recorded sustained growth amid those difficulties and challenges. The Group won bids for the Sports Lottery CTG terminal procurement programme of Gansu province, and the Sports Lottery after-sales service procurement programmes in the provinces of Guizhou, Liaoning and others, achieving breakthrough in terminal after-sales service leveraged on its superb service capacities.

The Group has made much progress in overseas lottery business, and paid great attention to bring the advanced lottery products and technologies to Asian and African market in the first half of 2020. The CTG systems, developed by the Group for Khmer Pool Welfare Lottery Co., Ltd, Cambodian Sports Lottery and Ghana's lottery respectively, are running smoothly. The preliminary work for launching new games in Ghana has been completed in the first half of 2020. It is expected to roll out three games and enhance the value-added channels in the second half of this year. Furthermore, the Group and Philippine Charity Sweepstakes Office are actively partnering over the handheld lottery terminal business, and it is expected to be launched in the latter half of this year.

### *New Lottery Business (New Retail, AI)*

In 2020, the Group continued to step up its efforts in development of new products and models under the new environment. The traditional lottery sales channel already cannot meet the diversified needs of its customer and the need for digitalized 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 fields of artificial intelligence and others, fully used of innovative technologies such as intelligent hardware, the Internet of Things, big data, blockchain and artificial intelligence 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 player with new experience, allows a better regulated and healthier operation environment, and provides the authorities with anew intelligent management tools. At present, the Group has entered into agreement to jointly promote the business with partners in the lottery industry.

In order to tap the board artificial intelligence application market, in 2018, the Group, as a leading player in China's lottery industry, has landed at the China's Sound Valley – the national-level industrial base of artificial intelligence and garnered the award dedicated leading enterprises which settled there. Leveraging on the robust foundation provided by the China's Sound Valley, the Group has achieved milestones in the fields of intelligent hardware, intelligent voice, face recognition, big data and cloud computing, and has received several proprietary intellectual property rights such as patents and software copyrights. On that basis, the Group has developed a number of intelligent hardware products and intelligent software systems for various industries. In 2019, the group's proprietary R&D project, "mobile ticket bots", which is gearing towards the retail industry, received funding support from "2019 China's Sound Valley Establishment" specify for industrialization of technological innovation products. The "Artificial Intelligence Large Information Screen" project, which declared in 2020, has been approved. At the same time, the Group is actively participating in the "The 2nd China Hengqin Technology Entrepreneurship Competition" project, riding on its R&D attainments in smart retail.

New forms of economies spurred by 5G, big data, block chain, artificial intelligence and others, with the rise of new technologies, new industries and new models. Innovative technology serves as power engine in China. In the future, the group will live up to the opportunities given by the times, empower the lottery industries, and make a positive contribution to the healthy development of China's lottery market.

### *New Lottery Business (Video Lottery & Digital Scratch Card)*

In 2018, the State Council issued "Guiding Opinions on Supporting Hainan in Comprehensively Deepening Reform and Opening Up", pointing out that it supports Hainan's exploration and development of SMG and scratch card that based on large-scale international event, in a bid to promote the development of Hainan's sports undertakings and sports industry.

With the further development of Hainan Free Trade Zone, the Group is poised to beef up its strategic layout and in-depth cooperation in the Hainan market, and actively looking into and develop new growth drivers of video and electronic lottery businesses.

### *Natural & Health Food Business*

At the beginning of 2020, health food received unprecedented attention due to the global COVID-19 pandemic. Tian Ran Lin Chang Food Limited (“TRLC”), a subsidiary of the Group, has been reinforcing the product safety, with all of its products obtained China Forest Food Certification.

E-commerce was the most vital route of product sales in the first half of 2020. TRLC continues its strategical partnership with Benlai Life, with sales reached a mini-peak of this year during the Dragon Boat Festival, and gear up for the Mid-Autumn Festival and Lunar New Year with detailed plans. At the same time, the Group tapped into banking channels, and joined a number of community group buying platforms in this year. On channels development, we will open up opportunities for another community group buying and enterprise centralized procurement, form up of strategic cooperation with more channels, try out additional forms of promotions in the second half of 2020.

In the first half of this year, the Group paid greater attention on the product line with extended product reach, optimizing the product supply chain. The Group took steps in in-depth R&D and enhancement on its mushrooms products while modified its nuts products. Currently, the Group has delved into the back-end of TRLC’s products, along with strategic partnerships with the factories. In the second half of 2020, the Group will carry out strategic cooperation on the supply chain of mushrooms products.

### *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. The Group deployed to launch trading business for various types of goods other than lottery products 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*

The one-two punch from COVID-19 pandemic and policy adjustment dragged down the sales of China’s lottery in 2019. The lottery industry was in the hardest time with sales tumbled in the first half of 2020.

In the past two years, Chinese lottery has been shifting from simply pursuing sales volume and speed to quality and overall social benefits, with special emphasis on building up and carrying out responsible lottery so as to foster a healthy ecosystem.

There is a need for timely adjusted policies with considerable incentives against the backdrop of drastic drop in the public welfare fund, illegal lottery and online gambling were everywhere, mobile games went viral, and normalization of the COVID-19 pandemic. Lottery is born best for paperless, electronic, dispersed and mobile consumption. Internet and mobile lotteries are the irreversible trend. Transformation of the existing physical lottery stores through artificial intelligence and new retail would be a powerful tool for enhancing user experience and developing new stratum of lottery players across the whole industry.

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, core systems, gaming products, lottery security, among others, making contribution to the development of a responsible, reliable, healthy and sustainable China's lottery ecosystem. The Group will foster the internationalization of lottery while rooting in China, continue to explore and innovate a more diverse business model.

### ***Financial Review***

In the first half of 2020, the Group recorded a turnover of approximately HK\$45.1 million (the first half of 2019: HK\$84.6 million), representing a decrease of approximately 46.7% over the same period of last year. The decrease in revenue for the first half of 2020 was caused by a decrease in sales of lottery terminals and related equipment of approximately HK\$22.3 million and a decrease of approximately HK\$15.1 million in revenue from lease income from operating leases. As a result of the COVID-19 pandemic, several provinces' Sports Lottery tendering processes have been slowing down which brought negative impact to the sales of the Group's lottery equipment. Moreover, the record long market closure of 49-day shutdown of lottery market in China has caused severe delay in the delivery of the Group's products and services to its customers. The decrease in lease income from operating leases was in line with the decline in the lottery sales due to the COVID-19 pandemic. Loss attributable to owners of the Company for the first half of 2020 amounted to approximately HK\$70.4 million (the first half of 2019: HK\$57.9 million).

### **Liquidity, Financial Resources, Gearing Ratio and Capital Structure**

At 30 June 2020, the Group had net current liabilities of approximately HK\$211.5 million (at 31 December 2019: HK\$168.1 million). The management of the Group considers the liquidity position of the Group is sufficient to operate as a going concern in the foreseeable future as the Group maintains a healthy financial position as of 30 June 2020 with cash and cash equivalents and net assets value of approximately HK\$53.9 million and HK\$456.8 million respectively. The management of the Group has given consideration to the following steps taken which expected to strengthen the Group's financial position:

- (1) The Group has been actively negotiating with banks to secure the renewals of the banking facilities granted to the Group;
- (2) The Group has agreed with the investor for the extension of existing convertible bonds as disclosed in this report and will consider further financing when necessary including but not limited to equity financing to improve the liquidity of the Group;
- (3) The Group has taken measures to tighten its cost control over general and administrative expenses; and
- (4) The Group is awaiting the outcome of the final judgement of a civil action against CLO claiming the compensation from CLO for the continued use of terminals after the expiry of the supply contract with DGTY. The first judgement delivered by the 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 with relevant interest.

The Group believes that it has adequate financial resources to fund its capital and operating requirements. The Group had outstanding bank borrowings as at 30 June 2020 of approximately HK\$242.5 million (at 31 December 2019: HK\$245.5 million). As at 30 June 2020, the bank borrowings and banking facilities of the Group were secured by (i) owned and investment properties and related leasehold land of the Group with a carrying amount of approximately HK\$150.2 million (at 31 December 2019: HK\$151.6 million); and (ii) a personal guarantee executed by a director of the Company (at 31 December 2019: a personal guarantee executed by a director of the Company).

At 1 January 2020, 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\$2 each. On 28 April 2020, the Company and the holders of New Option 1 Bonds entered into the third supplemental trust deed to extend the maturity date from 7 November 2020 to 7 November 2021. Repayments will be in three instalments: (i) 15% of the principal amount outstanding on 7 November 2020; (ii) 15% of the principal amount outstanding on 7 May 2021; and (iii) remaining of the principal amount outstanding on the maturity date on 7 November 2021.

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 2020, 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\$456.8 million at 30 June 2020 (at 31 December 2019: HK\$531.5 million). At 30 June 2020, net current liabilities of the Group amounted to approximately HK\$211.5 million (at 31 December 2019: HK\$168.1 million), including approximately HK\$53.9 million in cash and deposits with banks and financial institutions (at 31 December 2019: HK\$64.7 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 30 June 2020 was approximately 56.8% (at 31 December 2019: 50.8%).

### ***Exposure to Exchange Rates Fluctuation***

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 2020, the Group’s owned and investment properties and related leasehold land at net book value of approximately HK\$150.2 million (at 31 December 2019: HK\$151.6 million) were pledged to banks to secure the bank borrowings granted to the Group.

### ***Contingent Liabilities***

At 30 June 2020, the Group did not have any material contingent liabilities (at 31 December 2019: Nil).

### **STAFF**

As at 30 June 2020, the Group employed 254 staff (2019: 249). 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 2020, there were options for 1,160,000 shares of HK\$0.025 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 2020:

	Date of grant	Exercise price per Share <i>HK\$</i>	Exercise period from until		No. of Shares under the options					held as at the end of the period
					held as at the beginning of the period	granted during the period	exercised during the period	cancelled during the period	lapsed during the period	
<b>(i) Name of Director</b>										
Ms. CHAN Tan Na, Donna	19/01/2018	1.72	20/01/2019	19/01/2020	600,000	-	-	-	(600,000)	-
Mr. WU Jingwei	19/01/2018	1.72	20/01/2019	19/01/2020	600,000	-	-	-	(600,000)	-
Mr. LI Zi Kui	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	20/01/2019	19/01/2020	5,000	-	-	-	(5,000)	-
Mr. CHAN Ming Fai	19/01/2018	1.72	20/01/2019	19/01/2020	5,000	-	-	-	(5,000)	-
Mr. CUI Shuming	19/01/2018	1.72	20/01/2019	19/01/2020	5,000	-	-	-	(5,000)	-
<b>(ii) Continuous Contract Employees</b>	19/01/2018	1.72	20/01/2019	19/01/2020	3,450,000	-	-	-	(3,450,000)	-
<b>(iii) Other Participants</b>	29/10/2014	8.40	29/10/2017	28/10/2020	1,160,000	-	-	-	-	1,160,000
	19/01/2018	1.72	20/01/2019	19/01/2020	2,500,000	-	-	-	(2,500,000)	-
	08/01/2019	0.80	09/01/2019	08/01/2020	10,000,000	-	-	-	(10,000,000)	-
<b>Total:</b>					<u>18,925,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(17,765,000)</u>	<u>1,160,000</u>

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

As at 30 June 2020, 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
Ms. CHAN Tan Na, Donna	4,620,000 (L)	0.46% (L)
Mr. WU Jingwei	8,220,000 (L)	0.82% (L)
Mr. LI Zikui	2,800,000 (L)	0.28% (L)
Ms. ZHU Xinxin	1,850,000 (L)	0.18% (L)
Mr. HUANG Shenglan	110,000 (L)	0.01% (L)
Mr. CUI Shuming	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 2020, 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 2020, 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 2020, 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***

<b>Name of Shareholder</b>	<b>Number of Shares</b>	<b>Approximate percentage of the Company's issued share capital</b>
Ms. LAU Ting	188,479,410 (L) <i>(Note 1)</i>	18.31% (L)
Mr. CHAN Shing	188,479,410 (L) <i>(Note 1)</i>	18.31% (L)
BFAM Partners (Cayman) Limited	73,250,000 (L) <i>(Note 2)</i>	7.12% (L)
Fuchs Benjamin Aaron	73,250,000 (L) <i>(Note 2)</i>	7.12% (L)
Tencent Holdings Limited	59,403,451 (L) <i>(Note 3)</i>	5.77% (L)
Favor King Limited	51,249,259 (L) <i>(Note 1)</i>	4.98% (L)

*Notes:*

1. 91,509,437 shares were held by Ms. LAU Ting as beneficial interests. 24,248,642 shares were held by Mr. CHAN Shing as beneficial interests. 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 interest of each of Ms. LAU Ting and Mr. CHAN Shing were deemed to be the interest of each.
2. These are the same lot of interest. Those are derivative interests.
3. Held as corporate interest.
4. The letter "L" denotes long position(s).

Save as disclosed above, as at 30 June 2020, 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 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 2020.

## **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 2020 have been reviewed by the Audit Committee.

## SALE OF PROPERTY

At 18 June 2020, Wide Perfect Limited, an indirect wholly-owned subsidiary of the Company entered into a provisional agreement for sale and purchase to sell a property for a consideration of HK\$44,380,000. Completion of the sale of property has taken place on 18 August 2020.

## 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 2020, 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.

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 2020.

On behalf of the Board  
**CHAN Tan Na, Donna**  
*Chairperson*

Hong Kong, 27 August 2020

*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.*