

2017 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 2017, together with the comparative unaudited figures for the corresponding periods in 2016, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Unaudited Six months ended 30 June	
		2017 HK\$'000	2016 HK\$'000
Turnover	2	99,062	96,646
Costs of sales and services	3	(52,533)	(106,355)
Gross profit/(gross loss)		46,529	(9,709)
Other income	4	6,837	6,224
Other gains – net	5	24,815	8,591
General and administrative expenses		(94,670)	(130,662)
Share option expenses		(8,958)	(9,861)
Operating loss	6	(25,447)	(135,417)
Finance costs	7	(17,616)	(29,313)
Share of loss of a joint venture		(2,276)	(1,436)
Loss before income tax		(45,339)	(166,166)
Income tax expense	8	(15,815)	(3,182)
Loss for the period		(61,154)	(169,348)
Loss attributable to:			
Owners of the Company		(60,667)	(127,825)
Non-controlling interests		(487)	(41,523)
		(61,154)	(169,348)
Loss per share attributable to owners of the Company for the period			
– basic	9	(0.71) HK Cent	(1.49) HK Cents
– diluted	9	(0.71) HK Cent	(1.49) HK Cents

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

	Unaudited	
	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Loss for the period	(61,154)	(169,348)
Other comprehensive expense for the period	<u>—</u>	<u>—</u>
Total comprehensive expense for the period	<u>(61,154)</u>	<u>(169,348)</u>
Attributable to:		
Owners of the Company	(60,667)	(127,811)
Non-controlling interests	<u>(487)</u>	<u>(41,537)</u>
Total comprehensive expense for the period	<u>(61,154)</u>	<u>(169,348)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Unaudited As at 30 June 2017 HK\$'000	Audited As at 31 December 2016 HK\$'000
Non-current assets			
Property, plant and equipment		317,866	336,481
Intangible assets		453,399	457,183
Investment in an associate		4,460	4,460
Investment in a joint venture		25,839	28,115
Available-for-sale financial assets		6,549	7,056
Deferred income tax assets		8,402	9,039
		<u>816,515</u>	<u>842,334</u>
Current assets			
Inventories		40,379	24,687
Accounts receivable	10	108,298	77,370
Prepayments, deposits and other receivables		597,884	591,232
Financial assets at fair value through profit or loss		26,370	315,090
Cash and bank balances		165,366	374,575
		<u>938,297</u>	<u>1,382,954</u>
Total assets		<u>1,754,812</u>	<u>2,225,288</u>
Current liabilities			
Accounts and bills payable	11	8,362	5,736
Accruals and other payables		39,076	39,132
Amount due to a joint venture		7,908	7,919
Tax payable		5,448	9,477
Bank borrowings		176,755	313,378
		<u>237,549</u>	<u>375,642</u>
Net current assets		<u>700,748</u>	<u>1,007,312</u>
Total assets less current liabilities		<u>1,517,263</u>	<u>1,849,646</u>

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

		Unaudited As at 30 June 2017 HK\$'000	Audited As at 31 December 2016 HK\$'000
	<i>Notes</i>		
Non-current liabilities			
Convertible bonds	12	279,797	521,520
Deferred income tax liabilities		48,927	55,206
		328,724	576,726
Net assets		1,188,539	1,272,920
Equity attributable to owners of the Company			
Share capital	13	21,388	21,388
Reserves	14	1,328,002	1,352,856
Accumulated losses		(498,970)	(439,661)
		850,420	934,583
Non-controlling interests		338,119	338,337
Total equity		1,188,539	1,272,920

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited Six months ended 30 June 2017 Attributable to owners of the Company				
	Share capital HK\$'000	Reserves HK\$'000	Accumulated losses HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
Balance as at 1 January 2017	21,388	1,352,856	(439,661)	338,337	1,272,920
Comprehensive expense					
Loss for the period	-	-	(60,667)	(487)	(61,154)
Other comprehensive (expenses)/ income:					
Release of revaluation reserve upon depreciation of leasehold land and building	-	(121)	121	-	-
Currency translation differences	-	(269)	-	269	-
Total other comprehensive (expenses)/income	-	(390)	121	269	-
Total comprehensive expenses	-	(390)	(60,546)	(218)	(61,154)
Share option scheme:					
- value of employee services	-	4,529	-	-	4,529
- value of other participants' services	-	4,429	-	-	4,429
- vested share options expired	-	(2,600)	2,600	-	-
Reversal of deferred tax previously recognised on equity component of convertible bonds	-	9,957	-	-	9,957
Redemption of convertible bonds	-	(43,740)	(1,363)	-	(45,103)
Recognition of equity component of convertible bonds	-	2,961	-	-	2,961
Total contributions by and distributions to owners of the Company, recognised directly in equity	-	(24,464)	1,237	-	(23,227)
Balance as at 30 June 2017	21,388	1,328,002	(498,970)	338,119	1,188,539

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

	Unaudited Six months ended 30 June 2016				
	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 2016	21,330	1,433,762	(143,334)	505,610	1,817,368
Comprehensive expenses					
Loss for the period	–	–	(127,825)	(41,523)	(169,348)
Other comprehensive (expenses)/ income:					
Release of revaluation reserve upon depreciation of leasehold land and building	–	(121)	121	–	–
Currency translation differences	–	14	–	(14)	–
Total other comprehensive (expenses)/income	–	(107)	121	(14)	–
Total comprehensive expenses	–	(107)	(127,704)	(41,537)	(169,348)
Share option scheme:					
– value of employee services	–	5,433	–	–	5,433
– value of other participants' services	–	4,429	–	–	4,429
– share options exercised	58	4,614	–	–	4,672
– vested share options expired	–	(1,378)	1,378	–	–
Disposal of a subsidiary	–	–	–	(2,098)	(2,098)
Total contributions by and distributions to owners of the Company, recognised directly in equity	58	13,098	1,378	(2,098)	12,436
Balance as at 30 June 2016	<u>21,388</u>	<u>1,446,753</u>	<u>(269,660)</u>	<u>461,975</u>	<u>1,660,456</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Operating cash flows before changes in working capital	(26,111)	(93,888)
Changes in working capital	(50,714)	(213,642)
Income tax (paid)/refunded	(15,529)	1,457
	<hr/>	<hr/>
Net cash used in operating activities	(92,354)	(306,073)
Net cash generated from investing activities	433,351	473,518
Net cash used in financing activities	(425,632)	(57,215)
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Net (decrease)/increase in cash and cash equivalents	(84,635)	110,230
Cash and cash equivalents at beginning of the period	250,001	517,116
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	165,366	627,346
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances including time deposits	165,366	664,195
Less: Pledged bank deposits	–	(36,849)
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	165,366	627,346
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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 2016.

The directors of the Company made an assessment as of the date of initial application of amended Hong Kong Financial Reporting Standard ("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 2017. The adoption of such standards, amendments and interpretations did not have material effect on these financial statements.

2. TURNOVER AND SEGMENT INFORMATION

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

	Unaudited	
	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Turnover		
Income from provision of lottery terminals and lottery sale channels	59,234	57,188
Income from sales of equipment	39,394	39,030
Income from provision of consultancy services	434	428
	<u>99,062</u>	<u>96,646</u>

2. TURNOVER 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 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	
	2017	2016
	HK\$'000	HK\$'000
People's Republic of China ("PRC")	95,801	96,646
Cambodia	3,261	–
	<u>99,062</u>	<u>96,646</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	
	2017	2016
	HK\$'000	HK\$'000
Depreciation of lottery terminals	13,765	66,175
Business tax	736	101
Cost of inventories recognised as expense	26,539	33,013
Repairs and maintenance	557	3,133
Commission and handling charges	–	544
Others	10,936	3,389
	<u>52,533</u>	<u>106,355</u>

**4. OTHER INCOME**

	Unaudited Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Interest income from bank deposits and others	6,837	6,224

5. OTHER GAINS – NET

	Unaudited Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Fair value gain on financial assets at fair value through profit or loss	12,576	12,691
Loss on initial recognition of convertible bonds	(48,450)	–
Fair value gain on embedded derivatives of convertible bonds	42,400	–
Gain on redemption of convertible bonds	19,882	–
Impairment of available-for-sale financial assets	(507)	(2,858)
Gain/(Loss) on disposal of property, plant and equipment	14	(1)
Loss on disposal of a subsidiary	–	(185)
Foreign exchange losses	(1,100)	(1,056)
	24,815	8,591

6. OPERATING LOSS

	Unaudited Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Operating loss is stated after charging:		
Staff costs (excluding share options expenses)	64,533	74,725
Depreciation of other items of property, plant and equipment	5,823	6,035

7. FINANCE COSTS

	Unaudited	
	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Interest expenses on bank borrowings	1,922	6,146
Interest expenses on convertible bonds	15,694	23,167
	<u>17,616</u>	<u>29,313</u>

8. INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Current tax		
– PRC Enterprise Income Tax	11,499	6,395
Deferred tax		
– Origination and reversal of temporary differences	4,316	(3,213)
	<u>15,815</u>	<u>3,182</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 2017 (2016: 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 8,555,307,333 (2016: 8,540,161,729) ordinary shares in issue during the year.

The computation of diluted loss per share for the six months ended 30 June 2017 and 2016 did not assume the conversion of convertible bonds and the exercise of share options since their conversion and exercise would reduce the loss per share.

10. ACCOUNTS RECEIVABLE

Ageing analysis of accounts receivable is as follows:

	Unaudited As at 30 June 2017 HK\$'000	Audited As at 31 December 2016 HK\$'000
Less than three months	42,273	10,331
Over three months but less than one year	3,491	2,716
Over one year	<u>62,534</u>	<u>64,323</u>
	<u>108,298</u>	<u>77,370</u>

11. ACCOUNTS AND BILLS PAYABLE

Ageing analysis of accounts and bills payable is as follows:

	Unaudited As at 30 June 2017 HK\$'000	Audited As at 31 December 2016 HK\$'000
Less than three months	5,770	2,837
Over three months but less than one year	173	475
Over one year	<u>2,419</u>	<u>2,424</u>
	<u>8,362</u>	<u>5,736</u>

12. CONVERTIBLE BONDS

	5% convertible bonds due 2019 HK\$'000	7.5% convertible bonds due 2019 HK\$'000	7.5% convertible bonds due 2019 – embedded derivatives HK\$'000	8% convertible bonds due 2019 HK\$'000	Total HK\$'000
Balance as at 1 January 2017	521,520	–	–	–	521,520
Interest charge of 5% convertible bonds due 2019	10,058	–	–	–	10,058
Interest paid of 5% convertible bonds due 2019	(6,799)	–	–	–	(6,799)
Redemption of 5% convertible bonds due 2019 via exchange offer and exercise of put option by bondholders	(524,779)	–	–	–	(524,779)
Issuance of convertible bonds under exchange offer	–	175,950	–	100,000	275,950
Adjustment to the fair value of the 7.5% convertible bonds due 2019 at the date of issuance	–	(3,850)	52,300	–	48,450
Recognition of equity component of 8% convertible bonds due 2019 at the date of issuance	–	–	–	(2,961)	(2,961)
Interest charge of 7.5% and 8% convertible bonds due 2019	–	3,457	–	2,179	5,636
Interest paid of 7.5% and 8% convertible bonds due 2019	–	(3,037)	–	(1,841)	(4,878)
Change in fair value of the embedded derivatives	–	–	(42,400)	–	(42,400)
Balance as at 30 June 2017	–	172,520	9,900	97,377	279,797



12. CONVERTIBLE BONDS (CONT'D)

On 8 April 2014, the Company entered into a subscription agreement (the "Subscription Agreement") to issue 5% convertible bonds due 2019 of up to an aggregate principal amount of HK\$780,000,000 (the "5% Convertible Bonds"). On 17 April 2014, the issuance of the 5% Convertible Bonds in the principal amount of HK\$580,000,000 was completed. On 2 May 2014, the issuance of the 5% Convertible Bonds in aggregate principal amount of HK\$70,000,000 was completed pursuant to an option under the Subscription Agreement being partially exercised before the closing date of the option, bringing the total issue size of the 5% Convertible Bonds to HK\$650,000,000 in principal amount. The 5% Convertible Bonds are denominated in Hong Kong dollar and listed on the Stock Exchange. The 5% Convertible Bonds entitle the holders to convert them into the paid ordinary shares of HK\$0.0025 each (the "Shares") of the Company at any time on or after 28 May 2014 up to the close of business on the 7th day prior to 17 April 2019 (the "Maturity Date") at an initial conversion price of HK\$0.93 per ordinary share (subject to adjustment). The conversion price of the 5% Convertible Bonds was adjusted to HK\$0.92 per share with effect from 6 June 2015. If the 5% Convertible Bonds had not been converted, they would be redeemed on Maturity Date at par. Interest of 5% will be payable semi-annually in arrear.

The 5% Convertible Bonds contained two components, equity and liability elements. The equity element was presented in equity heading "convertible bond equity reserve". The effective interest rate of the liability component was approximately 7.59% per annum. On 29 November 2016, the Company repurchased a principal amount of HK\$100,000,000 of the 5% Convertible Bonds on the Stock Exchange. At 31 December 2016, the principal amount of the 5% Convertible Bonds outstanding was HK\$550,000,000 and the balance of liability component amounted to approximately HK\$521,520,000.

On 10 March 2017, the Company announced proposed offer to exchange all outstanding 5% Convertible Bonds for a combination of cash and issuance of new convertible bonds under general mandate. Such exchange offer was completed on 7 April 2017. The 5% Convertible Bonds in the amount of HK\$506,000,000 had been cancelled and exchanged for: (i) 7.5% convertible bonds due 2019 in the aggregate principal amount of HK\$175,950,000 (the "7.5% Convertible Bonds"); (ii) 8% convertible bonds due 2019 in the aggregate principal amount of HK\$100,000,000 (the "8% Convertible Bonds"); and (iii) cash consideration in the amount of HK\$230,050,000. By 17 March 2017, put option notices in relation to the 5% Convertible Bonds in the remaining principal amount of HK\$44,000,000 were received by the relevant paying agent of the Company. According to the terms and condition of the 5% Convertible Bonds, the Company had redeemed and cancelled the remaining 5% Convertible Bonds in the principal amount of HK\$44,000,000 at their principal amount together with any interest accrued but unpaid, being HK\$1,096,986.44 on 18 April 2017 off exchange and that there is no outstanding 5% Convertible Bonds remained in issue thereafter. The withdrawal of the listing of the 5% Convertible Bonds had become effective from the close of business on 25 April 2017.

12. CONVERTIBLE BONDS (CONT'D)

The 7.5% Convertible Bonds shall be convertible into the Shares of the Company at an initial conversion price of HK\$0.288 each. The 8% Convertible Bonds shall be convertible into the Shares of the Company at an initial conversion price of HK\$0.92 each. The 7.5% Convertible Bonds and the 8% Convertible Bonds entitle the holders to convert them into the Shares of the Company at any time on or after 18 May 2017 up to the close of business on the 7th day prior to 7 April 2019 (the "New Maturity Date"). If the 7.5% Convertible Bonds have not been converted, they will be redeemed on New Maturity Date at par. If the 8% Convertible Bonds have not been converted, they will be redeemed on New Maturity Date at 104.37%. Interests of 7.5% and 8% will be payable quarterly in arrear.

The 7.5% Convertible Bonds contains two components, fair value of the embedded derivatives and liability. Fair value of the embedded derivatives contains value of conversion price reset, puttable option and conversion features. The value of liability component of HK\$172,100,000 and the embedded derivatives of HK\$52,300,000 were determined at the date of issuance by an independent qualified valuer. The effective interest rate of the liability component is approximately 9% per annum. At 30 June 2017, the fair value of embedded derivatives of HK\$9,900,000 was determined by an independent qualified valuer.

The 8% Convertible Bonds contains two components, equity and liability elements. The equity elements is presented in equity heading "convertible bond equity reserve". The effective interest rate of the liability component is approximately 10% per annum.

13. SHARE CAPITAL

	Unaudited Authorised ordinary shares of HK\$0.0025 each	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2017 and 30 June 2017	16,000,000,000	40,000

	Unaudited Issued and fully paid ordinary shares of HK\$0.0025 each	
	<i>Number of shares</i>	<i>HK\$'000</i>
At 1 January 2017 and 30 June 2017	8,555,307,333	21,388

14. RESERVES

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

	Unaudited Six months ended 30 June 2016							Total HK\$'000
	Share premium HK\$'000	Convertible bond equity reserve HK\$'000	Capital reserve HK\$'000	Currency translation reserve HK\$'000	Share-based compensation reserve HK\$'000	Revaluation reserve HK\$'000		
Balance as at 1 January 2016	1,287,179	39,925	15,158	(20,925)	101,797	10,628	1,433,762	
Share option scheme:								
– value of employee services	-	-	-	-	5,433	-	5,433	
– value of other participants' services	-	-	-	-	4,429	-	4,429	
– share options exercised	8,128	-	-	-	(3,514)	-	4,614	
– vested share options expired	-	-	-	-	(1,378)	-	(1,378)	
Release of revaluation reserve upon depreciation of leasehold land and building	-	-	-	-	-	(121)	(121)	
Currency translation differences – overseas subsidiaries	-	-	-	14	-	-	14	
Balance as at 30 June 2016	1,295,307	39,925	15,158	(20,911)	106,767	10,507	1,446,753	

15. OPERATING LEASE COMMITMENTS

As at 30 June 2017, 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 2017 HK\$'000	Audited As at 31 December 2016 <i>HK\$'000</i>
Within one year	13,341	17,434
In the second to fifth years inclusive	24,065	25,340
Over five years	24,321	26,314
	<hr/> 61,727 <hr/>	<hr/> 69,088 <hr/>

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2017 (2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

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

China's Lottery Market

According to figures published by the Ministry of Finance ("MOF"), China's lottery market continued to grow in the first half of 2017, with total lottery sales of RMB205.03 billion, representing a year-on-year ("YOY") growth of 5.5%. Welfare Lottery sales rose 3.7% YOY to RMB106.11 billion, whereas Sports Lottery sales up 7.6% YOY to RMB98.92 billion. Lotto, which is the industry's main source of revenue, recorded 5.8% YOY sales growth, accounting for 62.5% of total lottery sales. Single Match Games ("SMG") sales surged 14.7% YOY, accounting for 19.8% of total lottery sales. VLT sales grew 4.3% YOY, accounting for 11.3% of total lottery sales. Paper-based Scratch Card sales and KENO sales declined by 15.3% YOY and 37.1% YOY and accounted for 6.3% and 0.1% of total lottery sales respectively. "Sports Betting" (竞彩) accounted for 18.0% of lottery sales, exceeding the sales of "Union Lotto" (雙色球) and becoming the single top selling lottery type.

Business Review and Outlook

Video Lottery Business

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

As a technology-rich product, Welfare VLT plays a vital role in China’s lottery industry. The Group is the exclusive terminal equipment provider for Welfare VLT. Welfare VLT was one of the driving forces of nationwide Welfare Lottery, with its sales increased by 4.3% YOY to RMB23.07 billion, and accounted for 11.3% of the nation’s total lottery sales in the first half of 2017.

Dongguan Tianyi Electronic Company Limited (“DGTY”), a subsidiary of the Group, has been the supplier of Welfare VLT terminal for 14 years since 2003. It has unique and unmatched experience, capabilities and qualification given its continual investment in Welfare VLT terminal manufacturing and R&D. The terminal developed and manufactured by DGTY is the only Welfare VLT terminal approved and confirmed by all three ministries including the MOF, the Ministry of Public Security and the Ministry of Civil Affairs. DGTY has made three generations of Welfare VLT terminal replacements and upgrades in the last 14 years, supplying a total number of over 70,000 units of terminals. For the six months ended 30 June 2017, approximately 41,500 units of the third-generation terminals have been placed in over 2,000 Welfare VLT halls across 28 provinces, cities, autonomous regions and municipalities in China, supporting the entire Welfare VLT sales nationwide.

DGTY’s Welfare VLT supply contract expired on 28 June 2015. According to the supply contract agreed by both parties, DGTY has the full ownership of the approximately 41,500 units of terminals generating all the sales of Welfare VLT, and has first right of refusal in the renewal of the Welfare VLT supply contract. DGTY has not received notification from China Welfare Lottery Issuance and Administration Centre (“CWLC”) regarding a suspension of Welfare VLT sales after the expiry of the supply contract. The Group decided to maintain the Welfare VLT terminals it provided in fully operational condition, so as to support the sustained and healthy growth as well as the distribution of Welfare VLT. According to legally binding documents that the Group sent to CWLC and Beijing China Lottery Online Technology Company Limited (“CLO”), the Group shall be paid for the provision of these terminals for Welfare VLT’s continued use after the expiry of the supply contract. The Group is striving willfully to achieve its goal and reserves all its rights to protect its lawful interests. It is the genuine wish of the Group to continue to supply terminals and related services for Welfare VLT to ensure its steady, consistent and rapid growth, and contribute to the China lottery business as a whole.

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 of approximately RMB6.85 billion in the first half of 2017. The Group is also responsible for the development of new high-frequency games for Guangdong Welfare Lottery, the pilot project in Shantou has already been launched. Chongqing Welfare Lottery CTG and Shanghai Welfare Lottery CTG, both are served by the Group, recorded sales of approximately RMB1.47 billion and RMB1.74 billion respectively. Shanghai Welfare Lottery's new generation lottery information management system, developed by the Group, has been launched with features such as information management, sales data analysis and consumables parts management, other issuing and managing features would be rolled out gradually, providing technical means for Shanghai Welfare Lottery to move into electronic management.

The Group's Sports Lottery CTG terminal business grew at a robust pace in 2017. The Group successively won bids for the Sports Lottery CTG terminal procurement programmes of Sichuan, Henan, Heilongjiang and others, expanding its business to 17 provinces, with a total order number of over 3,000 units of terminals. In the second half of this year, the Group will leverage its unique technology and product advantages to earn business from more provinces. At the same time, the Group will continue to maintain and extend its collaboration with domestic and international terminal manufacturers to provide core components, including lottery terminals and scanners etc.

In the first half of 2017, the CTG business in Cambodia, in collaboration with Khmer Pool Welfare Lottery Co., Ltd, posted a steady growth and recorded encouraging sales. At the same time, automatic accounts settlement would be implemented in a short time span, while mobile lottery applications are well prepared for online sales. The parties are extending their collaboration to jointly develop mobile and internet lottery business in Cambodia with an objective to bring players more convenient betting service. A new generation CTG system, for National Sports Lottery Company Limited in Cambodia, developed by the Group, has been rolled out in August this year.

New Media Lottery Business

China is entering the era of “Internet Plus”, where extensive use of technology has brought great impact on the development of various industries. Development challenge facing the traditional lottery, which requires reformation and innovation. “New technology, new product and new channel” would be the key drivers of the China’s lottery development. In light of current situation and tasks, China Welfare Lottery and Sports Lottery authorities introduced the requirements for new development and encourage innovation and scientific development, fostering new formats of lottery market in China.

Under these new circumstances, the Group will continue to work closely with all levels of lottery authorities to conduct innovation and exploration of new products. New products aimed to achieve breakthroughs in enhanced accessibility and user experience, and applied hotspot technologies such as mobile internet, artificial intelligence and big data, which is unmatched in terms of both product concept and technologies. Meanwhile, the Group is working with related enterprises on cross-sectors promotion, so as to expand its business into the huge market consists of white-collar players.

The Group is poised to fill the void brought by lottery market reformation, advancing traditional lottery to a new generation by applying “Internet Plus” technologies, shaping a new industry form, exploring another group of players as well as tapping and meeting the needs of different groups of players. The Group will accelerate its pace of innovation, eyeing to be the leading brand in the industry and open up more business opportunities.

Conclusion

Looking forward, China’s annual lottery sales is expected to exceed RMB500 billion, synchronizing with its economic growth, while the total lottery sales will exceed RMB2,000 billion during the 13th Five-Year Plan period. There is enormous potential in China’s lottery market, while sustaining the healthy development of traditional lotteries, there is mounting demand to breathe new life into the sector by developing new channels and new games.

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



As a leading market participant, the Group has showed its dedication to the lottery industry for over a decade with extensive investment, accountability and responsiveness, and has accumulated substantial amount of resources in government relations, technologies and customers. Meanwhile, the Group actively shapes its strategies and execution in response to the prevalent industry development and norm, following closely to the pace of sector development. In order to contribute its share to the development of a sound China's lottery ecosystem, the Group is exploring actively into the areas such as lottery games, gaming products, lottery security, supporting systems, operating systems and exploring new sales channels, among others.

Financial Review

In the first half of 2017, the Group recorded a turnover of approximately HK\$99.1 million (the first half of 2016: approximately HK\$96.6 million), representing an increase of approximately 2.6% over the same period of last year. Loss attributable to owners of the Company for the first half of 2017 amounted to approximately HK\$60.7 million (the first half of 2016: approximately HK\$127.8 million).

Financial assets at fair value through profit and loss comprised of various categories of securities, they include debt securities listed in Hong Kong and outside Hong Kong, listed equity securities in Hong Kong and outside Hong Kong and unlisted fund investments (the "Financial Assets"). All the Financial Assets are liquid stocks and the Group intends to hold them as short-term investments. The Group has its treasury investment policy in place for the purpose of provision of the authority and guidelines to the Directors and management to undertake investment of surplus funds for the prudent management and control of risk in their investment portfolios. The acquisitions of the Financial Assets were conducted for the purpose of treasury activities of the Group and in accordance with the treasury investment policy of the Group. All the Financial Assets were acquired from independent third parties of the Group. At 30 June 2017, the assets ratio of each of the Financial Assets did not exceed 5% (as defined in the Listing Rules). During the period under review, fair value gain on financial assets at fair value through profit and loss amounted to approximately HK\$12.6 million (the first half of 2016: approximately HK\$12.7 million). At 30 June 2017, financial assets at fair value through profit and loss amounted to approximately HK\$26.4 million, representing around 1.5% of the Group's total assets (at 31 December 2016: approximately HK\$315.1 million, representing around 14.2% of the Group's total assets).

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 2017, the Company had an outstanding corporate guarantee for unlimited amount for total banking facilities of property installment loans of approximately HK\$179.9 million (at 31 December 2016: HK\$153.7 million), an outstanding corporate guarantee limited to approximately HK\$17 million (at 31 December 2016: HK\$17 million) for a banking facility of a property installment loan of approximately HK\$17 million (at 31 December 2016: HK\$17 million), an outstanding corporate guarantee for unlimited amount for credit facilities of investment purpose of US\$7.5 million (at 31 December 2016: US\$7.5 million), and an outstanding corporate guarantee for unlimited amount for credit facilities of investment purpose of US\$5 million (at 31 December 2016: US\$5 million) and overdraft for liquidity purpose of US\$25 million (at 31 December 2016: US\$25 million).

The Group had outstanding bank borrowings at 30 June 2017 of approximately HK\$176.8 million (at 31 December 2016: HK\$313.4 million). At 30 June 2017, 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\$160.4 million (at 31 December 2016: HK\$162.2 million); (ii) bank deposits of Nil (at 31 December 2016: HK\$124.6 million); and (iii) financial assets of Nil (at 31 December 2016: HK\$300.1 million).

In 2014, the Company had issued 5% Convertible Bonds due 2019 in total aggregate principal of HK\$650 million. The 5% Convertible Bonds would be converted into the Shares of the Company at the applicable conversion price of HK\$0.92 each. The 5% Convertible Bonds bore interest at the rate of 5% per annum payable semi-annually in arrears. At 1 January 2017, outstanding principal of the 5% Convertible Bonds was HK\$550 million. On 10 March 2017, the Company announced proposed offer to exchange all outstanding 5% Convertible Bonds for a combination of cash and issuance of new convertible bonds under general mandate. Such exchange offer was completed on 7 April 2017. The 5% Convertible Bonds in the amount of HK\$506 million had been cancelled and exchanged for: (i) 7.5% Convertible Bonds due 2019 in the aggregate principal amount of HK\$175.95 million; (ii) 8% Convertible Bonds due 2019 in the aggregate principal amount of HK\$100 million; and (iii) cash consideration in the amount of HK\$230.05 million. The 7.5% Convertible Bonds shall be convertible into the Shares of the Company at an initial conversion price of HK\$0.288 each. The 8% Convertible Bonds shall be convertible into the Shares of the Company at an initial conversion price of HK\$0.92 each. By 17 March 2017, put option notices in relation to the 5% Convertible Bonds in the remaining principal amount of HK\$44 million were received by the relevant paying agent of the Company. According to the terms and condition of the 5% Convertible Bonds, the Company had redeemed and cancelled the remaining 5% Convertible Bonds in the principal amount of HK\$44 million at their principal amount together with any interest accrued but unpaid, being approximately HK\$1.1 million, on 18 April 2017 off exchange and that there is no outstanding 5% Convertible Bonds remained in issue thereafter. The withdrawal of the listing of the 5% Convertible Bonds had become effective from the close of business on 25 April 2017.

During the period under review, no 7.5% Convertible Bonds and 8% Convertible Bonds were converted into the Shares by the bondholders or redeemed by the Company. At 30 June 2017, the aggregate principal amount of the 7.5% Convertible Bonds and the 8% Convertible Bonds were HK\$275.95 million.

The Group's total equity amounted to approximately HK\$1,189 million at 30 June 2017 (at 31 December 2016: HK\$1,272.9 million). At 30 June 2017, net current assets of the Group amounted to approximately HK\$700.7 million (at 31 December 2016: HK\$1,007.3 million), including approximately HK\$165.4 million in cash and deposits with banks and financial institutions (at 31 December 2016: HK\$374.6 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 30 June 2017 was approximately 32.2% (at 31 December 2016: 42.8%).

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 2017, the Group's leasehold land and buildings at net book value of approximately HK\$160.4 million (at 31 December 2016: HK\$162.2 million) were pledged to banks to secure the bank borrowings granted to the Group. At 30 June 2017, the Group's cash deposits and financial assets at an aggregate carrying value of Nil (at 31 December 2016: HK\$424.7 million) were pledged to financial institutions to secure the credit facilities granted to the Group.

Contingent Liabilities

At 30 June 2017, the Group did not have any material contingent liabilities (at 31 December 2016: Nil).

Staff

As at 30 June 2017, the Group employed 319 staff (2016: 387). 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 2017, there were options for 833,025,000 shares of HK\$0.0025 each in the share capital of the Company granted by the Company pursuant to the share option scheme, as adopted by the shareholders of the Company on 18 May 2012 (the "2012 Option Scheme"), were valid and outstanding.



Movements of share options granted under the 2012 Option Scheme during the six months ended 30 June 2017:

	Date of grant	Exercise price per Share HK\$	Exercise period from until		No. of Shares under the options					
					held as at the beginning of the period	granted during the period	exercised during the period	cancelled during the period	lapsed during the period	held as at the end of the period
2012 Option Scheme										
(i) Name of Director										
Mr. WU Jingwei	14/07/2014	0.690	14/07/2017	13/07/2018	10,000,000	-	-	-	-	10,000,000
Ms. CHAN Tan Na, Donna	14/07/2014	0.690	14/07/2017	13/07/2018	10,000,000	-	-	-	-	10,000,000
Mr. LI Zi Kui	14/07/2014	0.690	14/07/2017	13/07/2018	5,000,000	-	-	-	-	5,000,000
Mr. HOONG Cheong Thard (Note 2)	14/07/2014	0.690	14/07/2017	13/07/2018	100,000	-	-	-	(100,000)	-
Mr. HUANG Shenglan	14/07/2014	0.690	14/07/2017	13/07/2018	100,000	-	-	-	-	100,000
Mr. CHAN Ming Fai	14/07/2014	0.690	14/07/2017	13/07/2018	100,000	-	-	-	-	100,000
Mr. CUI Shuming	14/07/2014	0.690	14/07/2017	13/07/2018	100,000	-	-	-	-	100,000
(ii) Continuous Contract Employees										
	14/07/2014	0.690	14/07/2017	13/07/2018	82,100,000	-	-	-	(2,500,000)	79,600,000
(iii) Other Participants										
	14/07/2014	0.690	14/07/2017	13/07/2018	75,525,000	-	-	-	-	75,525,000
	29/10/2014	0.840	29/10/2015	28/10/2018	46,000,000	-	-	-	-	46,000,000
	29/10/2014	0.840	29/10/2017	28/10/2020	11,600,000	-	-	-	-	11,600,000
	02/01/2015	0.600	02/01/2015	01/01/2017	40,000,000	-	-	-	(40,000,000)	-
	10/07/2015	0.400	10/07/2015	09/07/2017	170,000,000	-	-	-	-	170,000,000
	29/10/2015	0.460	29/10/2015	28/10/2017	425,000,000	-	-	-	-	425,000,000
Total:					<u>875,625,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(42,600,000)</u>	<u>833,025,000</u>

Notes:

- The options are recognised as expenses in the accounts in accordance with HKFRS 2.
- Mr. Hoong retired as director at the annual general meeting of the Company held on 1 June 2017.

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

As at 30 June 2017, 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 (the "Model Code") set out in Appendix 10 of the Listing Rules were as follows:

(1) Interests in the Shares of the Company

Name of Director	Number of Shares			Total	Approximate percentage of the Company's issued share capital
	Beneficial interests	Family interests	Corporate interests		
Ms. LAU Ting	266,974,373(L)	242,486,426(L)	727,213,326(L)	1,236,674,125(L) (Note 1)	14.46%(L)
Mr. WU Jingwei	82,200,000(L)	-	-	82,200,000(L)	0.96%(L)
Ms. CHAN Tan Na, Donna	40,000,000(L)	-	-	40,000,000(L)	0.47%(L)
Mr. LI Zikui	28,000,000(L)	-	-	28,000,000(L)	0.33%(L)
Mr. HUANG Shenglan	1,100,000(L)	-	-	1,100,000(L)	0.01%(L)
Mr. CUI Shuming	2,000,000(L)	-	-	2,000,000(L)	0.02%(L)



Notes:

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

(2) *Interests in the Underlying Shares of the Company*

As at 30 June 2017, 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 2017, 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 set out in Appendix 10 of the Listing Rules.

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

As at 30 June 2017, 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	
Mr. CHAN Shing	242,486,426(L)	266,974,373(L)	727,213,326(L)	1,236,674,125(L) (Note 1)	14.46%(L)
Tencent Holdings Limited	-	-	594,034,513(L)	594,034,513(L) (Note 2)	6.94%(L)
MIH TC Holdings Limited	-	-	594,034,513(L)	594,034,513(L) (Note 2)	6.94%(L)
Naspers Limited	-	-	594,034,513(L)	594,034,513(L) (Note 2)	6.94%(L)
BFAM Partners (Cayman) Limited	-	-	557,031,250(L)	557,031,250(L) (Note 3)	6.51%(L)
Fuchs Benjamin Aaron	-	-	557,031,250(L)	557,031,250(L) (Note 3)	6.51%(L)
Favor King Limited	-	-	512,492,594(L)	512,492,594(L) (Note 1)	5.99%(L)



Notes:

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

Save as disclosed above, as at 30 June 2017, there was no person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

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

Save as the redemption of the 5% Convertible Bonds mentioned above, 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 2017.

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 2017 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 2017, except for the deviations as disclosed below:

The Chairperson of the Company, Ms. LAU Ting, 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. HOONG Cheong Thard, Ms. LAU Ting and Mr. HUANG Shenglan were absent from the 2017 annual general meeting of the Company as is stipulated in Code provision A.6.7 and E.1.2 respectively due to their 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 Model Code set out in Appendix 10 of the Listing Rules as its code of conduct for dealings in securities of the Company by the Directors (the "Code of Conduct"). Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the Code of Conduct during the six months ended 30 June 2017.

On behalf of the Board
LAU Ting
Chairperson

Hong Kong, 30 August 2017

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