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REXLot Holdings Limited

御泰中彩控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 555)

SUPPLEMENTAL ANNOUNCEMENT

Reference is made to the interim results announcement dated 31 August 2018 (the “**Interim Results Announcement**”) and the interim report published on 27 September 2018 (the “**Interim Report**”) for the six months ended 30 June 2018 of REXLot Holdings Limited (the “**Company**”). Unless the context requires otherwise, capitalized terms used herein shall have the same meanings as those defined in the Interim Results Announcement and the Interim Report.

The Company would like to provide the following supplemental information in respect of the Interim Results Announcement and the Interim Report.

FURTHER INFORMATION IN RELATION TO THE CONDENSED CONSOLIDATED INCOME STATEMENT

1. Other income

The Company recorded other income of approximately HK\$13,902,000 during the six months ended 30 June 2018, as compared to approximately HK\$7,355,000 during the same period in 2017. The increase was mainly due to the increase in interest income from bank fixed deposits. During the six months ended 30 June 2018, the Group recorded interest income from bank fixed deposits of approximately HK\$9,193,000 (six months ended 30 June 2017: Nil) and from other bank deposits of approximately HK\$71,000 (six months ended 30 June 2017: approximately HK\$204,000). The effective interest rates for the fixed deposits were in the range of 1.2% p.a. to 2% p.a..

During the six months ended 30 June 2018, the Group also recorded loan interest income of approximately HK\$2,436,000 (six months ended 30 June 2017: approximately HK\$3,464,000) and sundry income of approximately HK\$2,202,000 (six months ended 30 June 2017: approximately HK\$1,768,000). The Company received no rental income from sub-letting of rented premises during the six months ended 30 June 2018, as compared to approximately HK\$1,919,000 during the same period in 2017.

2. Administrative expenses

The Company recorded administrative expenses of approximately HK\$159,715,000 during the six months ended 30 June 2018, as compared to approximately HK\$147,220,000 during the six months ended 30 June 2017. The increase in administrative expenses was mainly due to the increase of general operating costs in China and the increase in research and development expenses.

As disclosed in the Company's circular dated 25 April 2018, the Company reserved funds for development of paperless lottery platform. The Company spent approximately HK\$49 million on research and development during the six months ended 30 June 2018 (six months ended 30 June 2017: Nil). During the six months ended 30 June 2018, the Group incurred other administrative expenses of approximately HK\$111 million (six months ended 30 June 2017: approximately HK\$131 million). These other administrative expenses include salary and employment benefit of approximately HK\$29 million (six months ended 30 June 2017: approximately HK\$32 million), business development and marketing costs of approximately HK\$19 million (six months ended 30 June 2017: approximately HK\$23 million), rental of approximately HK\$8 million (six months ended 30 June 2017: approximately HK\$7 million), legal and professional fees of approximately HK\$7 million (six months ended 30 June 2017: approximately HK\$1 million) and other miscellaneous expenses. The Company did not incur any administrative expenses in relation to the Bonds during the six months ended 30 June 2018 (six months ended 30 June 2017: approximately HK\$16 million).

3. Disposal of subsidiaries

The Company completed the Disposal of the entire interest in Multi Glory Limited and the loan due from Multi Glory Limited to the Group in February 2017. In relation to the Disposal, the Company recorded a loss on disposal of subsidiaries of approximately HK\$49,910,000 during the six months ended 30 June 2017 (see Note 19 of the Interim Results Announcement and the Interim Report).

In the Company's circular dated 30 September 2016 in relation to the Disposal (the "**September Disposal Circular**"), the Company had estimated that there would be a gain on the Disposal after taxation of approximately HK\$50,607,000. The discrepancy between the estimated gain and the recorded loss is mainly due to the increase in the net asset value of Multi Glory Limited and its subsidiaries (the "**Multi Glory Group**") at the time of completion and the exchange difference created by the release of exchange reserve as at completion of the Disposal. As disclosed in the September Disposal Circular, under the Sale and Purchase Agreement (as defined therein), the Group would not be entitled to the profit/loss of the Multi Glory Group after 1 January 2016. As a result, the net asset value of the Multi Glory Group increased as at completion of the Disposal and led to the recorded loss.

FURTHER INFORMATION IN RELATION TO THE CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

1. Contract liabilities

As at 30 June 2018, the Company had non-current contract liabilities of approximately HK\$4,942,000 and current contract liabilities of approximately HK\$13,248,000.

The contract liabilities arose from warranties that the Group provided to customers for after sales service in respect of lottery related products. Under the new requirements of HKFRS 15, warranties are to be recorded as contract liabilities where an entity receives consideration from a customer before the entity satisfies its performance obligations to the customer.

2. Other payables and accruals

The Company had other payables and accruals of approximately HK\$97,722,000 as at 30 June 2018, increasing from approximately HK\$70,321,000 as at 31 December 2017. The increase was mainly due to the increase of interest payable for the Bonds recorded as finance cost in the condensed consolidated income statement. As at 30 June 2018, interest payable for the Bonds was approximately HK\$46,843,000 (31 December 2017: approximately HK\$28,147,000). Other offshore payables was approximately HK\$16,103,000 (31 December 2017: approximately HK\$9,349,000). The increase in other offshore payables was mainly due to the increase in outstanding legal fees.

The Company had onshore payables of approximately HK\$34,776,000 as at 30 June 2018 (31 December 2017: approximately HK\$32,825,000).

3. Tax payment in connection with the Disposal

As disclosed in Note 19 of the Interim Results Announcement and the Interim Report, the Group paid approximately HK\$215,200,000 as the PRC income tax payable in connection with the Disposal. The amount of income tax was calculated based on a tax rate of 10% on the excess of consideration over the capital in the disposed subsidiary established in the PRC. The Group expects this tax payment to be a full satisfaction of its tax obligation in connection with the Disposal.

In July 2018, the PRC tax authority demanded from the Group an additional tax payment of approximately RMB5,366,000 arising from transfer of shares in 深圳市思樂數據技術有限公司 (Shenzhen Sinodata Technology Co., Ltd.*) (“**Sinodata**”) carried out as part of the Restructuring (as defined in the September Disposal Circular). The Group takes the view that this share transfer is not subject to tax in the PRC given that there was no change in the beneficial ownership of Sinodata in the Restructuring. The Group has not paid the additional tax demanded and is disputing the tax payment. The negotiations with the PRC tax authority are ongoing. The Group expects the negotiations to conclude within a year. The Group has not applied to dispute the tax payment by way of legal or administrative procedures.

The Board considers that it is in the interest of the Company and its shareholders as a whole to ensure that the Group pays the correct amount of tax as required under the relevant PRC laws and regulations.

4. Transactions and balances with related parties

As at 30 June 2018, HK\$350,000,000 was due to the Group from a company connected with a Director (see Note 17 of the Interim Results Announcement and the Interim Report).

The HK\$350,000,000 represents the amount the Purchaser (as defined in the September Disposal Circular) withheld pursuant to the Sale and Purchase Agreement (as defined in the September Disposal Circular) in connection with the Disposal. The Purchaser will apply this amount to tax payments if the PRC tax authority makes additional demands.

As disclosed in the Company's circular dated 29 February 2016 (the "**February Disposal Circular**") and the September Disposal Circular (collectively, the "**Disposal Circulars**"), this amount is withheld by the Purchaser for the purpose of satisfaction of the Seller's tax obligations under Bulletin 7 (as defined therein). If the withheld amount exceeds the amount of tax demanded by the PRC tax authority, the Purchaser is required to refund such excess amount to the Seller. The Company has been in negotiations with the Purchaser as to when the withheld amount will be refunded. The Purchaser has informed the Company that it will refund the withheld amount one year after the aforesaid tax issue relating to the Restructuring is resolved provided that no other tax issues arise during the said one year period.

The Purchaser is not involved in the negotiations with the tax authority to dispute the tax issue.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

The Group's condensed consolidated statement of cash flows for the six months ended 30 June 2018 is set out below.

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash used in operating activities	(325,290)	(199,488)
Net cash used in investing activities	(806,306)	(159,785)
Net cash generated from/(used in) financing activities	246,292	(665,681)
Decrease in cash and cash equivalents	(885,304)	(1,024,954)
Exchange differences on cash and cash equivalents	(4,291)	39,490
Cash and cash equivalents at 1 January	1,347,580	2,237,048
Cash and cash equivalents at 30 June	457,985	1,251,584
Analysis of the balances of cash and cash equivalents		
Cash at banks	457,393	1,250,371
Cash in hand	392	1,213
Cash and bank balances included in the disposal groups classified as held for sale	200	–
Cash and cash equivalents	457,985	1,251,584
Fixed bank deposits	1,296,603	474,483
Cash and bank balances	1,754,588	1,726,067

The Group recorded approximately HK\$806,306,000 in investing activities for the six months ended 30 June 2018. The main investing activity during the reporting period were placing of the fixed deposits with maturity periods of over 3 months. During the reporting period, the total amount of fixed deposits placed was approximately HK\$806,981,000. Other investment activities include the purchase and disposal of equipment, the sale of unlisted investment fund and an advance from joint venture. None of such investing activities constituted connected transactions or notifiable transactions of the Company.

The reason for the increase in net cash outflow in operating activities for the reporting period is mainly due to (i) the increase in administrative expenses despite the decrease in revenue and (ii) the increase in utility and other deposits.

The Group recorded approximately HK\$1,698,818,000 in utility and other deposits for the six months ended 30 June 2018 (six months ended 30 June 2017: approximately HK\$1,451,872,000). The increase in utility and other deposits for this reporting period is mainly due to the deposit of approximately HK\$262,500,000 paid for a potential project in computer gaming. The other deposits paid for the Group's business operations are as follows: (i) approximately HK\$271,502,000 in deposits for the welfare lottery business, (ii) approximately HK\$295,729,000 in deposits for the sports lottery business, (iii) approximately HK\$862,942,000 in deposits for additional stake in the internet lottery business, and (iv) approximately HK\$6,145,000 in deposits for the Group's operations (such as rental and utility deposits).

As reported in the 2017 annual report, the Group had tentative plans to diversify its business into the computer gaming business. The Group actively searched for investment opportunities during the reporting period and paid a deposit for the potential project in computer gaming onshore for conducting due diligence work on the target business. If the Group decides to proceed with the acquisition, the deposit paid will form part of the consideration. The deposit will be refunded to the Group if the project does not materialize. Given the recent market fluctuations in the computer gaming industry, the Company is adopting a prudent approach and will take time in assessing the suitability of the project. To the best knowledge information and belief of the Directors having made all reasonable enquiries, the counterparty of this project is a third party independent of the Company and its connected persons.

INVESTMENT OF RESERVED FINANCIAL RESOURCES

In line with the business outlook reported in the 2017 annual report, the Group continues to believe that paperless lottery will operate under a transparent and well regulated model when it is relaunched in the future. Although the PRC authorities have yet to announce the schedule for formalizing paperless lottery regulations, the Group expects paperless lottery to present long term growth opportunities.

In order to ensure that the Group is adequately prepared for the development opportunities when paperless lottery is formalized in the PRC, the Group invested approximately HK\$49 million in research and development in its paperless lottery platform during the reporting period. The research and development work focused on developing a more advanced and secured paperless lottery platform, including developing the following systems: (1) secured payment gateway, (2) lottery data analysis system, (3) customer behavior analysis system, (4) paperless trading platform, and (5) secured data connections with lottery centres. The research is now in the final stage. The Group is currently applying for computer software copyright registration. The Group believes with this upgrade to the platform will adequately prepare the Group when paperless lottery distribution resumes operations.

Insofar as the Company is aware, the investment in research and development does not involve any connected transaction.

FRAMEWORK AGREEMENT IN RELATION TO THE ARRANGEMENTS FOR THE REPAYMENT OF OFFSHORE LIABILITIES

Reference is made to the Company's announcement dated 24 October 2018. On 24 October 2018, the Company entered into a framework agreement (the "**Framework Agreement**") with Mr Chan How Chung, Victor (a substantial shareholder and an executive director of the Company) ("**VC**"), Keen Start (a company indirectly wholly-owned by VC) and Kingly Profits Corporation ("**Kingly Profits**") (a company indirectly wholly-owned by VC) in relation to the arrangements for the repayment of the offshore liabilities of the Group, which include the outstanding Bonds and the shareholder's loan of approximately HK\$416 million as at 30 June 2018 (the "**Shareholder's Loan**").

(i) Status of proceeds of the Disposal and the Rights Issue

As at the date of this announcement, the proceeds from the Disposal (approximately HK\$600 million) and the Rights Issue (approximately HK\$249 million) have been deposited into an account in a major bank maintained by a wholly owned subsidiary of the Company. During the reporting period, the proceeds from the Disposal were put in fixed deposit and the effective interest rates were from 1.2% p.a. to 2% p.a.. The Group earned approximately HK\$4,349,000 in interest income from this fixed deposit for the six months ended 30 June 2018. The proceeds from the Rights Issue have been deposited in the Group's bank account since receipt. The Company did not put the proceeds from the Rights Issue in fixed deposit to maintain the liquidity of some of its offshore funds.

The principal and interest of the outstanding Bonds was approximately HK\$699 million as at 30 June 2018. Whilst the Group had sufficient offshore funds to redeem the outstanding Bonds, the redemption would have utilized a substantial portion of the Group's offshore funds. The remaining funds would have been insufficient to settle the remaining current offshore liabilities (including the Shareholder's Loan) and the general working capital of the Group's offshore office.

(ii) The Framework Agreement in relation to the arrangements for the repayment of offshore liabilities

Based on an undertaking provided by VC on 17 November 2017, the Shareholder's Loan would become payable on demand either after the completion or the termination of the CB Subscription, as the case may be. It is therefore prudent for the Company to redeem the outstanding Bonds after the Company has formulated a strategy to repay or restructure all the Group's current offshore liabilities. On the above basis, the Company entered into the Framework Agreement with VC, Keen Start and Kingly Profits. The Board (excluding VC but including the independent non-executive directors of the Company) considers that it is in the best interests of the Company and its shareholders to proceed with the arrangements under the Framework Agreement as the Framework Agreement provides a comprehensive solution for the settlement of the Group's offshore liabilities.

In accordance with the arrangements set forth in the Framework Agreement, the CB Subscription Agreement was automatically terminated in accordance with its terms on 31 October 2018. There is an undertaking from VC, Keen Start and Kingly Profits pursuant to which the Shareholder's Loan will not need to be repaid until the Company and VC (and his associates) have formulated a plan and entered into a definitive agreement for the repayment of the Remaining Indebtedness (as defined below) (the “**Remaining Indebtedness Restructuring Plan**”). The undertaking will terminate on 22 November 2018. The Company is currently negotiating the definitive agreement in respect of Remaining Indebtedness Restructuring Plan with VC and his associates (including Keen Start and Kingly Profits). The Company currently expects that Remaining Indebtedness Restructuring Plan can be finalized on or before 22 November 2018.

According to the terms of the Framework Agreement, around 2 weeks after the Remaining Indebtedness Restructuring Plan is finalized, the Company will utilize approximately HK\$953 million in cash to partially redeem the outstanding Bonds and partially redeem the Shareholder's Loan. The approximately HK\$953 million comprises the following components: (i) approximately HK\$600 million in the unutilized net proceeds from the Disposal; (ii) approximately HK\$249 million in the net proceeds from the Rights Issue; and (iii) approximately HK\$104 million in existing offshore financial resources of the Company. Approximately HK\$600 million in the unutilized net proceeds from the Disposal will be used to partially redeem the outstanding Bonds and accrued but unpaid interest and default interest. Approximately HK\$353 million (consisting of the net proceeds from the Rights Issue and existing offshore financial resources of the Company) will be used to partially repay the Shareholder's Loan and unpaid interest. Assuming that the partial payment is made in early December 2018, the remaining principal amount of the outstanding Bonds would be approximately HK\$115 million and the remaining principal amount of the Shareholder's Loan would be approximately HK\$65 million (the “**Remaining Indebtedness**”). The payment arrangements for the Remaining Indebtedness will be addressed in the Remaining Indebtedness Restructuring Plan.

After the partial repayment of Bonds and Shareholder's Loan in the total amount of approximately HK\$953 million, Keen Start will offer and complete the purchase of the remaining outstanding Bonds. After the completion of the purchase of the remaining outstanding Bonds, the Company will launch a consent solicitation process or otherwise seek the consent or resolution of the Bondholder(s) holding the then outstanding Bonds to waive any and all of the Company's default under the terms of the Bonds. As a final step, the Company and VC (and his associates, as the case may be) will enter into a new shareholder's loan agreement in respect of the Remaining Indebtedness.

Through the arrangements set forth in the Framework Agreement, the proceeds from the Disposal and the Rights Issue will be utilized to settle the outstanding Bonds and the Shareholder's Loan, which is consistent with the intended use of proceeds disclosed in the Disposal Circulars and the prospectus dated 23 February 2018 (in respect of the Rights Issue).

VC and his associates were not involved in the Board's decision on the use of the proceeds from the Disposal and the Rights Issue and the decision for the Company to enter into the Framework Agreement.

Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

By Order of the Board
Ng Yuen Yee
Company Secretary

Hong Kong, 14 November 2018

As at the date of this announcement, the Board comprises two executive directors namely Mr. Chan How Chung, Victor and Mr. Boo Chun Lon and three independent non-executive directors namely Mr. Yuen Wai Ho, Mr. Chow Siu Ngor and Mr. Wong Hoi Kuen.

* *The English translations of Chinese names or words in this announcement, where indicated, are for identification purpose only, and should not be regarded as the official English translation of such Chinese names or words.*