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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

The board of directors (the “Board”) of REXLot Holdings Limited (the “Company”) announces the unaudited consolidated interim results of the Company and its subsidiaries (together, the “Group”) for the six months ended 30 June 2018 together with the unaudited comparative figures for the corresponding period in 2017 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
			(Restated)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	4	111,599	241,774
Cost of sales/services rendered		(59,750)	(117,614)
Other income		13,902	7,355
Other losses, net		–	(11,645)
Gain on disposal of subsidiaries	19	–	165,290
Selling and distribution expenses		(20,057)	(23,962)
Administrative expenses		(159,715)	(147,220)
Operating (loss)/profit		(114,021)	113,978
Finance costs		(21,782)	(41,913)
Share of losses of joint ventures		(1,059)	(4,106)
(Loss)/profit before taxation	5	(136,862)	67,959
Taxation	6	(6,568)	(212,281)
Loss for the period		(143,430)	(144,322)

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
			(Restated)
<i>Note</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
Attributable to:			
	Equity shareholders of the Company	(140,492)	(141,704)
	Non-controlling interests	<u>(2,938)</u>	<u>(2,618)</u>
		<u>(143,430)</u>	<u>(144,322)</u>
Loss per share for loss attributable			(Adjusted)
	to equity shareholders of the Company	8	
	– Basic and diluted	<u>(1.09) cents</u>	<u>(1.40) cents</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
		(Restated)
	HK\$'000	HK\$'000
Loss for the period	<u>(143,430)</u>	<u>(144,322)</u>
Other comprehensive (expense)/income		
Items that may be reclassified subsequent to profit or loss:		
Exchange difference arising from translation of financial statements of foreign operations	(8,078)	52,338
Exchange translation reserve reclassified to profit or loss upon disposal of subsidiaries	–	41,105
Share of other comprehensive (expense)/income of joint ventures	<u>(1,039)</u>	<u>4,191</u>
Total other comprehensive (expense)/income	<u>(9,117)</u>	<u>97,634</u>
Total comprehensive expense for the period	<u><u>(152,547)</u></u>	<u><u>(46,688)</u></u>
Attributable to:		
Equity shareholders of the Company	(149,322)	(46,454)
Non-controlling interests	<u>(3,225)</u>	<u>(234)</u>
	<u><u>(152,547)</u></u>	<u><u>(46,688)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

		At 30 June 2018 (Unaudited) HK\$'000	At 31 December 2017 (Audited) HK\$'000
	Notes		
ASSETS			
Non-current assets			
Property, plant and equipment		36,090	41,136
Prepaid lease payments on land use rights		704	710
Financial assets at fair value through other comprehensive income		236,124	–
Financial assets at amortized cost		949	–
Interests in joint ventures		91,140	172,220
Amount due from a joint venture		2,372	2,393
Available-for-sale financial assets		–	239,432
Deferred tax assets		83	83
Total non-current assets		367,462	455,974
Current assets			
Inventories		18,819	17,125
Trade receivables	9	336,978	388,791
Utility and other deposits		1,698,818	1,451,872
Prepayments and other receivables		1,916,370	1,962,837
Current tax refundable		43	43
Cash and bank balances	10	1,754,388	1,841,219
		5,725,416	5,661,887
Assets of the disposal groups classified as held for sale	18	289,133	219,564
Total current assets		6,014,549	5,881,451
Total assets		6,382,011	6,337,425
EQUITY			
Capital and reserves attributable to equity shareholders of the Company			
Share capital	14	150,427	100,285
Reserves		4,757,869	4,812,857
		4,908,296	4,913,142
Non-controlling interests		25,717	28,942
Total equity		4,934,013	4,942,084

		At 30 June 2018 (Unaudited) HK\$'000	At 31 December 2017 (Audited) HK\$'000
	Notes		
LIABILITIES			
Non-current liabilities			
Amount due to joint ventures		66,389	66,552
Deferred tax liabilities		45,219	45,352
Contract liabilities		4,942	–
Total non-current liabilities		116,550	111,904
Current liabilities			
Trade payables	12	9,073	8,238
Other payables and accruals		97,722	70,321
Contract liabilities		13,248	–
Bank borrowing	13	–	5,362
Convertible bonds	11	652,309	652,309
Amount due to related parties	17	431,870	426,252
Current tax liabilities		6,483	197
		1,210,705	1,162,679
Liabilities directly associated with the assets of the disposal groups classified as held for sale	18	120,743	120,758
Total current liabilities		1,331,448	1,283,437
Total liabilities		1,447,998	1,395,341
Total equity and liabilities		6,382,011	6,337,425
Net current assets		4,683,101	4,598,014
Total assets less current liabilities		5,050,563	5,053,988

NOTES:

1. BASIS OF PREPARATION

General

The unaudited condensed consolidated interim financial statements have been prepared in accordance with applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by HKICPA.

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2017 except for the adoption of new and revised standard and interpretation with effect from 1 January 2018.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 January 2018.

Amendments to HKFRSs	Annual improvements to HKFRSs 2014-2016 cycle
Amendments to HKAS 40	Transfers of investment property
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts
Amendments to HKFRS 15	Clarifications to HKFRS 15
HK(IFRIC) – Int 22	Foreign currency transactions and advance consideration
HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers

The adoption of Amendments to HKFRSs, Amendments to HKAS 40, Amendments to HKFRS 2, Amendments to HKFRS 4 and HK(IFRIC) – Int 22 had no material effect on the Group’s accounting policies.

(a) Impacts and changes in accounting policies of application on HKFRS 15 “Revenue from Contracts with Customers”

HKFRS 15 and Amendments to HKFRS 15 apply to all revenue arising from contracts with customers, unless those contracts are in the scope of other HKFRS. HKFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and the revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferred goods or services to customers. HKFRS 15 requires the Group to exercise judgement, taking into consideration of all the relevant facts and circumstances when applying each step of the model to contract with their customers.

In prior reporting periods, the Group accounted for the sales of lottery related products when significant risks and rewards of ownership of the product have been transferred to the customers. Under HKFRS 15, revenue from sales of lottery related products is recognized when or as the control of the asset is transferred to the customer. Accordingly, revenue generated from warranties for lottery products were recognized over time when the services are provided.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognized in the opening retained profits and comparative information has not been restated. Accordingly, certain comparative information may not be comparable.

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognized in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

Impacts on assets, liabilities and reserve as at 1 January 2018

	Carrying amount previously reported at 31 December 2017 (Audited) HK\$'000	Impacts of adopting HKFRS 15 HK\$'000	Carrying amounts under HKFRS 15 at 1 January 2018* (Unaudited) HK\$'000
Contract liabilities	–	23,597	23,597
Retained profits	634,085	(23,597)	610,488

* The amounts in this column are before the adjustments from the application of HKFRS 9.

(b) Impacts and changes in accounting policies of application on HKFRS 9 “Financial Instruments”

For this reporting period, the Group has applied HKFRS 9 “Financial Instruments” and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. the Group has applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognized as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognized in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 “Financial Instruments: Recognition and Measurement”.

The Group recognizes a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, utility and other deposit, prepayment and other receivable and assets of the disposal groups classified as held for sale). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are made based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognizes lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognizes lifetime ECL.

Summary of effects arising from initial application of HKFRS 9

Impairment under ECL model

In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

Reclassification from available-for-sale (“AFS”) equity investment to financial assets at fair value through other comprehensive income (“FVTOCI”)

The Group elected to present in other comprehensive income the fair value changes of its equity investment previously classified as AFS, of which approximately HK\$237,876,000 related to unquoted equity investment, i.e. investment in an indirect non wholly-owned company in China and investment in a private enterprise fund established in the PRC, previously measured at cost less impairment under HKAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, approximately HK\$237,876,000 were reclassified from available-for-sale investment to financial assets at FVTOCI, of which approximately HK\$237,876,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39. No fair value adjustment relating to this unquoted equity investment previously carried at cost less impairment was adjusted to financial assets at FVTOCI and FVTOCI reserve as at 1 January 2018 because carrying value under HKAS 39 was not materially different from the fair value as at 1 January 2018.

Reclassification from AFS unlisted investment fund to financial assets at amortized cost

The Group elected to present in financial assets at amortized cost previously classified as AFS, of which approximately HK\$1,556,000 related to unlisted investment fund with a bank, previously measured at cost less impairment under HKAS 39. At the date of initial application of HKFRS 9, approximately HK\$1,556,000 were reclassified from available-for-sale investment to financial assets at amortized cost, of which approximately HK\$1,556,000 related to unlisted investment fund previously measured at cost less impairment under HKAS 39.

The following adjustments were made to the amounts recognized in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

Impacts on assets, liabilities and reserve as at 1 January 2018

	Carrying amounts previously reported at 31 December 2017 (Audited) HK\$'000	Impacts of adopting HKFRS 9 HK\$'000	Carrying amounts under HKFRS 9 at 1 January 2018* (Unaudited) HK\$'000
Available-for-sale financial assets	239,432	(239,432)	–
Financial assets at fair value through other comprehensive income	–	237,876	237,876
Financial assets at amortized cost	–	1,556	1,556
Trade receivables	388,791	(19,481)	369,310
Utility and other deposits	1,451,872	(17,777)	1,434,095
Prepayments and other receivables	1,962,837	(30,663)	1,932,174
Assets of the disposal groups classified as held for sale	219,564	(12,862)	206,702
Retained profits	<u>634,085</u>	<u>(80,783)</u>	<u>553,302</u>

* The amounts in this column are before the adjustments from the application of HKFRS 15.

The Group has not early applied the following new or revised standards and amendments that have been issued but are not yet effective.

Amendments to HKFRSs ¹	Annual improvements to HKFRSs 2015-2017
Amendments to HKAS 28 (2011) ¹	Long-term interests in an associate or joint venture
Amendments to HKFRS 9 ¹	Prepayment features with negative compensation
Amendments to HKFRS 10 and HKAS 28 (2011) ³	Sales or contribution of assets between an investor and its associate or joint venture
HKFRS 16 ¹	Leases
HKFRS 17 ²	Insurance Contracts
HK(IFRIC) – Int 23 ¹	Uncertainty over income tax treatments

¹ *Effective for annual periods beginning on or after 1 January 2019*

² *Effective for annual periods beginning on or after 1 January 2021*

³ *To be determined*

The Group has not early adopted the new HKFRSs that have been issued but not yet effective. The directors of the Company (the “Directors”) are currently assessing the impact of these new HKFRSs but are not yet in a position to state whether they would have material financial impact on the Group’s result of operations and financial position.

3. SEGMENT INFORMATION

The Group manages its businesses by segment which are organized by business lines (products and services). In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purposes of resources allocation and performance assessment, the Group has presented lottery business as the reportable segment.

Segment results

	Lottery business	
	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
		(Restated)
	HK\$'000	HK\$'000
Revenue	<u>111,599</u>	<u>241,774</u>
Segment results	(61,772)	28,400
Gain on disposal of subsidiaries (<i>Note 19</i>)	–	165,290
Net unallocated expenses	<u>(75,090)</u>	<u>(125,731)</u>
(Loss)/profit before taxation	(136,862)	67,959
Taxation	<u>(6,568)</u>	<u>(212,281)</u>
Loss for the period	<u>(143,430)</u>	<u>(144,322)</u>

Segment assets and liabilities

	Lottery business	
	At	At
	30 June	31 December
	2018	2017
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Assets		
Segment assets	5,738,739	5,948,762
Assets of the disposal groups classified as held for sale (<i>Note 18</i>)	289,133	219,564
Unallocated assets	354,139	169,099
	<u>6,382,011</u>	<u>6,337,425</u>
Total assets	<u>6,382,011</u>	<u>6,337,425</u>
Liabilities		
Segment liabilities	196,554	172,199
Liabilities directly associated with the assets of the disposal groups classified as held for sale (<i>Note 18</i>)	120,743	120,758
Unallocated liabilities	1,130,701	1,102,384
	<u>1,447,998</u>	<u>1,395,341</u>
Total liabilities	<u>1,447,998</u>	<u>1,395,341</u>

4. REVENUE

Revenue represents the aggregate of income from provision of lottery products and related services and commission income.

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue		
Income from provision of lottery products and related services	111,599	241,774
	<u>111,599</u>	<u>241,774</u>

5. (LOSS)/PROFIT BEFORE TAXATION

The Group's (loss)/profit before taxation is stated after charging the following:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation and amortization on:		
– property, plant and equipment	4,832	6,261
– prepaid lease payments on land use rights	6	79
– intangible assets	–	1,515
Operating lease rentals in respect of machinery, office premises and warehouses	<u>12,061</u>	<u>11,281</u>

6. TAXATION

No provision for Hong Kong profits tax is made as the Group has no estimated assessable profits for the six months ended 30 June 2018 (2017: Nil). Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rate of taxation prevailing in the countries in which the Group operates.

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
		(Restated)
	HK\$'000	HK\$'000
Current tax:		
PRC income tax on disposal of subsidiaries (<i>Note 19</i>)	–	215,200
Under/(over) provision PRC income tax	6,568	(3,397)
Deferred tax	<u>–</u>	<u>478</u>
Taxation charge	<u>6,568</u>	<u>212,281</u>

7. DIVIDEND

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

8. LOSS PER SHARE

The calculation of basic and diluted loss per share for the six months ended 30 June 2018 are based on the loss attributable to equity shareholders of the Company of approximately HK\$140,492,000 (2017 restated: approximately HK\$141,704,000).

- (a) The basic loss per share is based on the weighted average number of approximately 12,936,960,142 (2017 adjusted: approximately 10,156,246,871) ordinary shares in issue during the six months ended 30 June 2018.
- (b) The calculation of diluted loss per share is based on the Group's loss attributable to equity shareholders of the Company and adjusted to reflect the interest on the convertible bonds. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all potentially dilutive ordinary shares into ordinary shares of the Company.

The diluted loss per share is the same as the basic loss per share as the computation of diluted loss per share does not assume the exercise of the convertible bonds and the Company's share options, since their conversion and exercise would result in an anti-dilutive effect on loss per share during the periods ended 30 June 2018 and 2017.

The basic and diluted loss per share for current and prior reporting periods have been adjusted as a result of rights issue completed on 20 March 2018.

9. TRADE RECEIVABLES

	At 30 June 2018 (Unaudited) HK\$'000	At 31 December 2017 (Audited) HK\$'000
Trade receivables – Lottery business	<u>336,978</u>	<u>388,791</u>

The Group generally grants credit periods of 90 to 270 days to its trade customers.

The ageing analysis of the Group's trade receivables by age based on invoice date – Lottery business is as follows:

	At 30 June 2018 (Unaudited) <i>HK\$'000</i>	At 31 December 2017 (Audited) <i>HK\$'000</i>
Three months or less	79,512	99,310
One year or less but over three months	112,801	132,336
Over one year	<u>144,665</u>	<u>157,145</u>
	<u>336,978</u>	<u>388,791</u>

10. CASH AND BANK BALANCES

	At 30 June 2018 (Unaudited) <i>HK\$'000</i>	At 31 December 2017 (Audited) <i>HK\$'000</i>
Fixed bank deposits	<u>1,296,603</u>	<u>493,839</u>
Cash at banks	457,393	1,346,836
Cash in hand	<u>392</u>	<u>544</u>
	<u>457,785</u>	<u>1,347,380</u>
	<u>1,754,388</u>	<u>1,841,219</u>

Fixed bank deposits represented fixed bank deposits with maturity at acquisition over 3 months and within 1 year.

Cash and bank balances include the following amounts denominated in currencies other than the Company's functional currency, HK dollars:

	At 30 June 2018 (Unaudited) '000	At 31 December 2017 (Audited) '000
US dollars	29,599	29,533
Renminbi	<u>572,994</u>	<u>830,896</u>

11. CONVERTIBLE BONDS

The movement of the liability components of the convertible bonds originally due 2016 and extended to 2017 (the "2017 Bonds") and the convertible bonds due 2019 (the "2019 Bonds") (collectively, the "Bonds") for the period are set out below:

	2019 Bonds HK\$'000	2017 Bonds HK\$'000	Total HK\$'000
Carrying amounts at 31 December 2017	551,402	100,907	652,309
Interest expense	15,164	3,532	18,696
Interest payable	<u>(15,164)</u>	<u>(3,532)</u>	<u>(18,696)</u>
Carrying amounts at 30 June 2018	<u>551,402</u>	<u>100,907</u>	<u>652,309</u>

At the end of the reporting period, the Bonds with principal amount of approximately HK\$652,309,000 remain outstanding.

Further details of the Bonds are disclosed in the section headed "The 2017 and 2019 Convertible Bonds" in this announcement.

12. TRADE PAYABLES

	At 30 June 2018 (Unaudited) <i>HK\$'000</i>	At 31 December 2017 (Audited) <i>HK\$'000</i>
Other client payables	–	5
Trade payables – Lottery business	<u>9,073</u>	<u>8,233</u>
	<u>9,073</u>	<u>8,238</u>

No ageing analysis was disclosed for other client payables as, in the opinion of the Directors, the ageing analysis did not give additional value in view of the nature of business.

Trade payables are expected to be settled within one year or are repayable on demand.

The Directors consider that the carrying amount of trade payables approximates to their fair values.

The ageing analysis of the Group's trade payables by age based on invoice date – Lottery business is as follows:

	At 30 June 2018 (Unaudited) <i>HK\$'000</i>	At 31 December 2017 (Audited) <i>HK\$'000</i>
Three months or less	7,639	5,883
Over three months	<u>1,434</u>	<u>2,350</u>
	<u>9,073</u>	<u>8,233</u>

13. BANK BORROWING

	At 30 June 2018 (Unaudited) HK\$'000	At 31 December 2017 (Audited) HK\$'000
Bank loan		
– secured and due within one year	–	5,362

The bank loan is repayable within one year or when the facility is withdrawn. The borrowing is used to finance the lottery business of the Group.

As at 31 December 2017, the bank loan of approximately HK\$5,362,000 is secured by the trade receivables of a subsidiary of approximately HK\$19,351,000 and guaranteed by a subsidiary of the Group.

The effective interest rate on the Group's borrowing is equal to contractual interest rate.

14. SHARE CAPITAL

	Number of Shares '000	Amount HK\$'000
Ordinary shares of HK\$0.01 each of the Company (the “Shares”):		
<i>Authorized:</i>		
At 31 December 2017 and 30 June 2018	20,000,000	200,000
<i>Issued and fully paid:</i>		
At 31 December 2017	10,028,496	100,285
Issue of rights shares (<i>Note</i>)	5,014,247	50,142
At 30 June 2018	15,042,743	150,427

Note:

On 20 March 2018, the Company completed the issue of 5,014,247,669 rights shares to the qualifying shareholders, on the basis of one rights share (the “Rights Share”) for every two existing Shares held on the record date at the subscription price of HK\$0.051 per Rights Share (the “Rights Issue”). The net proceeds from Rights Issue raised by the Company was approximately HK\$248,856,000.

As a result of the Rights Issue, the Company's issued Shares increased to 15,042,743,007 Shares accordingly.

All new Shares issued during the period rank pari passu in all respects with the existing Shares.

15. COMMITMENTS

- (a) Capital commitments outstanding at 30 June 2018 not provided for in the consolidated financial statements are as follows:

	At 30 June 2018 (Unaudited) HK\$'000	At 31 December 2017 (Audited) HK\$'000
Contracted for		
– increase in registered capital of subsidiaries	<u>84,592</u>	<u>84,597</u>

- (b) As at 30 June 2018, the Group's future aggregate minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 30 June 2018		
	Land and buildings (Unaudited) HK\$'000	Factory equipment (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Within one year	5,435	8,896	14,331
In the second to fifth year inclusive	5,314	35,583	40,897
More than five years	<u>–</u>	<u>30,764</u>	<u>30,764</u>
	<u>10,749</u>	<u>75,243</u>	<u>85,992</u>

	As at 31 December 2017		
	Land and buildings (Audited) <i>HK\$'000</i>	Factory equipment (Audited) <i>HK\$'000</i>	Total (Audited) <i>HK\$'000</i>
Within one year	12,447	9,017	21,464
In the second to fifth year inclusive	18,278	35,916	54,194
More than five years	—	35,515	35,515
	<u>30,725</u>	<u>80,448</u>	<u>111,173</u>

The Group leases various office and factory premises, office equipment and warehouses under operating leases. The leases run for a period of 1 to 8 years (2017: 1 to 9 years). The leases do not include any contingent rentals.

16. CONTINGENT LIABILITIES

(a) Contingent liabilities in respect of default under the Bonds

As at 30 June 2018 and 31 December 2017, the Company has not fulfilled its redemption obligation of 2017 Bonds in the principal amount of approximately HK\$100,907,000 and the redemption obligation of 2019 Bonds in the principal amount of approximately HK\$551,402,000. The amounts under the 2017 Bonds and 2019 Bonds have been outstanding since 28 April 2017 and are currently due to be repaid to the holders of the Bonds (the “Bondholders”). The trustee or the Bondholders through the trustee may take legal actions against the Company in respect of the outstanding Bonds. The Company does not expect the possible courses of action to materially impact the Group, as the Company has sufficient offshore financial resources to fulfill repayment obligations under the outstanding Bonds.

As disclosed in the Company’s announcements dated 19 November 2017, 6 December 2017, 29 January 2018, 19 March 2018, 21 March 2018, 9 May 2018, 11 May 2018, 7 June 2018 and 30 July 2018, the Company’s prospectus dated 23 February 2018 and the Company’s circular dated 25 April 2018, in relation to, among other things, the Rights Issue and the CB Subscription (as defined in the section headed “CB Subscription Agreement in relation to New CB” in this announcement) of the proposed fund raising plans, upon completion of the proposed fund raising plans, the Company expects it will fully repay the 2017 Bonds and 2019 Bonds. Accordingly, the directors of the Company do not consider it probable that a claim will be made against the Company.

(b) Financial guarantee issued

As at 31 December 2017, one of subsidiaries of the Group has issued a corporate guarantee to a bank for the bank loan granted to another subsidiary of the Group, the Directors did not consider it probable that a claim would be made against these subsidiaries under such guarantee. During the period ended 30 June 2018, the bank loan has been repaid.

17. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Details of the Group's significant transactions and balances with the following related parties during the period are as follows:

	At 30 June 2018 (Unaudited) HK\$'000	At 31 December 2017 (Audited) HK\$'000
The Shareholder:		
Balance due from the Group (<i>Note</i>)	415,757	412,777
Convertible bonds	87,064	87,064
Companies connected with a Director:		
Balance due from the Group	16,113	13,475
Balance due to the Group	<u>350,000</u>	<u>350,000</u>

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Transactions with the Shareholder:		
Convertible bonds interest paid	2,394	3,861
Interest on a shareholder loan	2,981	1,532
Redemption of convertible bonds	–	133,583
Consent fee paid for delaying redemption of convertible bonds	<u>–</u>	<u>131</u>
Compensation of directors of the Group		
during the period are as follows:		
Fees, salary and other short-term employee benefits	3,582	4,572
Pension scheme contributions	<u>9</u>	<u>9</u>
	<u>3,591</u>	<u>4,581</u>

Note:

The balance due to Kingly Profits Corporation (the “Shareholder”) is unsecured and currently due to be repaid. On 17 November 2017, a Director provided an undertaking to the Company that the shareholder’s loan would not need to be repaid until after the completion of the CB Subscription (or the termination of the CB Subscription pursuant to the terms of the CB Subscription Agreement (as defined in the section headed “CB Subscription Agreement in relation to New CB” in this announcement)). As at 30 June 2018 and 31 December 2017, except for the balance of approximately HK\$133,583,000 bearing interest at 4.5% per annum, all remaining balances are interest free.

18. ASSETS/LIABILITIES OF THE DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

- (a) On 28 December 2017, a wholly-owned subsidiary of the Company, Huge Top Enterprises Inc. entered into a memorandum of understanding with an independent third party (the “Buyer”), for the disposal of entire equity interests in Pentium Win Limited, Jertford Development Limited, Global Essence Technology Limited, Joson Limited, Luxjoy Overseas Limited, Hilson Gold Limited, 深圳市天脈信息諮詢有限公司, 深圳卓訊隆科技有限公司 and 深圳市金帆軟件技術有限公司 (Shenzhen Kingsail Software Tech Co., Ltd.*) (hereinafter collectively referred to the “Kingsail Group”) for a cash consideration to be further negotiated with the Buyer.
- (b) On 29 July 2018, the Company entered into a non-legally binding letter of intent with, among others, an independent third party in relation to the potential disposal (the “Potential Disposal”) of the operating entity in the scratch card business in China (the “Disposal Target”). As at the date hereof, the Disposal Target is wholly-owned by a company which is indirectly owned by a member of the Group and another party in equal shares. The Potential Disposal will be for an aggregate consideration of RMB105 million, subject to definitive agreement.

The results of the disposal groups (the Kingsail Group and the Disposal Target) classified as held for sale that are included in the consolidated income statement are shown as below:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit/(loss) for the period from the disposal groups:		
Revenue	–	–
Other income and other gains, net	3,801	497
Administrative expenses	(316)	(245)
Operating profit	3,485	252
Finance costs	–	–
Share of loss of a joint venture	(1,014)	(4,005)
Profit/(loss) before taxation	2,471	(3,753)
Taxation	–	(321)
Profit/(loss) for the period	2,471	(4,074)

The major classes of assets and liabilities of the disposal groups classified as held for sale as at 30 June 2018 are as follows:

	At 30 June 2018 (Unaudited) HK\$'000	At 31 December 2017 (Audited) HK\$'000
Assets		
Interests in a joint venture	78,981	–
Amount due from related parties	1,138	1,147
Prepayments and other receivables	208,814	218,217
Cash and bank balances	<u>200</u>	<u>200</u>
Assets of the disposal groups classified as held for sale	<u>289,133</u>	<u>219,564</u>
Liabilities		
Other payables and accruals	(1,743)	(1,758)
Deferred tax liabilities	<u>(119,000)</u>	<u>(119,000)</u>
Liabilities directly associated with the assets of the disposal groups classified as held for sale	<u>(120,743)</u>	<u>(120,758)</u>
Net assets of the disposal groups classified as held for sale	<u><u>168,390</u></u>	<u><u>98,806</u></u>

19. DISPOSAL OF SUBSIDIARIES

On 4 January 2016, a wholly-owned subsidiary of the Company entered into the sale and purchase agreement with a related party, Sunjet Investments Limited, in which a director (also a substantial shareholder) of the Company has beneficial interest, for the disposal of entire interests in Multi Glory Limited (“Multi Glory”) and the loan due from Multi Glory to the Group for a cash consideration of HK\$2,150,000,000 (the “Disposal”). The Disposal was completed in February 2017.

The net assets disposed of at the date of completion were as follows:

	(Restated) <i>HK\$'000</i>
Property, plant and equipment	129,501
Prepaid lease payments on land use rights	42,214
Goodwill	1,026,795
Intangible assets	21,158
Deposit for acquisition of leasehold building	171,416
Inventories	94,976
Trade receivables	153,754
Utility and other deposits	103,131
Prepayments and other receivables	521,870
Current tax refundable	172
Cash and bank balances	48,039
Amount due to the Group	(1,664,588)
Trade payables	(108,383)
Other payables and accruals	(124,095)
Bank borrowings	(137,573)
Current tax liabilities	(9,876)
Deferred tax assets	4,911
Net assets disposed of	273,422
(Loss)/gain on disposal of subsidiaries:	
Consideration received and receivables	2,150,000
Net assets disposed of	(273,422)
Assignment of the amount due to the Group	(1,664,588)
Non-controlling interests	3,759
Expenses in connection with the disposal	(9,354)
Cumulative exchange difference in respect of the net assets reclassified from exchange translation reserve to profit or loss upon disposal	(41,105)
Gain on disposal of subsidiaries before taxation	165,290
PRC income tax paid for disposal	(215,200)
Loss on disposal of subsidiaries after taxation	(49,910)

HK\$'000

Satisfied by:

Cash consideration received	1,800,000
Cash consideration receivable	<u>350,000</u>
	<u><u>2,150,000</u></u>

Net cash inflow on disposal of subsidiaries:

Total cash consideration received	1,800,000
Cash and cash equivalents disposed of	<u>(48,039)</u>
	<u><u>1,751,961</u></u>

The subsidiaries disposed of during the six months ended 30 June 2017 contributed approximately HK\$35,830,000 to the Group's revenue and profit of approximately HK\$229,000 to the Group's loss for the period ended 30 June 2017.

PRC income tax of HK\$215,200,000 is calculated based on a tax rate of 10% on the excess of consideration over the capital in the disposed subsidiary which is established in the PRC.

20. COMPARATIVE FIGURES

Certain comparative figures have been restated and reclassified in the preparation of these interim condensed consolidated financial statements and to conform to the current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

For the period under review, the Group was principally engaged in lottery system and games development business and distribution and marketing of lottery products in China.

The Chinese lottery market comprises two lotteries, namely, the China Welfare Lottery and the China Sports Lottery. The Group provides services to both lotteries.

BUSINESS REVIEW AND PROSPECTS

Lottery Business

The Group's lottery business can be broadly divided into System and Games Development Business ("SGDB") and Distribution and Marketing Business ("DMB"). Revenue of the lottery business accounted for 100% of the Group's total revenue.

During the first six months ended 30 June 2018, total Group's revenue was approximately HK\$111,599,000, decreased by 54% over the same period last year (2017: approximately HK\$241,774,000). The unaudited loss attributable to equity shareholders of the Company was approximately HK\$140,492,000 (2017 restated: approximately HK\$141,704,000).

During the period under review, overall lottery market in China experienced healthy growth. However, the Group's lottery business continued to be impacted by the tough operating conditions persisting in the industry, namely the intensifying competition among industry players, continuous decline in scratch cards market and the slow development of paperless lottery distribution platforms. The disposal of the Group's subsidiaries operating in the traditional Welfare Computer Ticket Games ("CTG") market was completed in the first half of 2017, resulting in a decline of revenue for SGDB as compared with the same period in 2017. In order to strengthen the Group's competitiveness in various products and services offering, the Group stepped up its investment in research and development and marketing, which inevitably put pressure on the operating profit. Intense competition between participants in the lottery market also negatively impacted the Group's SGDB operations. Meanwhile, DMB continued to face the challenges of the weakening consumer demand for scratch card products and increase of various operating costs.

Despite the challenging operating environment, the Group has made solid progress to evolve and strategically restructure its business in underperforming segments in the market and taking steps to streamline the operating structure of various business units amid intensified market competition in the industry. The Company remains focused on measures to further increase operating efficiency, streamline its operations to reduce costs, strengthen the Group's balance sheet and get prepared to position itself for igniting the next phase of growth and profitability.

During the period under review, the Company completed the Rights Issue in March 2018 which is part of the proposed fund raising plans that was announced last year. The remaining part of the proposed fund raising plans is the CB Subscription (see section on "CB Subscription Agreement in relation to New CB"). Upon completion of the proposed fund raising plans, the Company intends to firstly repay the Bonds, and then repay the other liabilities and shareholders's loan. The Company believes that after the repayment of the existing offshore liabilities, the Company will be able to strengthen its capital structure and resume its sound financial position, and will be poised to focus on growing its business.

China Lottery Market

Chinese lottery market registered total lottery sales of RMB245.2 billion in the first six months of 2018, representing a growth of 20% over the same period of 2017.

During the period under review, total sales of Welfare Lottery was RMB110.6 billion. Welfare CTG sales increased 7% to RMB81.4 billion, accounting for 74% of the total Welfare Lottery sales. Welfare Scratch Card sales decreased 11% to RMB5.8 billion and Video Lottery Terminals ("VLT") sales grew by 1% to RMB23.4 billion. Sales of Keno was RMB62.3 million, down by 33%. Welfare Scratch Cards and VLT accounted for 5% and 21% of the total Welfare Lottery sales respectively.

In the first half of 2018, total sales of Sports Lottery was RMB134.6 billion. Sales of Sports CTG, including Single Match Games ("SMG"), increased by 39% to RMB128.9 billion accounting for 96% of total Sports Lottery sales. Sports Scratch Cards sales was RMB5.7 billion, dropped 10% over last year, accounted for 4% of the total Sports Lottery sales. Total sales of Sports VLT increased 8% to RMB5.5 million in the first six months of 2018.

System and Games Development Business

The Group's SGDB is an active participant in the provision of lottery system and specialized equipment for both CTG and scratch card products in China. During the period under review, the Group's SGDB continued to actively participate in the upstream and mid-stream lottery market by providing various lottery system and specialized equipment for the both Welfare and Sports lottery markets.

Welfare CTG Business

In the first half of 2018, Welfare CTG in China maintained a healthy growth of 7% with total sales increased by approximately RMB5.0 billion over the same period of 2017. Despite stable and positive outlook in this market segment, the Group remains mindful of the potential revenue volatility driven by the fierce competition in the Welfare CTG market. Since the Group completed the restructuring of its Welfare CTG business last year, the Group has focused on delivering lottery products and services for the non-traditional Welfare CTG market, a transformation aimed to align with the ongoing market trend by devoting attention to a more favorable market of regional and high frequency games.

During the period under review, performance of the Group's Welfare CTG business was affected by marked competition between other well established players. Also, given the disposal of the Group's subsidiaries operating in the traditional Welfare CTG market was completed in the first half of 2017, the scale of operations and revenue of this business unit was reduced compared with the same period in 2017.

Market competition in the non-traditional Welfare CTG market has intensified, resulting from the robust growth prospects of this segment. Although other well established players enjoy competitive advantage in contract extension and bidding of new contacts, the Group has been working diligently in upgrading its system design and improving its products and services provided in order to bolster the confidence of regional customers in the Group's service solution and differentiate itself from the competitors. The ongoing competition in the market amid stringent contractual requirements formulated by regional lottery centers will present a challenging condition for the Group during this transitory period.

Welfare Scratch Cards Business

Sales of Welfare Scratch Cards decreased 11% during the six month ended 30 June 2018 compared with the corresponding period in 2017, recording a decline for four consecutive years. Given the lackluster market context of scratch card products persisted during the period under review, performance of the Group's Welfare Scratch Cards business was inevitably impacted by such challenging market situation.

Given the unfavourable operating environment of scratch card business, the Company announced its plan to dispose one of the Group's scratch cards businesses in May 2018. Subsequently, the Company entered into a non-legally binding letter of intent with, among others, an intended purchaser in relation to this potential disposal after the reporting period. The Company believes that the potential disposal, if consummated, would not have any significant impact on overall business operations of the Group and should be able to improve the financial position of the Group. The Group's SGDB will continue to operate in scratch card printing operations through its cooperative venture with Shijiazhuang Offset Printing House.

Sports CTG Business

The Group's Sports CTG business is engaged in the manufacturing and sales of CTG/SMG terminals to provincial Sports Lottery Centres across China serving the needs of traditional CTG segment and supporting the development of SMG.

During the period under review, the Group participated in the procurement bidding of CTG/SMG terminals, however, revenue related to the sales of terminals decreased substantially amid rising competition and reduced market demand.

Meanwhile, the Group has continued to restructure the business unit by streamlining the operating structure through the disposal of Kingsail Group, as announced earlier in March 2018, with the aim to improve overall operating efficiency and cost control of the Group.

Distribution and Marketing Business

The Group's DMB is a major participant in lottery distribution in China and its downstream lottery operations pledged to provide reliable, efficient and innovative lottery services to address the needs of end consumers in lottery market and assist lottery authorities to promote and develop the Chinese Lottery market in sustainable manner.

During the period under review, the operating environment has remained challenging due to the continual deterioration of demand for scratch cards in market and lack of affirmative measures or action policies to push forward the development of paperless lottery distribution platforms. Nevertheless, the exceptional sales performance achieved by Sports Lottery in relation to the FIFA World Cup suggests that the official implementation of paperless lottery distribution platforms is worth waiting for. The Company is well prepared for this and has reserved sufficient resources to capitalize on development in this area.

Scratch Cards Distribution Business

The Group's scratch cards distribution business focuses on the distribution and sales of scratch cards through a physical lottery distribution network consists of recognized sales distribution channels.

In the first half of 2018, the aggregate sales of Welfare Scratch Cards and Sports Scratch Cards in China was approximately RMB11.5 billion, decreased by 11% as compared with the same period in 2017. According to the sales figures released by the Ministry of Finance, total sales of scratch cards for the first six months of this year registered a decline for four consecutive years.

The promotion efforts taken by the Group and the industry to reinvigorate the scratch cards market were ineffective to alter the downward trend of consumer demand of this lottery product, in spite of a slowdown in pace of sales decline. A combination of prolonged lackluster scratch cards sales, gradual increase of marketing and other operating costs accumulating over recent years coupled with rising competition among market participants severely damaged the Group's profitability in this business segment. Revenue of scratch cards distribution business decreased significantly with profit margins further deteriorating during the period under review.

In view of the above impediments, the Group will closely monitor the market developments and work on countermeasures through out the remainder of the financial year with an aim to resolve the issues.

Single Match Games Business

The Group operates the SMG business through a physical retail network since paperless lottery distribution was suspended in early 2015.

During the period under review, sales of SMG in China achieved record-breaking weekly sales of RMB11.9 billion during the group phrase of the 2018 FIFA World Cup compared to the highest weekly sales of RMB3.3 billion recorded during the 2014 FIFA World Cup.

The Group's physical retail platform was not performing satisfactorily during the period under review due to intensified competition in SMG market. However, the Group remains positive on the long-term prospect in this business unit as it is expected that the paperless distribution platforms will be reopened in the long run and will further boost the growth of the market. The Group will continue to reserve and invest resources in paperless lottery platforms to capture the future growth opportunities offered by the potential omni-channel development – a rapid growth in online sales complemented by the changing dynamics of brick-and-mortar retailing and the convergence of both.

Mobile Lottery Business and Mobile Electronic Lottery Platform

The Group self developed a Mobile Electronic Lottery Platform (“Mobile ELP”) for its mobile lottery business. The Mobile ELP offers a multi-functional back-end system with convenience interface to facilitate lottery distribution over mobile devices. Mobile ELP was designed to improve the convenience of lottery purchase by connecting players directly to the centralized system of provincial lottery centre, enabling a safe and reliable lottery purchase experience.

During the period under review, the mobile lottery business has come to a complete halt due to the regulatory uncertainty. The Group remains cautiously optimistic about the future of this business.

At the same time, resources have been reserved in this area and the Group will continue to monitor market development closely and review its business strategy during this transitory period.

Sports Video Lottery

The Group has been running Sports VLT operations in support of Hainan province's local tourism development since 2015. Sales of Sports VLT registered healthy growth during the period under review. The Group will continue to play its part in fostering the development of this lottery product and contributing to the local lottery market.

Outlook

The lottery industry is operating in the difficult environment. Market participants are waiting for the modernization of lottery distribution methods. They have also been searching for methods to revive market interest in the less compelling products. It is anticipated that the tough business condition will continue to affect the Group's ability to improve profitability.

The Group has been taking essential steps to enhance business competitiveness and strengthen financial position through business restructuring despite the tough business condition. The restructuring of Welfare CTG business has been completed last year and other efforts to restructure underperforming business units are underway to increase overall operating efficiency by streamlining operations and reduce costs. The Company has been laying the ground work to position itself for the next phase of growth and development.

Looking forward, the performance of the Group's SGDB will be dependent on the Group's ability to differentiate itself from competitors in the face of continued fierce competition in the lottery market. The Group's DMB is expected to be hampered by the continual deterioration of scratch card demand and slow development of paperless lottery distribution platforms in the near term. In accordance with the Company's plans to reserve financial resources for development of the paperless lottery distribution platforms as disclosed earlier this year, the Company has started investing in the relevant development with reserved financial resources. This will adequately prepare the Group as when the paperless lottery distribution platforms resume operations in China and maintain the Group's competitiveness in the industry.

Meanwhile, once the financial challenge posed by the Bonds redemption obligation was addressed by the Group in near future, it is envisaged that the financial position of the Group will improve significantly. Given the prolonged suspension of the paperless lottery distribution platforms in China lottery market and uncertainties of regulatory development, the Company has adopted a business diversification strategy to help the Group to improve profitability and balance overall operation risk of its business portfolio. The Group is planning to speed up the pace of executing its plans to diversify income source through other investment opportunities in the PRC. The Group will continue to focus on growing and investing in sectors where we believe we can drive long-term sustainable growth.

FINANCIAL REVIEW

Financial Results

For the six months ended 30 June 2018, the Group recorded a revenue of approximately HK\$111,599,000 (2017: approximately HK\$241,774,000), representing a decrease of 54% as compared with the same period last year. The decrease resulted from the completion of the disposal of subsidiaries in first half of 2017 and the continual unfavorable operating environment in the PRC lottery industry, including deterioration of demand for scratch cards market, keen competition in Welfare CTG and Sports CTG markets and the slow development in paperless electronic lottery distribution market.

The unaudited loss attributable to equity shareholders of the Company was approximately HK\$140,492,000 (2017 restated: approximately HK\$141,704,000). The loss per share was 1.09 HK cents (2017 adjusted: 1.40 HK cents). Diluted loss per share for the six months ended 30 June 2018 and 30 June 2017 are the same as the basic loss per share as both the share options and the Bonds outstanding during the period had an anti-dilutive effect on the basic loss per share. Cost of sales reduced in line with revenue. However, administrative expenses increased by 8% over the same period of last year which was mainly due to the increase of general operating costs in China, and the increase in research and development expenses of the Group for repositioning of the Group's business in light of the challenging competitive landscape in the Chinese lottery market.

Liquidity, Financial Resources and Funding

At 30 June 2018, the Group's total equity amounted to approximately HK\$4,934,013,000 as compared to approximately HK\$4,942,084,000 at the end of the previous year.

At 30 June 2018, the Group (including the assets of the disposal groups classified as held for sale) had cash and bank balances of approximately HK\$1,754,588,000 (31 December 2017: approximately HK\$1,841,419,000). The decrease in cash and bank balance was mainly due to the net cash outflow for operating activities. The increase in utility and other deposits was due to the Group's stepped up efforts in business development during the period under review.

In 2011 and 2012, the Company issued 2017 Bonds in principal amount of HK\$964,700,000 and HK\$429,000,000 respectively. Each 2017 Bond is convertible into fully paid Share at the applicable conversion price of HK\$0.5200 per Share as at 30 June 2018. The 2017 Bonds bear interest at the rate of 6% per annum payable semi-annually in arrears. During the period under review, there was no conversion of the 2017 Bonds into Shares by the Bondholders. As at 30 June 2018, the principal amount of the 2017 Bonds remaining outstanding was HK\$100,906,642.86 (31 December 2017: HK\$100,906,642.86).

In 2014, the Company issued 2019 Bonds in principal amount of HK\$1,900,000,000. Each 2019 Bond is convertible into fully paid Shares of the Company at the applicable conversion price of HK\$1.2900 per Share as at 30 June 2018. The 2019 Bonds bear interest at the rate of 4.5% per annum payable semi-annually in arrears. During the period under review, there was no conversion of the 2019 Bonds into Shares by the Bondholders. As at 30 June 2018, the principal amount of the 2019 Bonds outstanding was HK\$551,402,486.50 (31 December 2017: HK\$551,402,486.50).

The gearing ratio as at 30 June 2018 was 13.22% (31 December 2017:13.31%). The gearing ratio was derived by dividing the total borrowings including the Bonds and bank borrowing of approximately HK\$652,309,000 (31 December 2017: approximately HK\$657,671,000) by the amount of total equity. The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 452% (31 December 2017: 458%), reflecting adequacy of financial resources.

The Group had no outstanding bank borrowings as at 30 June 2018 (31 December 2017: approximately HK\$5,362,000). As at 31 December 2017, the bank borrowings were denominated in Renminbi and interest bearing at prevailing commercial lending rates. The Group's trade receivables were pledged to secure the bank borrowings.

On 20 March 2018, the Company completed the issue of 5,014,247,669 Rights Shares to the qualifying shareholders, on the basis of one Rights Share for every two existing Shares held on the record date at the subscription price of HK\$0.051 per Rights Share. The net proceeds from the Rights Issue raised by the Company was approximately HK\$248,856,000.

Taking into account the financial resources available to the Group including internally generated funds and available banking facilities, the Group has sufficient working capital to meet its present operational requirements.

During the period under review, the Group has applied new and revised accounting standards, including HKFRS 15 and HKFRS 9, which are effective for the Group's financial year beginning on 1 January 2018. Please refer to Notes 2(a) and (b) for the details of the effect and impact on the Group.

Pledge of Assets

As at 30 June 2018, no trade receivables (31 December 2017: approximately HK\$19,351,000) were pledged to a bank to secure general banking facilities granted to the Group.

Share Capital

On 20 March 2018, the Company issued and allotted an aggregate of 5,014,247,669 Shares by way of Rights Issue at the subscription price of HK\$0.051 per Rights Shares.

As at 30 June 2018, the total number of issued shares of the Company was 15,042,743,007.

Save as disclosed above, there was no change in the Company's share capital structure during the period under review.

Exposure to Exchange Rate Risk and Interest Rate Risk

The Group's assets, liabilities and transactions are mainly denominated either in Hong Kong dollar or Renminbi. The exchange rate of RMB fluctuated significantly in recent years, the Directors are aware that the fluctuations in exchange rate between Hong Kong dollar and Renminbi may give rise to potential foreign currency risk. The Group currently does not have a foreign currency hedging policy and will continue to monitor and evaluate the Group's foreign currency exposure and take actions as appropriate.

In terms of the interest rate risk exposures, the Group does not have any significant interest rate risk as the interest rates currently remain at low levels.

Contingent Liabilities

Details of contingent liabilities of the Group are set out in Note 16 to the consolidated financial statements.

Capital Commitments

As at 30 June 2018, the Company had capital commitments contracted for but not provided for in the consolidated financial statements of approximately HK\$84,592,000 (31 December 2017: approximately HK\$84,597,000) for increase in registered capital of subsidiaries.

INTERIM DIVIDEND

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

HUMAN RESOURCES

At 30 June 2018, the Group had 558 employees.

The Group remunerated its employees mainly based on the individual's performance and experience. Apart from the basic remuneration, discretionary bonus and share options may be granted to eligible employees by reference to the Group's performance as well as the individual's performance.

The Group will continue to emphasis on staff training and total quality management to better prepare its staff members for the upcoming changes and challenges in the market and industry.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group had no material acquisition and disposal of subsidiaries during the six months ended 30 June 2018.

POTENTIAL DISPOSAL

On 29 July 2018, the Company entered into a non-legally binding letter of intent with, among others, an independent third party in relation to the potential disposal (the “Potential Disposal”) of the operating entity in the scratch card business in China (the “Disposal Target”). As at the date hereof, the Disposal Target is wholly-owned by a company which is indirectly owned by a member of the Group and another party in equal shares. The Potential Disposal will be for an aggregate consideration of RMB105 million, subject to definitive agreement.

As at the date hereof, the terms and conditions of the Potential Disposal are still being negotiated and no definitive transaction agreement or other legally binding agreement has been entered into. The Potential Disposal, if materializes, may constitute a notifiable transaction for the Company under Chapter 14 of the Listing Rules.

Information of the Potential Disposal has been set out in the Company’s announcement dated 29 July 2018.

PROPOSED SHARE CONSOLIDATION

On 24 April 2018, the Board proposed to implement a share consolidation of every five (5) issued and unissued shares of HK\$0.01 each in the share capital of the Company be consolidated into one (1) consolidated share of HK\$0.05 each (the “Consolidated Shares”) in the issued and unissued share capital of the Company (the “Share Consolidation”) subject to, among other things, (i) the passing of the ordinary resolution to approve the Share Consolidation by the shareholders of the Company at the special general meeting (the “Share Consolidation SGM”); and (ii) the Listing Committee of The Stock Exchange of Hong Kong Limited granting approval to the listing of and permission to deal in the Consolidated Shares.

As stated in the Company's announcement dated 7 June 2018, in order to provide more information to the shareholders of the Company for considering the Share Consolidation if the Potential Disposal materializes, the circular in respect of the Share Consolidation (the "Share Consolidation Circular") and the supplemental circular in respect of the proposed CB Subscription and the proposed Increase in Authorized Share Capital (as defined in the section headed "CB Subscription Agreement in relation to New CB" below) (the "Supplemental Circular") shall be despatched on or around the same time. As a result, the expected timetable for the Share Consolidation will be revised and announced as soon as practicable.

As at 30 June 2018 and the date hereof, the Share Consolidation has not yet been completed.

Details of the Share Consolidation are set out in the Company's announcements dated 24 April 2018, 31 May 2018 and 7 June 2018.

THE PROPOSED FUND RAISING PLANS

Rights Issue

On 19 November 2017, the Company announced and proposed to implement a rights issue on the basis of one rights share for every two existing Shares held on the record date at the subscription price of HK\$0.051 per rights shares. The Rights Issue has been completed and an aggregate of 5,014,247,669 Rights Shares were issued and allotted on 20 March 2018. The net proceeds from the Rights Issue raised by the Company was approximately HK\$248,856,000, which has still not been utilized as at the date hereof. The net proceeds from Rights Issue will form part of the Group's offshore financial resources for the repayment of the Group's existing offshore liabilities. As disclosed in the Company's circular dated 25 April 2018, upon completion of the proposed fund raising plans, the Company intends to firstly repay the Bonds, and then repay the other liabilities and the shareholder's loan. The repayments will be made by applying the Company's offshore financial resources and the net proceeds from the proposed fund raising plans.

Details of the Rights Issue are set out in the Company's announcements dated 19 November 2017, 6 December 2017, 29 January 2018 and 19 March 2018, and the Company's prospectus dated 23 February 2018.

CB Subscription Agreement in relation to New CB

On 17 November 2017, the Company and Keen Start Limited (“Keen Start”), a substantial shareholder (as defined in the Listing Rules) of the Company, entered into a conditional subscription agreement (as supplemented on 14 February 2018, 21 March 2018, 31 May 2018 and 30 July 2018) (the “CB Subscription Agreement”), pursuant to which, the Company has conditionally agreed to allot and issue to Keen Start, and Keen Start has conditionally agreed to subscribe for the convertible bonds in an aggregate principal amount of HK\$167,500,000 (the “New CB”) at the initial conversion price of HK\$0.067 per Share (the “CB Subscription”). The aggregate principal amount of the New CB is HK\$167,500,000. The CB Subscription constitutes a connected transaction of the Company under the Listing Rules and is subject to the Company’s independent shareholders’ approval. In order to allow sufficient authorized share capital after completion of the CB Subscription, the Board has proposed and will seek approval from the shareholders to increase the authorized share capital of the Company from HK\$200,000,000 divided into 20,000,000,000 Shares to HK\$500,000,000 divided into 50,000,000,000 Shares, by the creation of an additional 30,000,000,000 Shares which shall rank pari passu with the existing Shares in all respects upon allotment and issue (the “Increase in Authorized Share Capital”).

As stated in the Company’s announcement dated 9 May 2018, it would be material information for shareholders of the Company to consider at the special general meeting for approving the CB Subscription and Increase in Authorized Share Capital, if the Potential Disposal materializes. Therefore, the Board considered that it would be appropriate and prudent to adjourn the resolutions to be proposed at the special general meeting, and provide additional information to the shareholders of the Company pursuant to Rule 13.73 of the Listing Rules. The ordinary resolution to adjourn the special general meeting (the “Adjourned SGM”) in respect of the CB Subscription and the Increase in Authorized Share Capital to a time, date and place to be further notified by the Company was passed on 11 May 2018.

As stated in the Company’s announcement dated 7 June 2018, the Supplemental Circular containing, among other things, further information in relation to the Potential Disposal will be despatched to shareholders of the Company in due course. The Share Consolidation Circular and the Supplemental Circular shall be despatched on or around the same time, and that the Share Consolidation SGM and the Adjourned SGM shall be held on the same date.

As at 30 June 2018 and the date hereof, the CB Subscription and the Increase in Authorized Share Capital have not yet been completed.

Details of the CB Subscription and the Increase in Authorized Share Capital are set out in the Company's announcements dated 19 November 2017, 23 February 2018, 21 March 2018, 20 April 2018, 9 May 2018, 11 May 2018, 7 June 2018 and 30 July 2018, and the Company's circular dated 25 April 2018.

THE 2017 AND 2019 CONVERTIBLE BONDS

The 2017 Bonds

The Company issued the 2017 Bonds in 2011 and 2012 respectively in an aggregate principal amount of HK\$1,393,700,000 which was convertible into fully paid Shares at an initial conversion price of HK\$0.6175 per Share. As a result of the Rights Issue, the conversion price of the 2017 Bonds has been adjusted from HK\$0.5600 per Share to HK\$0.5200 per Share, effective from 12 February 2018.

During the period under review, there was no conversion of the 2017 Bonds. As at 30 June 2018, the principal amount of the 2017 Bonds outstanding was HK\$100,906,642.86. Each 2017 Bond is convertible into fully paid Shares at the applicable conversion price of HK\$0.5200 per Share.

The 2019 Bonds

The Company issued the 2019 Bonds in 2014 in the principal amount of HK\$1,900,000,000. Each 2019 Bond was convertible into fully paid Shares at an initial conversion price of HK\$1.4070 per Share. As a result of the Rights Issue, the conversion price of the 2019 Bonds has been adjusted from HK\$1.3700 per Share to HK\$1.2900 per Share, effective from 12 February 2018.

There was no conversion of any 2019 Bonds since their issuance and during the period under review. As at 30 June 2018, the principal amount of the 2019 Bonds outstanding was HK\$551,402,486.50. Each 2019 Bond is convertible into fully paid Shares at the applicable conversion price of HK\$1.2900 per Share. The 2019 Bonds are listed on the Singapore Exchange Securities Trading Limited.

Relevant Event and Consent Solicitation Proposals in relation to the Bonds

As stated in the announcement of the Company dated 20 August 2015, pursuant to the terms and conditions of each of the 2017 Bonds and the 2019 Bonds, a “Relevant Event” occurs when, among other things, the Shares are suspended for trading for a period equal to or exceeding 30 consecutive trading days on The Stock Exchange of Hong Kong Limited. Notice has been given by the Company to the Bondholders that a “Relevant Event” occurred. Each Bondholder had the right at such Bondholder’s option, to require the Company to redeem all or some only of such Bondholder’s Bonds on 2 November 2015 (the “Relevant Event Redemption Date”) at their principal amount (the “Put Bonds”) together with interest accrued to such redemption date, in each case in accordance with the respective terms and conditions of the 2017 Bonds and the 2019 Bonds. Upon redemption of any of the Bonds, such redeemed Bonds will be cancelled.

Given the occurrence of the “Relevant Event”, the Company had formulated various consent solicitation proposals (the “Proposals”) to the Bondholders to, among other things, (a) delay the maturity date of the 2017 Bonds; (b) delay the original Relevant Event Redemption Date and extend the relevant put period end date; (c) extended the original 3rd Anniversary Put Option Redemption Date (as defined in the Company’s announcement dated 29 March 2017) of the 2019 Bonds; and (d) to waive the events of default for the respective Bonds. On 29 March 2017, the Company has made a partial repayment to satisfy part of the principal amount of the outstanding Bonds and the accrued but unpaid interest thereon and default interest. Subsequent to the passing of the extraordinary resolutions by the Bondholders and the execution of the supplemental trust deed, (i) the maturity date in relation to the 2017 Bonds was delayed to 28 February 2017 and further extended to 28 April 2017; (ii) the Relevant Event Redemption Date in relation to each series of the Bonds was delayed to 28 April 2017 in relation to the Relevant Delisting Event (as defined in the Company’s announcement dated 29 March 2017); (iii) the 3rd Anniversary Put Option Redemption Date of the 2019 Bonds was extended to 31 May 2017; and (iv) any breach of the terms and conditions or the trust deed of each series of the Bonds in respect of any non-payment of any amount otherwise payable was waived on 28 April 2017. The Company has not made payment of the outstanding Bonds on 28 April 2017, and the Bonds have been in default since then. The Bonds were still outstanding as at 30 June 2018 and the date hereof. The trustee or the Bondholders through the trustee may take legal actions against the Company in respect of the outstanding Bonds. The Company does not expect the possible courses of action to materially impact the Group, as the Company has sufficient offshore financial resources to fulfill repayment obligations under the outstanding Bonds.

Detailed information regarding the Proposals and the relevant meetings/resolutions (as the case may be) of the Bondholders are set out in the announcements of the Company dated 22 September 2015, 7 October 2015, 29 October 2015, 29 March 2016, 8 April 2016, 3 May 2016, 3 June 2016, 2 August 2016, 9 September 2016, 15 September 2016, 14 February 2017, 14 March 2017, 24 March 2017, 29 March 2017, 21 April 2017, 27 April 2017 and 28 April 2017 respectively.

THE OFFER

As disclosed in the Company's announcement dated 11 May 2017, the Company understood from Keen Start that Keen Start would invite holders of any and all of its outstanding Bonds to tender such Bonds for purchase by Keen Start at an amount equal to the aggregate outstanding principal amount of such Bonds plus any accrued but unpaid interest and default interest of such Bonds up to but excluding the settlement date (the "Offer"). Keen Start would purchase all, part or none of the Bonds tendered by any Bondholder pursuant to the Offer subject to certain conditions, including the aggregate principal amount of the Bonds being tendered by the Bondholders for purchase by Keen Start in the Offer shall exceed 75% of the aggregate outstanding principal amount of each of the 2017 Bonds and the 2019 Bonds.

Amongst others, Keen Start has expressed to the Company that, subject to completion of the purchase of the Bonds in the Offer, it is Keen Start's intention to discuss with the Company in good faith as to when the Company would be in a position to repay the outstanding Bonds and to discuss alternative proposals, if necessary, and it is also its intention to waive the default of the Company under the outstanding Bonds, subject to the terms of any proposal that may be agreed between Keen Start and the Company. As disclosed in the Company's announcement dated 26 July 2017, Keen Start has received from the participating Bondholders holding more than 75% of the aggregate outstanding principal amount of each of the 2017 Bonds and the 2019 Bonds, respectively, sufficient email confirmations together with evidentiary support details that their relevant Bonds have been un-put and are ready to be traded. As at 30 June 2018 and the date hereof, the Offer has not yet been completed.

As disclosed in the Company's announcements dated 19 November 2017, 29 January 2018, 9 May 2018 and 30 July 2018 respectively, Keen Start has revised the settlement date for the purchase of the Bonds and the latest revised settlement of the Bonds shall take place on 18 September 2018, that is after the blackout period for directors pursuant to Appendix 10 to the Listing Rules (which is applicable to Keen Start since it is wholly-owned by a director of the Company) in respect of this interim results announcement (i.e. after 31 August 2018).

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

During the six month ended 30 June 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiries by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2018.

AUDIT COMMITTEE

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 June 2018.

CORPORATE GOVERNANCE

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not, throughout the six months period, in compliance with the code provisions (the “Code Provision(s)”) under the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, except the following deviations:

Under the Code Provision A.2.1, the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. The Company does not at present have a Chairman nor a Chief Executive. Nevertheless, the main duties and responsibilities of a Chairman and a Chief Executive are currently held by separate individuals with written guidelines for the division of responsibilities with a view to maintain an effective segregation of duties between the management of the Board and the day-to-day management of the Group’s business and operations. The Company will continue to review the effectiveness of the Group’s corporate governance structure and consider the appointment of a Chairman of the Board and a Chief Executive if candidates with suitable leadership, knowledge, skills and experience can be identified within or outside the Group.

Under the Code Provision A.4.1 requires that non-executive directors should be appointed for a specific term, subject to re-election. Currently, the independent non-executive Directors are not appointed for a specific term, but are subject to retirement by rotation at the Company's annual general meeting as specified in the Company's Bye-laws.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement of the Group for the six months ended 30 June 2018 is published on the websites of The Stock Exchange of Hong Kong Limited (<http://www.hkexnews.hk>) and the Company (<http://www.aplushk.com/clients/00555rexlot/index.html>) respectively. The 2018 interim report of the Company will be despatched to the shareholders of the Company and made available on the above websites in due course.

By order of the Board
Chan How Chung, Victor
Executive Director

Hong Kong, 31 August 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 translation of Chinese names or words are for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*