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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 2014

FINANCIAL RESULTS

The board of directors (the “Board”) of REXLot Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (together, the “Group”) for the six months ended 30 June 2014 together with the unaudited comparative figures for the corresponding period in 2013 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2014

		Six months ended 30 June	
		2014	2013
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Turnover	4	1,250,686	1,150,087
Cost of sales/services rendered		(389,159)	(432,855)
Other income		7,202	6,856
Other gains, net		3,415	600
Selling and distribution expenses		(40,603)	(57,011)
Administrative expenses		(111,255)	(70,962)
Operating profit		720,286	596,715
Finance costs		(68,288)	(49,959)
Share of profits of joint ventures		9,151	6,548
Profit before taxation	5	661,149	553,304
Taxation	6	(33,088)	(23,049)
Profit for the period		628,061	530,255

		Six months ended 30 June	
		2014	2013
		(Unaudited)	(Unaudited)
<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
Attributable to:			
		551,023	490,896
		77,038	39,359
		<u>628,061</u>	<u>530,255</u>
Dividend	7	<u>2.30 cents</u>	<u>1.70 cents</u>
Earnings per share for profit attributable to equity shareholders of the Company			
– Basic	8	<u>6.14 cents</u>	<u>5.80 cents</u>
– Diluted		<u>5.64 cents</u>	<u>5.37 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
		(Restated)
	HK\$'000	HK\$'000
Profit for the period	<u>628,061</u>	<u>530,255</u>
Other comprehensive (expenses)/income		
Items that may be reclassified subsequent to profit or loss:		
Exchange difference arising from translation of financial statements of foreign operations	(41,025)	16,305
Share of other comprehensive (expenses)/income of joint ventures	<u>(4,022)</u>	<u>1,886</u>
Total other comprehensive (expenses)/income	<u>(45,047)</u>	<u>18,191</u>
Total comprehensive income for the period	<u>583,014</u>	<u>548,446</u>
Attributable to:		
Equity shareholders of the Company	512,442	506,242
Non-controlling interests	<u>70,572</u>	<u>42,204</u>
	<u>583,014</u>	<u>548,446</u>

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2014

		At 30 June 2014 (Unaudited) HK\$'000	At 31 December 2013 (Audited) HK\$'000
	Notes		
ASSETS			
Non-current assets			
Property, plant and equipment		194,182	186,082
Prepaid lease payments on land use rights		35,180	36,494
Goodwill		2,272,900	2,272,900
Intangible assets		288,703	246,293
Interests in joint ventures		393,579	388,450
Available-for-sale financial assets		38,375	34,000
Deferred tax assets		430	441
Total non-current assets		3,223,349	3,164,660
Current assets			
Inventories		168,841	151,315
Trade receivables	9	1,324,113	1,114,582
Utility and other deposits		1,350,317	1,053,516
Prepayments and other receivables		1,201,720	947,155
Financial assets at fair value through profit or loss		66,870	18,850
Cash and bank balances	10	2,551,178	1,146,266
Total current assets		6,663,039	4,431,684
Total assets		9,886,388	7,596,344

		At 30 June 2014 (Unaudited) HK\$'000	At 31 December 2013 (Audited) HK\$'000
	<i>Notes</i>		
EQUITY			
Capital and reserves attributable to equity shareholders of the Company			
Share capital	14	92,890	87,318
Reserves		6,819,981	5,708,058
Proposed final dividend		–	168,644
		6,912,871	5,964,020
Non-controlling interests			
		329,224	258,652
Total equity			
		7,242,095	6,222,672
LIABILITIES			
Non-current liabilities			
Convertible bonds	11	1,919,164	833,649
Amount due to a joint venture		46,195	46,195
Deferred tax liabilities		153,526	148,219
Obligation under finance leases		35,687	44,932
Total non-current liabilities			
		2,154,572	1,072,995
Current liabilities			
Trade payables	12	20,660	23,460
Other payables and accruals		176,415	170,900
Dividend payables		168,644	–
Bank borrowings	13	87,500	70,656
Obligation under finance leases		16,147	16,036
Current tax liabilities		20,355	19,625
Total current liabilities			
		489,721	300,677
Total liabilities			
		2,644,293	1,373,672
Total equity and liabilities			
		9,886,388	7,596,344
Net current assets			
		6,173,318	4,131,007
Total assets less current liabilities			
		9,396,667	7,295,667

Notes:

1. Basis of preparation

The unaudited condensed consolidated interim financial statements have been prepared in accordance with applicable disclosure requirements of Appendix 16 to 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”).

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 2013 except for the adoption of new and revised standard and interpretation with effect from 1 January 2014.

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 2014.

HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendment)	Recoverable Amount Disclosures for Non Financial Assets
HKAS 39 (Amendment)	Novation of Derivatives and Continuation of Hedge Accounting
HKFRS 10, HKFRS 12 and HKAS 27 (2011) (Amendment)	Investment Entities
HK (IFRIC) – Int 21	Levies

The adoption of the new or revised Hong Kong Financial Reporting Standards (“HKFRS”) had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented.

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

HKFRS 7 and HKFRS 9 (Amendment)	Disclosures – Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³
HKFRS 9	Financial Instruments ³
HKFRS 15	Revenue from Contracts with Customers ²
HKFRS Amendments	Annual Improvements to HKFRSs 2010-2012 Cycle ¹
HKFRS Amendments	Annual Improvements to HKFRSs 2011-2013 Cycle ¹

- ¹ *Effective for annual periods beginning on or after 1 July 2014*
- ² *Effective for annual periods beginning on or after 1 January 2017*
- ³ *No mandatory effective date yet determined but is available for early adoption*

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 is organised 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	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$’000	HK\$’000
Turnover	1,250,686	1,150,087
Segment results		
Profit	749,377	621,550
Net unallocated expenses	(88,228)	(68,246)
Profit before taxation	661,149	553,304
Taxation	(33,088)	(23,049)
Profit for the period	628,061	530,255

Segment assets and liabilities

	Lottery business	
	At	At
	30 June	31 December
	2014	2013
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets		
Segment assets	7,906,084	7,218,154
Unallocated assets	1,980,304	378,190
Total assets	9,886,388	7,596,344
Liabilities		
Segment liabilities	515,035	504,245
Unallocated liabilities	2,129,258	869,427
Total liabilities	2,644,293	1,373,672

4. Turnover

Turnover represents the aggregate of income from provision of lottery machines and related services.

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Turnover		
Income from provision of lottery machines and related services	<u>1,250,686</u>	<u>1,150,087</u>

5. Profit before taxation

The Group's profit before taxation is stated after charging the following:

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation and amortisation on:		
– Property, plant and equipment	28,058	27,198
– Intangible assets	15,262	17,471
Operating lease rentals in respect of office premises and warehouses	<u>23,804</u>	<u>12,247</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 2014 (2013: 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	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	(Restated) HK\$'000
Current tax – PRC income tax	26,816	12,076
Deferred tax	<u>6,272</u>	<u>10,973</u>
Total taxation	<u>33,088</u>	<u>23,049</u>

7. Dividend

The Board has declared an interim dividend of 2.30 HK cents per share for the six months ended 30 June 2014 (2013: 1.70 HK cents per share) payable to shareholders of the Company whose names appear on the Company's register of members on 31 October 2014.

8. Earnings per share

The calculation of basic and diluted earnings per share for the six months ended 30 June 2014 are based on the profit attributable to equity shareholders of the Company of approximately HK\$551,023,000 (2013: approximately HK\$490,896,000).

- (a) The basic earnings per share is based on the weighted average number of approximately 8,969,937,938 (2013: approximately 8,456,592,205) ordinary shares in issue during the six months ended 30 June 2014.
- (b) The diluted earnings per share is based on approximately 10,895,162,880 (2013: approximately 10,023,616,661) ordinary shares, being the weighted average number of ordinary shares in issue during the period plus the weighted average number of nil (2013: approximately 1,700,949) ordinary shares deemed to be issued if all outstanding options had been exercised and weighted average number of approximately 1,925,224,942 (2013: approximately 1,565,323,507) ordinary shares deemed to be issued if all outstanding convertible bonds had been converted.

The calculation of diluted earnings per share for the period ended 30 June 2014 has not included the potential effect of the share options outstanding as it has an anti-dilutive effect on the basis earnings per share for the period.

9. Trade receivables

	At 30 June 2014 (Unaudited) HK\$'000	At 31 December 2013 (Audited) HK\$'000
Loan interest receivable	–	149
Trade receivables – Lottery business	<u>1,324,113</u>	<u>1,114,433</u>
	<u>1,324,113</u>	<u>1,114,582</u>

The Group generally grants credit periods of 90 to 180 days to its trade customers.

The ageing analysis of loan interest receivables and trade receivables – Lottery business as at 30 June 2014 are as follows:

	At 30 June 2014 (Unaudited) <i>HK\$'000</i>	At 31 December 2013 (Audited) <i>HK\$'000</i>
Three months or less	888,385	616,783
One year or less but over three months	415,868	479,036
Over one year	<u>19,860</u>	<u>18,763</u>
	<u>1,324,113</u>	<u>1,114,582</u>

10. Cash and bank balances

	At 30 June 2014 (Unaudited) <i>HK\$'000</i>	At 31 December 2013 (Audited) <i>HK\$'000</i>
Cash at banks		
– general accounts	2,548,870	1,143,710
– segregated accounts	332	336
Cash in hand	<u>1,976</u>	<u>2,220</u>
	<u>2,551,178</u>	<u>1,146,266</u>

11. Convertible bonds

The movement of the liability component of the convertible bonds for the period is set out below:

	Liability component HK\$'000
At 31 December 2013	833,649
Bond issued during the period	1,600,000
Equity component*	(252,196)
Transaction cost attributable to the liability component	(33,874)
Interest expenses	63,225
Interest paid	(36,836)
Converted during the period	<u>(254,804)</u>
At 30 June 2014	<u>1,919,164</u>

* *The transaction costs attributable to the equity component of the new bonds amounted to HK\$6,338,000.*

12. Trade payables

	At 30 June 2014 (Unaudited) HK\$'000	At 31 December 2013 (Audited) HK\$'000
Other client payables	314	314
Trade payables – Lottery business	<u>20,346</u>	<u>23,146</u>
	<u>20,660</u>	<u>23,460</u>

Other client payable were repayable on demand and bore interest at prevailing market rates.

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 – Lottery business are expected to be settled within one year or are repayable on demand.

The ageing analysis of the Group's trade payables – Lottery business as at 30 June 2014 is as follows:

	At 30 June 2014 (Unaudited) HK\$'000	At 31 December 2013 (Audited) HK\$'000
Three months or less	18,639	22,060
Over three months	<u>1,707</u>	<u>1,086</u>
	<u>20,346</u>	<u>23,146</u>

13. Bank borrowings

	At 30 June 2014 (Unaudited) HK\$'000	At 31 December 2013 (Audited) HK\$'000
Bank loans		
– secured and due within one year	<u>87,500</u>	<u>70,656</u>

Bank loans are repayable within one year or when the facility is withdrawn. These borrowings are used to finance the lottery business of the Group.

Bank loans of approximately HK\$87,500,000 (31 December 2013: approximately HK\$64,103,000) and nil (31 December 2013: approximately HK\$6,553,000) are secured by the leasehold buildings and land use rights and trade receivables of the Group respectively.

The effective interest rates on the Group's borrowings are equal to contractual interest rates.

14. Share capital

Authorised:

	Ordinary shares of HK\$0.01 each	
	<i>Number of shares</i>	<i>Amount HK\$</i>
At 31 December 2013 and at 30 June 2014	20,000,000,000	200,000,000

Issued and fully paid:

	Ordinary shares of HK\$0.01 each	
	<i>Number of shares</i>	<i>Amount HK\$</i>
At 31 December 2013	8,731,772,194	87,317,722
Cancellation of the shares repurchased	(20,125,000)	(201,250)
Issuance upon exercise of share options	106,000,000	1,060,000
Issuance upon conversion of convertible bonds	471,333,329	4,713,333
At 30 June 2014	9,288,980,523	92,889,805

15. Commitments

As at 30 June 2014, the Group's future aggregate minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2014 (Unaudited) HK\$'000	At 31 December 2013 (Audited) HK\$'000
Land and buildings		
Within one year	32,183	36,600
In the second to fifth year inclusive	33,308	24,404
	65,491	61,004

The Group leases various office premises, office equipment and warehouses under operating leases. The leases run for an initial period of one to five years. The leases do not include any contingent rentals.

16. Contingent liabilities

Financial guarantees issued

As at 30 June 2014 and 31 December 2013, certain subsidiaries of the Group have issued corporate guarantees in respect of the finance lease obligation under a sales and leaseback arrangement granted to a subsidiary of the Group which will expire when the lease is terminated. As at 31 December 2013, a subsidiary has issued corporate guarantee to a bank to secure general facilities granted to one of the subsidiaries. The Group has not recognised any deferred income and the related expenses in respect of such guarantees, as in the opinion of the Directors, their fair value cannot be reliably measured using observable market data and their transaction price was nil.

As at 30 June 2014 and 31 December 2013, the Directors do not consider it probable that a claim will be made against these subsidiaries under any of the guarantees.

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 2014 (Unaudited) HK\$'000	At 31 December 2013 (Audited) HK\$'000
Director:		
Balance due from the Group	141	141
Convertible bonds	<u>–</u>	<u>116,800</u>

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Director:		
Convertible bonds interest	<u><u>3,465</u></u>	<u><u>5,536</u></u>
Related companies:		
Sub-letting income	<u><u>–</u></u>	<u><u>679</u></u>
Compensation of directors of the Group during the period are as follows:		
Fees, salary and other short-term employee benefits	<u>3,796</u>	<u>3,786</u>
Pension scheme contributions	<u>8</u>	<u>8</u>
	<u><u>3,804</u></u>	<u><u>3,794</u></u>

18. Comparative figures

Certain comparative figures have been reclassified 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").

Turnover of the lottery business for the period increased by 9% to HK\$1,250,686,000 (2013: HK\$1,150,087,000), accounting for 100% of the total turnover. Profit before taxation arising from this segment recorded a growth of 21% to HK\$749,377,000 (2013: HK\$621,550,000).

Highlights of the first half of 2014

As of 30 June 2014, total lottery sales of the Chinese lottery market recorded a strong growth of 19% over the same period last year which once again showcased the solid demand and its growth potential of Chinese lottery market.

The Group sustained its track record of growth and consistently demonstrated its capability in improving results underpinned by a wide array of lottery services across the whole value chain of Chinese lottery market.

The Group's SGDB continued to deliver solid earnings. Welfare Computer Ticket Games ("CTG") business, the major contributor of our SGDB was able to benefit from a healthy market development characterized with a balanced product mix consisting of traditional national draw-based games and rapid growing regional high frequency games. Although market conditions remained challenging for scratch card products, our Welfare Scratch Card business was able to achieve continued growth and play a part in rejuvenating this sector with some fascinating new game designs.

Meanwhile, the Group's DMB achieved another record-breaking performance during the period under review. The Group's ongoing efforts to expand our strategic presence over the electronic lottery distribution channels are reaping the rewards. The Group's SMG business enjoyed an outstanding upsurge, reflecting a huge demand triggered by FIFA World Cup, and successfully maintained a leading position in this sector of the market. On the mobile front, the Group's Mobile Electronic Lottery Platform ("Mobile ELP") was making good progress in growing the number of users and prepared to accelerate its pace to tap into other provinces.

During the first half of 2014, the Company successfully launched a convertible bond issuance of HK\$1.9 billion which once again demonstrated its ability to augment capital on the back of its robust financial performance. The convertible bond met with strong demand and was largely subscribed by high quality international institutional investors. The convertible bond issuance further enhanced the Group's financial resources for business development, paving the road to faster growth, both organically and through potential acquisitions or joint ventures on high growth segment in the industry, i.e. electronic lottery distribution channels.

The Group is pleased with this good set of results for the first half of this year. We have also made encouraging progress for the strategic plans in place that will drive our continued growth going forward.

Chinese Lottery Market

China's lottery market registered total lottery sales of RMB178.41 billion in the first six months of 2014, representing a growth of 19% over the same period of 2013.

During the period under review, total Welfare Lottery sales was RMB98.50 billion. Welfare CTG sales increased 14% to RMB70.96 billion, accounting for 72% of the total Welfare Lottery sales. Welfare Scratch Card sales increased 5% to RMB9.90 billion and Video Lottery Terminals ("VLT") sales grew by 28% to RMB17.64 billion. Sales of Welfare Scratch and VLT accounted for 10% and 17% of the total Welfare Lottery sales respectively.

In the first half of 2014, total Sports Lottery sales was RMB79.91 billion. Sales of Sports CTG, including Single Match Games (“SMG”), increased by 28% to RMB71.47 billion accounting for 91% of total Sports Lottery Sales. Sports Scratch Card sales was RMB8.44 billion, slightly dropped 2% over last year, accounted for 9% of the total Sports Lottery Sales.

System and Games Development Business

The Group’s SGDB division is an active participant in the provision of lottery system and specialized equipments for both CTG and scratch card products in China. Our SGDB Division continued to deliver solid earnings during the period under review.

Welfare CTG Business

The Group’s SGDB participates in the Welfare CTG business in China through Shenzhen Sinodata Technology Co Ltd (“Sinodata”). Sinodata is the leading lottery system and specialized equipment supplier for Welfare Lottery in China and has a long and proven track record of success in the field of lottery system and games development. During the period, Sinodata provided its professional services to 17 lottery provinces in China.

In the first half of 2014, total sales of Welfare CTG market totaled RMB70.96 billion, reflecting an increase of 14% over the same period in 2013. It was an encouraging performance against the backdrop of a high base turnover in this sector recorded last year. National draw-based games and regional high frequency games, two well established categories of CTG products, together contributed a healthy market growth by offering attractive jackpot and instant amusement respectively to match different players’ expectation. Following its expansion in the past two years, the high frequency games have fulfilled its objective to give a fresh impetus to the CTG market and developed itself into a product class that shares equal importance with traditional draw-based games. Capitalizing on the extensive service network of Sinodata with wide exposure to these two categories of CTG games, performance of the Group’s Welfare CTG business and this market sector are closely aligned.

Over the past decade, Sinodata has been a trusted partner of lottery authorities in supporting the development of Welfare CTG. The integrity and reliability in lottery operations has always been our key to success. The Group will continue to devote resources to develop new technologies and related lottery solutions to reinforce its partnerships with the lottery authorities and maintain its leading position in the years ahead.

Welfare Scratch Card Business

The Group's SGDB involves in the validation and printing business of Welfare Scratch Cards in China. The Group has jointly controlled interests, through Beijing Guard Libang Technology Co Ltd ("Guard Libang"), in Welfare Scratch Cards validation services. Guard Libang is a 50:50 joint venture with Scientific Games Corporation ("Scientific Games"), the world's leading instant ticket system and games provider. Our strategic partnership with Scientific Games enables us to bring its expertise and technology know-how to the Scratch Cards market in China.

Through a cooperative venture with Shijiazhuang Offset Printing House, one of the three entities authorized to print for the Welfare Scratch Cards programs, the Group has involved in Welfare Scratch Cards printing business.

In the first half of 2014, total sales of Welfare Scratch Cards in the market saw a rebound after the decline in 2013, with turnover increased 5% to RMB9.90 billion. Performance of this sector in the market continued to be affected by the slowdown of new scratch card roll out and keen competition from other lottery games such as high frequency games, which offers similar instant excitement to players.

The Group's printing operations saw continued growth during the period despite the challenging market condition. We will continue to support the revitalization initiatives taken by lottery authorities by offering new concepts on game design helping to boost the attractiveness of new scratch cards to ignite interest among scratch card players.

Sports CTG Business

The Group's Sports CTG business involved the manufacturing and sales of CTG terminals to provincial Sports Lottery Centres across China serving the needs of traditional CTG sector and supporting the development of SMG. The Group is one of the qualified Sports CTG terminal suppliers in the market and we continued to offer the latest model of CTG/SMG terminals during the period in order to meet the demand of terminal replacement cycle.

Distribution and Marketing Business

The Group's DMB is a major participant in the downstream lottery operations in China. It has successfully established a comprehensive distribution platform consists of a solid foundation of widely diversified and recognized physical retail network and a best-in-class portfolio of electronic lottery distribution channels.

We 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 Group's DMB achieved an exceptional performance, getting off to a very positive start in 2014, largely due to the one-off sales boots enjoyed by our SMG business driven by the FIFA World Cup.

Cooperation Distribution Business

The Group's cooperation distribution business focuses on the distribution and sales of scratch cards through a physical lottery distribution network located throughout the major provinces in China. Under the cooperative model, we establish strategic partnerships with channel partners, entities and organizations that already had a widely diversified and recognized sales network located in selected prime locations. Our channel partners principally comprise chains of convenience store and supermarket, grocery and pharmacy chains, gasoline stations and post office. To date, the Group's DMB is one of the largest distributors for scratch cards in terms of sales value and number of point-of-sales established.

In the first six months of 2014, the aggregate turnover of Welfare Scratch Card and Sports Scratch Card in the market was RMB18.34 billion, reflecting a flat growth versus the same period last year. In respond to the slowdown of scratch card market over the past two years, the Group set out to optimize its sales network during the second half of 2013. Taking into account of the ever fiercer competitive market landscape for scratch card products, our efforts to adapt the sales network to an evolving consumer spending habit were valuable as demonstrated by the noticeable improvement of its performance during the period. The Group is well positioned to seize opportunities and benefit from revitalization initiatives launched by lottery authorities.

Single Match Games Business

The Group's SMG business is conducted through a comprehensive distribution network, consisting of franchised SMG shops located in 7 key provinces and online lottery distribution platform.

In the first half of 2014, SMG market registered a record-breaking sales of over RMB18 billion, representing a handsome year-on-year growth of 67%. This was mainly attributed to the huge demand triggered by the FIFA World Cup held in Brazil from June to July. The Group's SMG business was able to benefit from this exceptional growth through its comprehensive distribution network, in particular over the online lottery distribution platform.

2014 FIFA World Cup acted as a catalyst to fuel growth of SMG in China. A high degree of Internet and smart phone penetration helped to transform the global sporting event into a massive social event which has a huge amount of influence on buying habit of existing SMG players and introduced this lottery game to a group of newcomers. The convergence of World Cup and social media also allowed the lottery industry to reveal a large group of enthusiastic SMG players, consisting of white collar and young adult who are mainly in the age bracket between mid 20s to mid 30s and possess stronger spending power on lottery. Whilst strengthening the lottery experience for our existing customers, the Group has also exploited this terrific opportunity created by World Cup to devote significant efforts to engage and retain its new customers.

This shows again the Group's successful acquisition strategy for business expansion in the difficult years of 2010 and 2011. During 2011, the Group successfully branched out into electronic and online web lottery distribution through the acquisitions of various mobile and web based distribution companies, through variable interest equity structure, including the acquisition of a 60% controlling interest of 澳客之家(北京)科技股份有限公司 which operates www.okooo.com ("Okooo").

Through these strategic expansions, the Group has been able to build a very strong presence in the mobile and web distribution of lottery products in China. For instance, over the past two years, Okooo has successfully tripled its number of registered users. We believed that the Group's ongoing strategy to establish a strong online presence has proven to be highly successful.

Our Group's electronic lottery distribution platform enjoys strong brand recognition among lottery players in China, offering SMG players with comprehensive statistics database, handy gadget for game preview, forum for exchange of information and reliable transaction gateway. Our strong lottery distribution capability is also well recognized by major media group like People.cn which now has finalized a joint venture with Okooo. People.cn is the leading key news website in China constructed by People's Daily and one of the largest comprehensive Internet media on the Internet with a stable and extensive readers group. The Group believes such partnerships will enable Okooo to further strengthen its market position in the industry.

Mobile Lottery Business and Mobile Electronic Lottery Platform

The Group's traditional mobile lottery business provides subscribers with the latest lottery information and allows them to purchase CTG tickets through SMS text messaging. During the period, contribution from the SMS continued to diminish as most users of this traditional mobile channel had already migrated to the Group's Mobile ELP, utilizing mobile app to buy lottery tickets and receive latest lottery information.

In the light of the development of mobile communication with increasing penetration and advancement of mobile devices, the Group's DMB has developed and launched its Mobile ELP for Welfare Lottery since second half of 2012 which provides technological breakthrough to improve the accessibility of lottery products and creates an efficient channel for lottery authorities to remain in touch with players.

The Group's Mobile ELP offers a multi-functional back-end system with convenience interface to facilitate the lottery distribution of provincial lottery centers over the mobile channel. In terms of user experience, the Mobile ELP improves the convenience of lottery purchase by connecting the players directly to the centralized system of provincial lottery centre, enabling a safe and reliable lottery buying experience.

Outlook

Buoyed by the market development outlined above, Chinese lottery market has once again achieved a tremendous performance and reached new record of sales in the first half of 2014 which will bring a new set of opportunities to the industry.

Over the years, the Group has successfully diversified our businesses from provision of traditional lottery system and technologies to innovative lottery services over the digital space and enriched our operational capability in the aim to achieve sustainable growth and create long-term value for shareholders. We are extremely proud to have established such a solid foundation for the Group to further excel ourselves in the years ahead.

We believe electronic lottery distribution channels will bring transformational changes to the lottery industry in near future. Therefore, the Group will continue to focus on developments where it can further strengthen our foothold in these rapidly developing channels. The Group will consistently maintain its active and prudent management approach to invest in areas that will add value to the existing business and deliver operational synergies. Leveraging on the Group's major competitive strengths, we are well positioned to take advantage of the next wave of growth in the market.

The strong participation among lottery players during the FIFA World Cup period perfectly illustrated the power of electronic lottery distribution channels. The success of World Cup has brought us opportunities mainly from two areas. Firstly, it has introduced SMG to a larger group of population who are the newcomers for this lottery product, creating opportunities for the Group to engage and retain them as casual players. Secondly, it has identified a group of potential lottery players who can hardly be discovered by the traditional physical channel since internet and mobile have been their preferred tool for buying lottery.

Unlike other draw-based lotteries in the market, SMG offers players with fun and excitement beyond simply a game of chance. Players are looking for information and insights regarding the sports events to facilitate their lottery buying decisions. Therefore, we have reiterated that electronic lottery distribution platform in particular through the use of internet on personal computer represent the ideal platform for the development of SMG.

Okooo has been a well established online lottery platform that enjoys strong brand recognition among SMG players in China with solid reputation for delivering reliable, smooth and unique lottery experience online. Nevertheless, there are growing opportunities for us to cultivate stronger relationships with a new group of potential SMG players in the market who are relative newcomers to SMG. Building on our immense expertise over online lottery distribution platform, we have adopted a collaboration strategy to drive expansion of our business. We have and will continue to join forces with leading players over the internet space

who already acquired a solid customer base. They include leading internet portals, online gaming websites and other major official propaganda portals. This strategy not only offers us with reduced marketing costs and access to a larger group of cross-channel audience in the internet space, but also allows us to acquire and engage more potential customers while bringing added value to the customers of our partners.

Meanwhile, mobile technology is rapidly transforming lottery players' habit and the market landscape. For now, the Group's Mobile ELP has established a solid presence by providing its services for Welfare Lottery. We expect the industry will be stepping up initiatives to implement lottery distribution via mobile inspired by the widely use of mobile channel during the World Cup. In the light of such development, the Group has already undertaken considerable efforts to exploit our expertise on mobile lottery distribution to capture the emerging opportunities being identified on Sports Lottery.

Separately from the general trend evolving over the internet and mobile network, the increased public awareness of lottery products has also created a perfect environment for financial institutions such as retail bank to play a part in supporting the growth of lottery market. The lottery and financial services industries have converged when the latter starts to offer value added services to their customers with innovative and convenient way to purchase lottery. In its attempt to promote the development of this new lottery distribution channel, the Group has participated in designing and provision of a comprehensive and specialized system solution for financial institutions to equip their various customer interfaces with lottery distribution functions, from ATMs and service counters at local branches to telephone and cyber banking portals. This solution serves as an intermediate unit by bridging the banking channels with existing lottery network and connecting them with the provincial lottery centers. Currently, the Group has already started the test run of the solution in 4 provinces and in cooperation with 7 major financial institutions in China. Going forward, we will continue to step up our efforts in building up our business network with provincial financial institutions as we believe the expansion of banking channel for lottery will be part of the maturing of China's electronic lottery distribution market as lottery players are seeking their preferred network.

While the Group has been successful over the years in establishing our lottery operations in China as one of the leading comprehensive lottery service providers, we have been reviewing our corporate strategy continuously in aim of diversifying our business coverage from the traditional lottery-centric operations to other potential peripheral business sectors with high growth potential on the one hand, and creating synergies to improve the efficiency and effectiveness of our lottery operations on the other hand. We believe this is a key step forward for the Group to diversify our business and further expand our horizons to maximize shareholders' value.

Looking to the future, innovation will remain as the key for us to stay ahead of competition to meet customers' expectation and distinguish ourselves to be the top performers from other average companies in the market. Development of new lottery products and evolution of lottery distribution channels will continue to drive industry growth accomplished by the marketing initiatives set out by the lottery authorities. These are the two important elements that will bring Chinese lottery market to the next level in future by expanding the size of lottery players, hence an increased lottery spending. Since these developments will give further impetus to the industry, we are confident that the Welfare and Sports Lotteries in China will continue to make significant contributions for the good causes which benefit the general public in China. As a major participant in China's lottery industry, supporting the ongoing development of lottery in China will always be at the heart of our mission and we intend to continue to play a vital role in this cause.

FINANCIAL REVIEW

Financial Results

For the six months ended 30 June 2014, the Group achieved an encouraging result. During the period, the Group recorded a turnover of HK\$1,250,686,000 (2013: HK\$1,150,087,000), representing an increase of 9% over the last year. The increase was attributable to the increase in turnover from the lottery business.

The unaudited profit attributable to equity shareholders of the Company was HK\$551,023,000 (2013: HK\$490,896,000). The earnings per share was 6.14 HK cents (2013: 5.80 HK cents). Fully diluted earnings per share was 5.64 HK cents (2013: 5.37 HK cents).

Liquidity, Financial Resources and Funding

At 30 June 2014, the equity attributable to equity shareholders of the Company amounted to HK\$6,912,871,000 as compared to HK\$5,964,020,000 at the end of the previous year.

At 30 June 2014, the Group had cash reserves of approximately HK\$2,551,178,000 (31 December 2013: HK\$1,146,266,000), which included approximately HK\$332,000 (31 December 2013: HK\$336,000) of clients' funds that were kept in designated segregated bank accounts.

In 2011 and 2012, the Company issued 6% convertible bonds due 2016 in principal amount of HK\$964,700,000 and HK\$429,000,000 respectively (together, the "2016 Convertible Bonds"). Each 2016 Convertible Bond will be convertible into fully paid ordinary shares of HK\$0.01 each (the "Shares") of the Company at the applicable conversion price of HK\$0.5800 per Share. The 2016 Convertible Bonds bear interest at the rate of 6% per annum payable semi-annually in arrears. During the period under review, conversion rights attached to the 2016 Convertible Bonds of HK\$282,800,000 in principal amount had been exercised by the holders thereof. As at 30 June 2014, the principal amount of the 2016 Convertible Bonds outstanding was HK\$683,000,000 (31 December 2013: HK\$965,800,000).

In April 2014, the Company entered into a subscription agreement whereby the Company agreed to issue up to HK\$1,900,000,000 in aggregate principal amount of 4.5% convertible bonds due 2019 (the "2019 Convertible Bonds"). During the period under review, the total issue size of the 2019 Convertible Bonds was HK\$1,600,000,000 in principal amount. Each 2019 Convertible Bond will be convertible into fully paid ordinary Shares of the Company at an initial conversion price of HK\$1.4070 per Share. The 2019 Convertible 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 Convertible Bonds into Shares by the bondholders and no redemption of the 2019 Convertible Bonds made by the Company. As at 30 June 2014, the principal amount of the 2019 Convertible Bonds outstanding was HK\$1,600,000,000.

The gearing ratio as at 30 June 2014 was 28.42% (31 December 2013: 15.51%). The gearing ratio was derived by dividing the total borrowings including the convertible bonds, obligation under finance leases and bank borrowings of approximately HK\$2,058,498,000 by the amount of total equity. The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 1,361% (31 December 2013: 1,474%), reflecting adequacy of financial resources.

The Group had outstanding bank borrowings of approximately HK\$87,500,000 as at 30 June 2014 (31 December 2013: approximately HK\$70,656,000). The bank borrowings were denominated in Renminbi and interest bearing at prevailing commercial lending rates. The Group's land and building were pledged to secure the bank borrowings. It is expected that all these borrowings will be repaid by internal generated funds.

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 requirements.

Pledge of Assets

At 30 June 2014, the Group's land and building with total market value of approximately HK\$87,250,000 (31 December 2013: HK\$86,795,000) were pledged to banks to secure the bank borrowings granted to the Group.

Share Capital

106,000,000 new shares of HK\$0.01 each were issued and allotted during the period upon exercise of share options granted by the Company.

471,333,329 new shares of HK\$0.01 each were issued and allotted during the period upon exercise of conversion rights attached to the 2016 Convertible Bonds. Share premium increased by approximately HK\$293,525,000 accordingly.

20,125,000 shares of HK\$0.01 each were repurchased by the Company and cancelled during the period.

As at 30 June 2014, the total number of issued shares of the Company was 9,288,980,523. Save as disclosed above, there was no change in the Company's share capital structure during the period under review.

2016 Convertible Bonds

The Company issued the 2016 Convertible Bonds in 2011 and 2012 respectively which shall, upon conversion, be convertible into fully paid Shares at an initial conversion price of HK\$0.6175 per Share. Pursuant to the adjustment provisions in the terms and conditions of the 2016 Convertible Bonds, (i) adjustment has been made to the conversion price of the 2016 Convertible Bonds from HK\$0.6175 per Share to HK\$0.6100 per Share with effect from 19 June 2013 as a result of the approval and declaration of the final dividend for the year ended 31 December 2012; (ii) further adjustment has been made to the conversion price of the 2016 Convertible Bonds from HK\$0.6100 per Share to HK\$0.6000 per Share with effect from 31 October 2013 as a result of the declaration of the interim dividend for the six months ended 30 June 2013; and (iii) further adjustment has been made to the conversion price of the 2016 Convertible Bonds from HK\$0.6000 per Share to HK\$0.5800 per Share with effect from 19 June 2014 as a result of the approval and declaration of the final dividend for the year ended 31 December 2013.

During the period under review, conversion rights attached to the 2016 Convertible Bonds of HK\$282,800,000 in principal amount had been exercised by the holders thereof. As at 30 June 2014, the principal amount of the 2016 Convertible Bonds outstanding was HK\$683,000,000. The 2016 Convertible Bonds are currently listed on the Singapore Exchange Securities Trading Limited.

As at the date hereof, the principal amount of the 2016 Convertible Bonds remaining outstanding is HK\$678,000,000. Each 2016 Convertible Bond will be convertible into fully paid Shares at an applicable conversion price of HK\$0.5800 per Share upon conversion.

Pursuant to the terms and conditions of the 2016 Convertible Bonds, the Company may at any time after 28 September 2014 and prior to the maturity date of the 2016 Convertible Bonds, and subject to the provisions of the terms and conditions thereof, redeem in whole, or in part, the 2016 Convertible Bonds for the time being outstanding at their principal amount together with interest accrued to the date fixed for redemption. The Board will consider the circumstances and may redeem the 2016 Convertible Bonds as and when appropriate.

Issue of 2019 Convertible Bonds

On 9 April 2014, the Company entered into a subscription agreement with Daiwa Capital Markets Hong Kong Limited and Merrill Lynch Far East Limited whereby the Company agreed to issue up to HK\$1,900,000,000 in aggregate principal amount of 4.5% convertible bonds due 2019 at the issue price of 100% of the principal amount thereof. The 2019 Convertible Bonds shall, upon conversion, entitle the holders thereof to subscribe for the Shares at an initial conversion price of HK\$1.4070 per Share.

As at 30 June 2014, the total issue size of the 2019 Convertible Bonds was HK\$1,600,000,000 in principal amount, comprising:

- 1) Firm Bonds of HK\$1,200,000,000 in principal amount issued on 17 April 2014; and
- 2) Option Bonds of HK\$400,000,000 in principal amount issued on 17 April 2014.

The total gross proceeds from the issue of the 2019 Convertible Bonds during the period under review were HK\$1,600,000,000, which shall be used to finance the Group's business expansion through organic growth and potential joint ventures and acquisition opportunities that may arise in the future and for general corporate and working capital needs.

Subsequent to the period end date, VC Bonds of HK\$300,000,000 in principal amount were issued on 8 July 2014, bringing the total issue size of the 2019 Convertible Bonds to HK\$1,900,000,000 in principal amount.

The 2019 Convertible Bonds are currently listed on the Singapore Exchange Securities Trading Limited. Details of the issue of the 2019 Convertible Bonds and the principal terms thereof are set out in the Company's announcements dated 10 April 2014, 17 April 2014, 13 May 2014 and 8 July 2014 respectively, and the Company's circular dated 23 May 2014.

There was no movement in the 2019 Convertible Bonds since issuance and 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 Group did not enter into any foreign exchange forward contracts to hedge against exchange rates fluctuations. Foreign exchange risk arising from the normal course of operations is considered to be minimal and the management will closely monitor the fluctuation in the currency and take appropriate actions when condition arises.

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.

Acquisitions and Disposals of Subsidiaries

The Group had no material acquisition and disposal of subsidiaries during the six months ended 30 June 2014.

Human Resources

At 30 June 2014, the Group had 1,433 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 emphasise on staff training and total quality management to better prepare its staff members for the upcoming changes and challenges in the market and industry.

INTERIM DIVIDEND

The Board has declared an interim dividend of 2.30 HK cents per share for the six months ended 30 June 2014 (2013: 1.70 HK cents per share). The interim dividend will be payable in scrip form with a cash alternative to shareholders whose names appear on the register of members of the Company on 31 October 2014. A circular giving full details of the interim scrip dividend and the election form will be sent to shareholders as soon as practicable. Payment of the scrip dividend is conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares to be issued as the scrip dividend. Share certificates for the scrip shares and/or dividend warrants are expected to be sent to shareholders on or around 10 December 2014.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 30 October 2014 to Friday, 31 October 2014, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 29 October 2014.

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

During the six months ended 30 June 2014, the Company repurchased a total of 20,125,000 ordinary shares on The Stock Exchange of Hong Kong Limited at an aggregate consideration of HK\$15,837,500 pursuant to the general mandate granted by the shareholders of the Company at the annual general meeting held on 11 June 2013. Details of the repurchases of shares were as follows:

Month/Year	Total number of ordinary shares repurchased	Repurchase consideration per Share		Aggregate consideration (expenses excluded) HK\$
		Highest	Lowest	
		HK\$	HK\$	
May 2014	<u>20,125,000</u>	0.79	0.78	<u>15,837,500</u>

All the repurchased shares were cancelled during the period and the issued share capital of the Company was reduced by the par value thereof. The above repurchases were effected with a view to benefit shareholders of the Company as a whole in enhancing the net assets and earnings per share of the Company.

Save as disclosed above, there was no purchase, sale or redemption by the Company or any of its subsidiaries of any listed securities of the Company during the period.

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 2014.

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 2014.

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, 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 2014 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 2014 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, 28 August 2014

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. Lee Ka Lun.