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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 2017

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

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	4	241,774	675,335
Cost of sales/services rendered		(117,614)	(335,493)
Other income		7,355	5,560
Other (losses)/gains, net		(11,645)	39,623
Selling and distribution expenses		(23,962)	(51,884)
Administrative expenses		(147,220)	(160,353)
Operating (loss)/profit		(51,312)	172,788
Finance costs		(41,913)	(81,499)
Share of losses of joint ventures		(4,106)	(521)
Loss on disposal of subsidiaries	19	(48,851)	—
(Loss)/profit before taxation	5	(146,182)	90,768
Taxation	6	2,919	(13,308)
(Loss)/profit for the period		(143,263)	77,460

		Six months ended 30 June	
		2017	2016
		(Unaudited)	(Unaudited)
<i>Note</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
Attributable to:			
	Equity shareholders of the Company	(140,645)	82,159
	Non-controlling interests	<u>(2,618)</u>	<u>(4,699)</u>
		<u>(143,263)</u>	<u>77,460</u>
(Loss)/earnings per share for (loss)/profit attributable to equity shareholders of the Company			
	– Basic and diluted	<u>(1.40) cents</u>	<u>0.82 cent</u>

8

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
(Loss)/profit for the period	<u>(143,263)</u>	<u>77,460</u>
Other comprehensive income/(expenses)		
Items that may be reclassified subsequent to profit or loss:		
Exchange difference arising from translation of financial statements of foreign operations	52,338	(48,325)
Release of exchange differences upon disposal of subsidiaries	41,109	–
Share of other comprehensive income/(expenses) of joint ventures	<u>4,191</u>	<u>(3,478)</u>
Total other comprehensive income/(expenses)	<u>97,638</u>	<u>(51,803)</u>
Total comprehensive (expenses)/income for the period	<u>(45,625)</u>	<u>25,657</u>
Attributable to:		
Equity shareholders of the Company	(45,391)	33,308
Non-controlling interests	<u>(234)</u>	<u>(7,651)</u>
	<u>(45,625)</u>	<u>25,657</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

		At 30 June 2017 (Unaudited) HK\$'000	At 31 December 2016 (Audited) HK\$'000
	Notes		
ASSETS			
Non-current assets			
Property, plant and equipment		43,611	46,633
Prepaid lease payments on land use rights		723	723
Goodwill		301,283	301,283
Intangible assets		158	331
Interests in joint ventures		169,351	169,266
Available-for-sale financial assets		297,638	288,806
Deferred tax assets		80	77
Total non-current assets		812,844	807,119
Current assets			
Inventories		21,813	7,956
Trade receivables	9	461,858	490,836
Utility and other deposits		1,499,981	1,533,259
Prepayments and other receivables		1,852,319	1,839,938
Amount due from related parties	17	350,000	–
Financial assets at fair value through profit or loss		76	132
Cash and bank balances	10	1,726,067	2,136,962
		5,912,114	6,009,083
Assets of the disposal group classified as held for sale	18	–	2,295,597
Total current assets		5,912,114	8,304,680
Total assets		6,724,958	9,111,799
EQUITY			
Capital and reserves attributable to equity shareholders of the Company			
Share capital	14	100,285	100,285
Reserves		5,310,658	5,356,049
		5,410,943	5,456,334
Non-controlling interests		50,850	54,843
Total equity		5,461,793	5,511,177

		At 30 June 2017 (Unaudited) HK\$'000	At 31 December 2016 (Audited) HK\$'000
	Notes		
LIABILITIES			
Non-current liabilities			
Amount due to a joint venture		46,195	46,195
Deferred tax liabilities		44,743	163,245
Convertible bonds	11	—	201,740
Total non-current liabilities		90,938	411,180
Current liabilities			
Trade payables	12	24,349	1,801
Other payables and accruals		77,782	77,271
Bank borrowings	13	5,724	4,901
Current portion of convertible bonds	11	652,308	1,431,040
Obligations under finance leases		—	8,268
Amount due to related parties	17	410,662	1,259,967
Current tax liabilities		1,402	2,211
		1,172,227	2,785,459
Liabilities directly associated with the assets of the disposal group classified as held for sale	18	—	403,983
Total current liabilities		1,172,227	3,189,442
Total liabilities		1,263,165	3,600,622
Total equity and liabilities		6,724,958	9,111,799
Net current assets		4,739,887	5,115,238
Total assets less current liabilities		5,552,731	5,922,357

NOTES:

1. BASIS OF PREPARATION

General

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 2016 except for the adoption of new and revised standard and interpretation with effect from 1 January 2017.

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 2017.

Amendments to HKFRSs	Annual improvements to HKFRSs 2014-2016 cycle
Amendments to HKAS 7	Statement of cash flows: Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception

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.

Amendments to HKFRS 2 ¹	Classification and measurement of share-based payment transactions
Amendments to HKFRS 4 ¹	Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts
Amendments to HKFRS 10 and HKAS 28 ³	Sales or contribution of assets between an investor and its associate or joint venture
Amendments to HKFRS 15 ¹	Clarification to HKFRS 15
Amendments to HKAS 28 ¹	Investments in associate and joint ventures as part of annual improvements to HKFRSs 2014-2016 cycle
Amendments to HKAS 40 ¹	Transfers of investment property
HKFRS 9 ¹	Financial instruments
HKFRS 15 ¹	Revenue from contracts with customers
HKFRS 16 ²	Leases
HK(IFRIC) – Int 22 ¹	Foreign currency transactions and advance consideration
HK(IFRIC) – Int 23 ²	Uncertainty over income tax treatments

¹ *Effective for annual periods beginning on or after 1 January 2018*

² *Effective for annual periods beginning on or after 1 January 2019*

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 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	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue	241,774	675,335
Segment results	28,400	199,736
Loss on disposal of subsidiaries (<i>Note 19</i>)	(48,851)	–
Net unallocated expenses	(125,731)	(108,968)
(Loss)/profit before taxation	(146,182)	90,768
Taxation	2,919	(13,308)
(Loss)/profit for the period	(143,263)	77,460

Segment assets and liabilities

	Lottery business	
	At	At
	30 June	31 December
	2017	2016
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Assets		
Segment assets	6,530,293	6,584,993
Assets of the disposal group classified as held for sale (Note 18)	–	2,295,597
Unallocated assets	194,665	231,209
Total assets	<u>6,724,958</u>	<u>9,111,799</u>
Liabilities		
Segment liabilities	184,875	277,757
Liabilities directly associated with the assets of the disposal group classified as held for sale (Note 18)	–	403,983
Unallocated liabilities	1,078,290	2,918,882
Total liabilities	<u>1,263,165</u>	<u>3,600,622</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	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue		
Income from provision of lottery products and related services	<u>241,774</u>	<u>675,335</u>

5. (LOSS)/PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation and amortisation on:		
– Property, plant and equipment	6,261	22,344
– Prepaid lease payments on land use rights	79	461
– Intangible assets	1,515	7,744
Operating lease rentals in respect of machinery, office premises and warehouses	<u>11,281</u>	<u>18,162</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 2017 (2016: 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	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax – (Over-provision) PRC income tax	(3,397)	12,366
Deferred tax	<u>478</u>	<u>942</u>
Taxation (credit)/charge	<u>(2,919)</u>	<u>13,308</u>

7. DIVIDEND

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

8. (LOSS)/EARNINGS PER SHARE

The calculation of basic and diluted loss per share for the six months ended 30 June 2017 are based on the loss attributable to equity shareholders of the Company of approximately HK\$140,645,000 (profit attributable to equity shareholders for 2016: approximately HK\$82,159,000).

- (a) The basic (loss)/earnings per share is based on the weighted average number of approximately 10,028,495,338 (2016: approximately 9,983,495,338) ordinary shares in issue during the six months ended 30 June 2017.
- (b) The calculation of diluted (loss)/earnings per share is based on the Group's (loss)/profit 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)/earnings 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.

Diluted (loss)/earnings per share for the six months period ended 30 June 2017 and 30 June 2016 are same as the basic (loss)/earnings per share as both the share options and the convertible bonds outstanding during the periods had an anti-dilutive effect on the basic (loss)/earnings per share.

9. TRADE RECEIVABLES

	At 30 June 2017 (Unaudited) HK\$'000	At 31 December 2016 (Audited) HK\$'000
Trade receivables – Lottery business	<u>461,858</u>	<u>490,836</u>

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

The ageing analysis of trade receivables – Lottery business based on invoice date is as follows:

	At 30 June 2017 (Unaudited) HK\$'000	At 31 December 2016 (Audited) HK\$'000
Three months or less	101,686	224,922
One year or less but over three months	302,531	189,745
Over one year	<u>57,641</u>	<u>76,169</u>
	<u>461,858</u>	<u>490,836</u>

10. CASH AND BANK BALANCES

	At 30 June 2017 (Unaudited) HK\$'000	At 31 December 2016 (Audited) HK\$'000
Fixed bank deposits	<u>474,483</u>	<u>–</u>
Cash at banks		
– general accounts	1,250,371	2,136,292
Cash in hand	<u>1,213</u>	<u>670</u>
	<u>1,251,584</u>	<u>2,136,962</u>
	<u>1,726,067</u>	<u>2,136,962</u>

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

11. CONVERTIBLE BONDS

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

	Convertible bonds due 2019 ("2019 Bonds") HK\$'000	Convertible bonds due 2016 ("2016 Bonds") HK\$'000	Total HK\$'000
Carrying amounts at 31 December 2016	1,377,049	255,731	1,632,780
Redemption during the period	(834,906)	(154,823)	(989,729)
Interest expense	33,711	5,806	39,517
Interest payable	<u>(24,454)</u>	<u>(5,806)</u>	<u>(30,260)</u>
Carrying amounts at 30 June 2017	<u><u>551,400</u></u>	<u><u>100,908</u></u>	<u><u>652,308</u></u>

The 2016 Bonds and the 2019 Bonds are together referred to as the "Bonds". On 29 March 2017, the Company redeemed the Bonds with principal amount of HK\$1,000,850,863.56 at HK\$1,000,850,863.56 and a loss of approximately HK\$11,122,000 from the redemption was recognised in profit or loss. Immediately after the redemption and at the end of the reporting period, the Bonds with principal amount of HK\$652,309,129.36 remain outstanding.

Further details of the Bonds are disclosed in the sub-section headed "Convertible Bonds" under the section headed "Management Discussion and Analysis" in this announcement.

12. TRADE PAYABLES

	At 30 June 2017 (Unaudited) <i>HK\$'000</i>	At 31 December 2016 (Audited) <i>HK\$'000</i>
Other client payables	314	314
Trade payables – Lottery business	<u>24,035</u>	<u>1,487</u>
	<u>24,349</u>	<u>1,801</u>

Other client payables are repayable on demand and bear interest at prevailing market rates.

No ageing analysis is disclosed for other client payables as, in the opinion of the Directors, the ageing analysis does 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 based on invoice date is as follows:

	At 30 June 2017 (Unaudited) <i>HK\$'000</i>	At 31 December 2016 (Audited) <i>HK\$'000</i>
Three months or less	8,579	–
Over three months	<u>15,456</u>	<u>1,487</u>
	<u>24,035</u>	<u>1,487</u>

13. BANK BORROWINGS

	At 30 June 2017 (Unaudited) HK\$'000	At 31 December 2016 (Audited) HK\$'000
Bank loans		
– secured and due within one year	<u>5,724</u>	<u>4,901</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.

The bank loans of approximately HK\$5,724,000 (31 December 2016: approximately HK\$4,901,000) are secured by the trade receivables of a subsidiary of approximately HK\$11,075,000 (31 December 2016: approximately HK\$15,052,000) and guaranteed by a subsidiary of the Group.

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 Number of shares '000	Amount HK\$'000
At 31 December 2016 and at 30 June 2017	<u>20,000,000</u>	<u>200,000</u>

Issued and fully paid:

	Ordinary shares of HK\$0.01 each Number of shares '000	Amount HK\$'000
At 31 December 2016 and at 30 June 2017	<u>10,028,496</u>	<u>100,285</u>

15. COMMITMENTS

- (a) Capital commitments outstanding at 30 June 2017 not provided for in the consolidated financial statements are as follows:

	At 30 June 2017 (Unaudited) HK\$'000	At 31 December 2016 (Audited) HK\$'000
Contracted for		
– increase in registered capital of a subsidiary	<u>84,000</u>	<u>84,000</u>

- (b) As at 30 June 2017, the Group's future aggregate minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 30 June 2017		
	Land and buildings (Unaudited) HK\$'000	Factory equipment (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Within one year	11,309	8,621	19,930
In the second to fifth year inclusive	16,615	34,483	51,098
More than five years	<u>–</u>	<u>38,654</u>	<u>38,654</u>
	<u>27,924</u>	<u>81,758</u>	<u>109,682</u>

	As at 31 December 2016		
	Land and buildings (Audited) <i>HK\$'000</i>	Factory equipment (Audited) <i>HK\$'000</i>	Total (Audited) <i>HK\$'000</i>
Within one year	10,879	8,378	19,257
In the second to fifth year inclusive	1,723	33,405	35,128
More than five years	—	41,319	41,319
	<u>12,602</u>	<u>83,102</u>	<u>95,704</u>

The Group leases various office and factory premises, office equipment and warehouses under operating leases. The leases run for an initial period of 1 to 9 years (2016: 1 to 10 years). The leases do not include any contingent rentals.

16. CONTINGENT LIABILITIES

Financial guarantees issued

As at 30 June 2017 and 31 December 2016, one of subsidiaries of the Group has issued a corporate guarantee to a bank for the bank loans granted to another subsidiary of the Group.

As at 31 December 2016, 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 expired when the lease was terminated during the period ended 30 June 2017.

As at 30 June 2017 and 31 December 2016, 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 2017 (Unaudited) HK\$'000	At 31 December 2016 (Audited) HK\$'000
--	--	--

Shareholder:

Balance due from the Group (<i>Note</i>)	410,662	280,000
Convertible bonds	87,064	220,647

Companies connected with Director:

Balance due from the Group	–	357,867
Deposits received on sales of the disposal group	–	622,100
Withheld tax amount on sales of the disposal group	350,000	–

	Six months ended 30 June 2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
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Transactions with Director/Shareholder:

Convertible bonds interest paid	3,861	6,393
Interest on amount due to a shareholder	1,532	418
Redemption of convertible bonds	133,583	19,353
Consent fee paid for delaying redemption of convertible bonds	131	2,367

Compensation of directors of the Group
during the period are as follows:

Fees, salary and other short-term employee benefits	4,572	3,881
Pension scheme contributions	9	9
	4,581	3,890

Note:

The balance due to a shareholder is unsecured and repayable with one year. As at 30 June 2017, except for the balance of approximately HK\$133,583,000 bearing interest at 4.5% per annum, the remaining balance of approximately HK\$277,079,000 is interest free.

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

On 4 January 2016, a wholly-owned subsidiary of the Company entered into a sale and purchase agreement (as supplemented and amended on 23 February 2016 and 2 August 2016) (the “Sale and Purchase Agreement”) with a related party, Sunjet Investments Limited, in which a Director (who is 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”). Restructuring (the “Restructuring”) was carried out to put the Disposal Group (as defined below) in place before completion of the Disposal. After the Restructuring, Multi Glory, through certain wholly-owned subsidiaries, held 100% interest in 深圳市思樂數據技術有限公司 (Shenzhen Sinodata Technology Co. Ltd.*) and its subsidiaries (hereinafter collectively referred to as the “Disposal Group”). The principal activities of the Disposal Group are design and provision of lottery systems and equipment for lottery in the PRC for traditional Welfare Computer Ticket Games operations. The Disposal was completed in February 2017. As a result of the completion of the Disposal, the Disposal Group has ceased to be subsidiaries of the Company. Further details are set out in the Company’s announcements dated 5 January 2016, 23 February 2016, 29 March 2016, 29 April 2016, 19 May 2016, 27 July 2016, 2 August 2016, 9 January 2017, 27 January 2017 and 14 February 2017 respectively and circulars dated 29 February 2016 and 30 September 2016.

The results of the Disposal Group classified as held for sale that are included in the consolidated income statement are shown as below:

	Six months ended 30 June	
	2017	2016
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Profit for the period from the Disposal Group:		
Revenue	35,830	176,762
Cost of sales/services rendered	(21,061)	(78,439)
Other income and other gains and losses	1	301
Selling and distribution expenses	(1,297)	(6,562)
Administrative expenses	(15,892)	(38,989)
Operating (loss)/profit	(2,419)	53,073
Finance costs	(647)	(1,534)
(Loss)/profit before taxation	(3,066)	51,539
Taxation	3,296	(7,304)
Profit for the period	230	44,235

The major classes of assets and liabilities of the Disposal Group classified as held for sale as at 30 June 2017 are as follows:

	At 30 June 2017 (Unaudited) HK\$'000	At 31 December 2016 (Audited) HK\$'000
Assets		
Property, plant and equipment	–	117,459
Prepaid lease payments or land use rights	–	41,853
Goodwill	–	1,026,795
Intangible assets	–	22,054
Deposit for acquisition of leasehold building	–	169,511
Deferred tax assets	–	5,963
Inventories	–	98,474
Trade receivables	–	84,692
Utility and other deposits	–	103,393
Prepayment and other receivables	–	525,317
Cash and bank balances	–	100,086
Assets of the Disposal Group classified as held for sale	–	2,295,597
Liabilities		
Trade payables	–	(44,397)
Other payables and accruals	–	(202,759)
Bank borrowings	–	(137,456)
Current tax liabilities	–	(18,731)
Deferred tax liabilities	–	(640)
Liabilities directly associated with the assets of the Disposal Group classified as held for sale	–	(403,983)
Net assets of the Disposal Group classified as held for sale	–	1,891,614

At 31 December 2016, bank loans of approximately HK\$55,556,000 are secured on leasehold buildings and land use rights in the PRC for the carrying values of approximately HK\$16,689,000 and HK\$26,678,000 respectively.

At 31 December 2016, a Director has given personal guarantee in respect of bank borrowings of approximately HK\$81,900,000.

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 (who is also a substantial shareholder of the Company) has beneficial interest, for the disposal of entire interests in the Disposal Group and the loan due from Multi Glory to the Group for a cash consideration of HK\$2,150,000,000. The Disposal was completed in February 2017. The net assets disposed of at the date of completion were as follows:

	<i>HK\$'000</i>
Property, plant and equipment	129,501
Prepaid lease payments on land use rights	42,214
Goodwill	1,026,794
Intangible asset	21,154
Deposits for acquisition of leasehold building	171,416
Inventories	94,976
Trade receivables	153,755
Utility and other deposits	103,131
Prepayments and other receivables	639,810
Cash and bank balances	48,039
Loan due to the Group	(1,583,438)
Trade payables	(108,383)
Other payables and accruals	(124,094)
Bank borrowings	(137,573)
Current tax liabilities	(9,704)
Deferred tax liabilities	(114,089)

	<i>HK\$'000</i>
Net assets disposed of	353,509
Assignment of the loan due to the Group	1,583,438
Non-controlling interests	(3,759)
Direct cost incurred for the Disposal	9,354
Taxation for the Disposal	215,200
Cumulative exchange difference in respect of the net assets of the Disposal Group reclassified from equity to profit or loss on disposal	41,109
Loss on disposal of subsidiaries	<u>(48,851)</u>
 Satisfied by:	
Cash	<u><u>2,150,000</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\$230,000 to the Group's loss for the period ended 30 June 2017.

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 2017, total Group's revenue was approximately HK\$241,774,000, decreased by 64% over the same period last year (2016: approximately HK\$675,335,000). Loss before taxation was approximately HK\$146,182,000 (profit before taxation in 2016: approximately HK\$90,768,000).

The Group's overall performance has further deteriorated during the period under review given the downturn in scratch cards and mobile lottery markets, which were very unfavourable to the Group's lottery operations in China. The mixed performance among major types of lottery products in the market presented a challenging environment for the Group's operations. The unexpected deterioration of the scratch cards market has damaged the core operations of the Group. While Single Match Games ("SMG") market achieved an extraordinary performance with strong sales growth, the halt in paperless electronic lottery development prevented the Group from benefiting this favorable trend across its comprehensive distribution platform. Internet lottery remains suspended in China. The operations of mobile lottery business was also very challenging due to uncertainties in regulations associated with mobile lottery distribution platform.

In 2016, the Company announced a plan to realise one of its long-term investments in the traditional Welfare Computer Ticket Games (“CTG”) market which covered business operations of the manufacturing and provision of Welfare CTG machines and supporting systems for the traditional lottery market. In February 2017, the Company completed the Disposal. A loss on disposal of approximately HK\$48,851,000 was recorded. As a result of the completion of the Disposal, the Disposal Group has ceased to be subsidiaries of the Company and its results were not consolidated into the consolidated financial statements of the Company. This has impacted the Group’s operating results and contributed to the decline in both revenue and operating profit during the period under review.

During the period under review, the Group maintained a prudent approach towards investment opportunities given the uncertainties in regulatory environment. The prolonged suspension of internet lottery distribution channel and the lack of progress on paperless electronic lottery distribution development have gradually changed the needs and practice of buying behaviors of lottery consumers. The evolving market landscape has led the Group to rethink its approach and formulate a new action plan. In light of this, the Group has commenced formal evaluation of the strategic options for various development programs to maximise the value of its existing operations and explore opportunities for business diversification for the purposes of future business growth.

China Lottery Market

The China lottery market registered total lottery sales of RMB205.0 billion in the first six months of 2017, representing a growth of 6% over the same period of 2016.

During the period under review, total Welfare Lottery sales was RMB106.1 billion. Welfare CTG sales increased 6% to RMB76.4 billion, accounting for 72% of the total Welfare Lottery sales. Welfare Scratch Cards sales decreased 17% to RMB6.5 billion and Video Lottery Terminals (“VLT”) sales grew by 4% to RMB23.1 billion. Sales of Keno was RMB0.9 billion, decreased by 37%. Welfare Scratch Cards and VLT accounted for 6% and 22% of the total Welfare Lottery sales respectively.

In the first half of 2017, total Sports Lottery sales was RMB98.9 billion. Sales of Sports CTG, including SMG, increased by 9% to RMB92.6 billion accounting for 94% of total Sports Lottery sales. Sports Scratch Cards sales was RMB6.4 billion, dropped 13% over last year, accounted for 6% of the total Sports Lottery sales. Total sales of Sports VLT increased 38% to RMB5.1 million in the first six months of 2017.

System and Games Development Business

The Group's SGDB is an active participant in the provision of lottery system and specialised equipments 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 specialised equipment for both Welfare and Sports lottery markets.

Welfare CTG Business

With the impact of internet sales suspension progressively fading away, performance of both the traditional market (national draw-based games) and the non-traditional market (regional and high frequency games) in the Welfare CTG market in China have stabilised.

During the period under review, sales performance of national draw based games in China was stable and demonstrated a sustainable growth trajectory. Regional and high frequency games, which featured wide variety of prizes and high frequency of drawings, continued to maintain fast paced growth and brought fresh impetus to the Welfare CTG market in China. It is expected that market players will put more focus and resources on the regional and high frequency market, and market competition will gradually increase in this segment.

In order to align the Group's lottery business to the above development in the lottery market, the Group has restructured its Welfare CTG business. During the period under review, the Group completed the disposal of a long-term investment in the traditional Welfare CTG market which covered business operations of the manufacturing and provision of Welfare CTG machines and supporting systems for the traditional lottery market.

After completion of the restructuring and repositioning, the Group continued to provide various lottery services for the non-traditional Welfare CTG market. It is expected that Welfare CTG market will gradually improve and the Group will continue to focus on the development of non-traditional products in this market segment. However, given the downsizing of the Group's platform in the Welfare Lottery market in China after the restructuring mentioned above, the Company expects to devote greater efforts in a bid to stay competitive in the increasingly challenging environment in this area going forward.

Welfare Scratch Cards Business

The Group is involved in the validation and printing business of Welfare Scratch Cards in China. Total sales of Welfare Scratch Cards in China declined 17% compared with the corresponding period in 2016. Performance of the Group's operations involved in Welfare Scratch Cards market was directly affected by the lackluster sales performance of scratch card products during the period under review.

The Group has jointly controlled interests in a validation system and specialised equipment provider which provide validation services for the Welfare Scratch Cards market. The sales of scratch card products has declined in light of the strong competition against other lottery products. In respond, the Group continued to roll out relevant systems and equipment of validation services through submitting new tenders to support the revitalisation initiatives taken by lottery authorities during the period under review.

Despite a lackluster sales performance of Welfare Scratch Cards, the Group continued to deliver various seasonally and thematic games to the market through its cooperative venture with Shijiazhuang Offset Printing House.

Sports CTG Business

The Group's Sports CTG business was engaged in the manufacturing and sales of CTG 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 continued to participate in various procurement bidding of CTG/SMG terminals and delivered its Sports CTG/SMG terminals for provincial Sports Lottery Centres.

Distribution and Marketing Business

The Group's DMB is a major participant in lottery distribution in China. It has successfully established a comprehensive distribution platform which consists of a widely diversified and recognised physical retail network and a portfolio of innovative and advanced paperless electronic lottery platforms.

The Group's downstream lottery operations pledged to provide reliable, efficient and innovative lottery services to address the needs of end consumers in lottery market focusing scratch cards, SMG and Sports video lottery. It aims to assist lottery authorities to promote and develop the Chinese lottery market in a sustainable manner.

During the period under review, the operating environment was challenging. There were no major breakthroughs in the operating environment of paperless electronic platforms. Ongoing regulatory development concerning the relevant policy framework remained as the major hurdle to sales growth. With the solid foundation established in the downstream market, the Group's DMB is expected to turn into a key growth driver in the future when the paperless electronic distribution channels become formalised and create positive influence on consumer behavior.

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. This network comprises selective prime locations that have diversified and recognised sales distribution channels.

During the period under review, the total sales of Welfare Scratch Cards and Sports Scratch Cards in China was RMB12.9 billion, representing a decrease of 15% over the same period last year. The poor performance of overall scratch cards market has adversely affected the financial performance of this business segment.

The strength of scratch card products lies in its flexibility and large variety of game designs to engage with casual players. Thus, in order to make the most of the unique advantage of scratch card products and to cope with the fierce competition from other lottery products, lottery authorities are expected to place great emphasis on broadening the promotion of scratch card products and expanding their distribution network.

Different strategic initiatives have been launched by lottery authorities and new market participants to explore new model of distribution method for scratch cards during the period under review. The Group will continue to support these revitalisation initiatives taken by lottery authorities through its sales distribution channels and to seize potential opportunities in the segment amidst increased competition among other market players.

Single Match Games Business

In the first half of 2017, despite the absence of any major soccer tournament comparable with the UEFA European Championship in 2016, SMG still managed to achieve impressive sales growth in China and registered a record-breaking total sales of approximately RMB37.0 billion.

This extraordinary performance was partially attributed to the increasing popularity of SMG in China driven by the effective promotion campaign between March to May 2017. The campaign was different from the traditional form of promotions, which relied on increasing number of games and prize payout. The latest promotion was successful reaching out to lottery consumers through campaigns on social media and providing second prize drawing.

SMG has proven its huge potential by growing into a lottery product which accounted for a substantial market share in the Chinese lottery market. The constant innovation on game play introduced by lottery authorities also created a favorable environment for the long term healthy growth of SMG.

During the period under review, the Group continued to operate its SMG business through physical distribution network. This physical retail network plays an important role since paperless electronic lottery distribution has been suspended in early 2015. The Group remains positive on the long-term prospect of paperless electronic lottery distribution channel and maintains its investment in this area through its interest in the Okooo platform.

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 improves the convenience of lottery purchase by connecting players directly to the centralised system of provincial lottery centre, enabling a safe and reliable lottery purchase experience. The adoption of Mobile ELP will provide provincial lottery centres with technological breakthrough to better connect with players located in their respective provinces and attract purchases from the locals.

During the period under review, the regulatory environment for operating Mobile ELP remained uncertain. As a result, performance of the Group's mobile lottery business was severely impacted. The latest market environment has been a setback for the Group's plan to seize market opportunities in the paperless electronic lottery market. The Group will continue to review the viability of operating this business.

Outlook

It has been more than two years since that the Chinese lottery market put a halt on the internet lottery distribution channel. The Group has gathered a few insights from the current market environment.

The suspension of internet lottery has created persistent pressure on the growth of lottery market and gradually changed the purchasing behavior of lottery consumers over time. It will take time for the lottery industry to refocus on developing the traditional distribution channels with innovative approach in order to regain its momentum.

Second, the simplified administrative procedure governing marketing initiatives provided flexibility for provincial lottery authorities to roll out localised marketing campaigns to rejuvenate the market. However, relying on increased prize payout as a regular mean of promotion may lead to a diminishing rate of return over time. The market will demand new approaches with the inclusion of elevated services and new experiences within these marketing activities.

Finally, the demographic of lottery consumers is constantly changing. There is a growing population of a younger generation of lottery consumers who are increasingly familiar with digital technologies. Unfortunately, it seems that the regulatory development is still lagging behind in this aspect which affects industry development.

The lottery market in China remains at the early stages of digital innovation, due to the uncertainties in the regulatory framework. The current paperless electronic lottery distribution market does not form a substantial part of the lottery market. Although the Group has established solid foundation in paperless electronic lottery, performance of the Group's lottery business will continue to be hindered by the unfavourable market conditions.

In addition, the Group is planning to refocus on growing its business as the financial challenge posed by the convertible bonds redemption obligation is almost behind us. Taking into consideration of the growing uncertainties of regulatory development and increasing competition in the lottery market, the Group will continue to look into diversification opportunities and intends to introduce and establish strategic partnership to enhance the Group's human and finance capability and identify potential projects to set the stage for long-term growth.

Last but not least, providing valuable services for the Chinese lottery market which makes significant contributions for the good causes that benefit the general public in China will continue to be among the Group's top priorities.

FINANCIAL REVIEW

Financial Results

For the six months ended 30 June 2017, the Group recorded a revenue of approximately HK\$241,774,000 (2016: approximately HK\$675,335,000), representing a decrease of 64% over the same period last year. The decrease was resulted from the disposal of subsidiaries in February 2017 and continuing unfavorable operating environment of the PRC lottery market since the second half of 2016, especially in the scratch cards market and paperless electronic lottery distribution market.

The unaudited loss attributable to equity shareholders of the Company was approximately HK\$140,645,000 (profit attributable to equity shareholders for 2016: approximately HK\$82,159,000). The loss per share was 1.40 HK cents (earnings per share for 2016: 0.82 HK cent). Diluted (loss)/earnings per share for the six months ended 30 June 2017 and 30 June 2016 is the same as the basic (loss)/earnings per share as both the share options and the Bonds outstanding during the period had an anti-dilutive effect on the basic (loss)/earnings per share. Cost of sales and selling expenses reduced as in line with revenue. However, administrative expenses remains at similar level as last period mainly due to general cost increase in China and reposition of the Group's business in light of the challenging competitive landscape in the Chinese lottery market. Other loss mainly represent the loss on redemption of the Bonds.

A loss on disposal of subsidiaries of approximately HK\$48,851,000 was recorded. It was mainly due to the increase in the net asset value of the Disposal Group and the exchange difference created by the release of exchange reserve as at completion of the Disposal. As disclosed in the Company's circular dated 30 September 2016, with reference to the terms of the Sales and Purchase Agreement, the Group would not be entitled to the profit/loss of the Disposal Group after 1 January 2016. As a result, the net asset value of the Disposal Group increased as at completion of the Disposal.

Liquidity, Financial Resources and Funding

At 30 June 2017, the Group's total equity amounted to approximately HK\$5,461,793,000 as compared to approximately HK\$5,511,177,000 at the end of the previous year.

At 30 June 2017, the Group had cash and bank balances of approximately HK\$1,726,067,000 (31 December 2016: approximately HK\$2,237,048,000 (including the Disposal Group)).

In 2011 and 2012, the Company issued the 2016 Bonds in principal amount of HK\$964,700,000 and HK\$429,000,000 respectively. Each 2016 Bond is convertible into fully paid ordinary share of HK\$0.01 each of the Company (the "Share") at the applicable conversion price of HK\$0.5600 per Share. The 2016 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 2016 Bonds into Shares by the bondholders. On 29 March 2017, the Company made a partial payment of all the 2016 Bonds for the principal amount of HK\$154,823,091.06. As at 30 June 2017, the principal amount of the 2016 Bonds remaining outstanding was HK\$100,906,642.86 (31 December 2016: HK\$255,729,733.92).

In 2014, the Company issued the 2019 Bonds in principal amount of HK\$1,900,000,000. Each 2019 Bond is convertible into fully paid Shares at the applicable conversion price of HK\$1.3700 per Share. 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. On 29 March 2017, the Company made a partial payment of all the 2019 Bonds for the principal amount of HK\$846,027,772.50. As at 30 June 2017, the principal amount of the 2019 Bonds outstanding was HK\$551,402,486.50 (31 December 2016: HK\$1,397,430,259).

The gearing ratio as at 30 June 2017 was 12.05% (31 December 2016: 32.36%). The gearing ratio was derived by dividing the total borrowings including the Bonds, obligation under finance leases and bank borrowing of approximately HK\$658,032,000 (31 December 2016: approximately HK\$1,783,405,000 (includes those classified as part of liabilities associated with assets classified as held for sale)) by the amount of total equity. The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 504% (31 December 2016: 260%), reflecting adequacy of financial resources. The liquidity ratio increased mainly due to the partial payment of the Bonds during the period under review.

The Group had outstanding bank borrowings of approximately HK\$5,724,000 as at 30 June 2017 (31 December 2016: approximately HK\$142,357,000), of which bank borrowings of HK\$Nil (31 December 2016: approximately HK\$137,456,000) was loaned to the Disposal Group as at 30 June 2017. As at 30 June 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.

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.

Pledge of Assets

As at 30 June 2017, trade receivables of approximately HK\$11,075,000 (31 December 2016: approximately HK\$15,052,000) approximately were pledged to a bank to secure general banking facilities granted to the Group.

As at 31 December 2016, the Disposal Group's land and building with total market value of approximately HK\$118,667,000 were pledged to banks to secure the bank borrowings granted to the Disposal Group.

Share Capital

There was no change in the Company's share capital structure during the period under review. As at 30 June 2017, the total number of issued Shares was 10,028,495,338.

Subscription Agreement in relation to New Shares and New Bonds

On 7 April 2017, the Company and Keen Start Limited (“Keen Start”), a substantial shareholder (as defined in the Listing Rules) of the Company, entered into the subscription agreement (the “Subscription Agreement”), pursuant to which, among other things, the Company has conditionally agreed to allot and issue to Keen Start, and Keen Start has conditionally agreed to subscribe for (i) 1,900,000,000 new Shares (the “Subscription Shares”) at the subscription price of HK\$0.134 per Subscription Share (the “Share Subscription”) and (ii) the convertible bonds in an aggregate principal amount of HK\$348,000,000 (the “New Bonds”) at the initial conversion price of HK\$0.145 per Share (the “CB Subscription”). The aggregate subscription price of the Subscription Shares is HK\$254,600,000 and the aggregate principal amount of the New Bonds is HK\$348,000,000. On 30 June 2017, the Company and Keen Start has agreed to extend the long stop date of the Subscription Agreement to 30 September 2017 (or such later date as may be agreed by the parties to the Subscription Agreement in writing).

The Share Subscription and the CB Subscription constitute connected transactions of the Company under the Listing Rules.

As disclosed in the announcement of the Company dated 4 August 2017, the Company and Keen Start were considering to re-negotiate the deal structure and/or the terms of the Subscription Agreement in parallel.

Convertible Bonds

2016 Bonds

The Company issued the 2016 Bonds in 2011 and 2012 respectively in an aggregate principal amount of HK\$1,393,700,000 which shall, upon conversion, be convertible into fully paid Shares at an initial conversion price of HK\$0.6175 per Share, subject to adjustment in accordance with the terms and conditions of the 2016 Bonds. As at 30 June 2017, the conversion price of the 2016 Bonds was HK\$0.5600 per Share.

During the period under review, there was no conversion of the 2016 Bonds. On 29 March 2017, the Company made a partial payment of the 2016 Bonds for the amount of HK\$154,823,091.06. As at 30 June 2017, the principal amount of the 2016 Bonds remaining outstanding was HK\$100,906,642.86. Each 2016 Bond is convertible into fully paid Shares at an applicable conversion price of HK\$0.5600 per Share upon conversion.

2019 Bonds

The Company issued the 2019 Bonds in 2014 in the principal amount of HK\$1,900,000,000 which shall, upon conversion, be convertible into fully paid Shares at an initial conversion price of HK\$1.4070 per Share, subject to adjustment in accordance with the terms and conditions of the 2019 Bonds. As at 30 June 2017, the conversion price of the 2019 Bonds was HK\$1.3700 per Share. The 2019 Bonds are listed on the Singapore Exchange Securities Trading Limited.

There was no conversion of any 2019 Bonds since their issuance and during the period under review. On 29 March 2017, the Company made a partial payment of the 2019 Bonds for the amount of HK\$846,027,772.50. As at 30 June 2017, the principal amount of the 2019 Bonds remaining outstanding was HK\$551,402,486.50. Each 2019 Bond is convertible into fully paid Shares at an applicable conversion price of HK\$1.3700 per Share upon conversion.

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 2016 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 holders of the Bonds (the “Bondholders”) that a “Relevant Event” occurred. Each holder of the Bonds had the right at such holder’s option, to require the Company to redeem all or some only of such holder’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 2016 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 2016 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 2016 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 is 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 2017 and the date of this announcement. 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 fulfil 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 2016 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 2016 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 the date of this announcement, the Offer has not yet been completed.

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.

Material Acquisitions and Disposals of Subsidiaries

On 4 January 2016, REXCAPITAL Financial Group Limited, a wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with Sunjet Investments Limited, in relation to (i) the sale and purchase of the entire issued share capital of Multi Glory, a wholly-owned subsidiary of the Company; and (ii) the assignment of the entire amount owing from Multi Glory to the Group, at the cash consideration of HK\$2,150,000,000. It was intended that the net proceeds from the Disposal would firstly be applied by the Company for redemption of the outstanding Put Bonds.

The Disposal constituted a major and connected transaction of the Company under the Listing Rules. The Sale and Purchase Agreement and the transactions contemplated thereunder has been approved by the independent shareholders of the Company.

The Disposal was completed in February 2017. Details of the Disposal are set out in the Company's circulars dated 29 February 2016 and 30 September 2016 and the announcements of the Company dated 18 March 2016, 29 March 2016, 29 April 2016, 19 May 2016, 27 July 2016, 31 October 2016, 9 January 2017, 27 January 2017 and 14 February 2017 respectively.

Save as disclosed above, the Group had no material acquisition and disposal of subsidiaries during the six months ended 30 June 2017.

Human Resources

At 30 June 2017, the Group had 557 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.

INTERIM DIVIDEND

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

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

During the six month ended 30 June 2017, 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 2017.

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 2017.

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 2017 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 2017 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, 30 August 2017

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.

* *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.*