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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)

CLARIFICATION ANNOUNCEMENT AND RESUMPTION OF TRADING

Reference is made to the Report and the announcements of the Company issued on 24 and 29 June, 26 August, 19 October, 27 November 2015, 5 January, 11 February and 7 and 22 March 2016, in relation to the suspension of trading in the Shares. This announcement is made to clarify the allegations and comments concerning the Group raised in the Report.

Save as disclosed in this announcement, having made reasonable enquiries with respect to the Company as is reasonable in the circumstances, the Company confirms that it is not aware of any information which must be announced to avoid a false market in the Company's securities or of any inside information that need to be disclosed under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

This announcement is made by the order of the Company. The Board collectively and individually accepts responsibility for the accuracy of this announcement.

Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended from 11:33 a.m. on 24 June 2015, pending the release of this announcement. An application has been made by the Company to the Stock Exchange for trading in the Shares to resume from 9:00 a.m. on 19 April 2016.

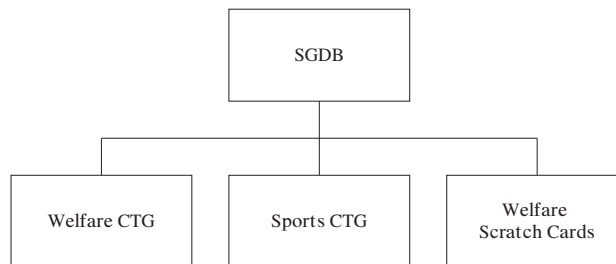
Reference is made to a report issued by Anonymous Analytics (“**AA**”) on 24 June 2015 (the “**Report**”), and the announcements issued by REXLot Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) on 24 and 29 June, 26 August, 19 October, 27 November 2015, 5 January, 11 February and 7 and 22 March 2016, in relation to the suspension of trading in the shares of the Company (the “**Shares**”). The Company does not have any background information as to the identity of AA, nor was there any meeting or contact from any of their research analyst in or before the issuance of the Report.

As mentioned in the Report, individuals or entities connected with AA may have a short position in the Shares or debt of the Company and/or options of the Shares, and therefore stand to gain substantially in the event that the price of the Shares decreases. The board of directors of the Company (the “**Board**”) is of the view and therefore would like to remind the shareholders of the Company (the “**Shareholders**”) and potential investors that the main purpose of the Report may not be to provide investment advice to the Shareholders and potential investors, but to achieve other purposes, such as forcing the Share price down. In the circumstances, the Company recommends that the Shareholders and potential investors exercise extreme caution when reading the Report. The Report contains certain allegations and comments on the Company which are not based on any fact or are misrepresentations. This announcement is made to clarify the allegations and comments concerning the Group raised in the Report. In the meantime, the Company is seeking legal advice from its legal advisers and reserves its rights to take legal actions against AA.

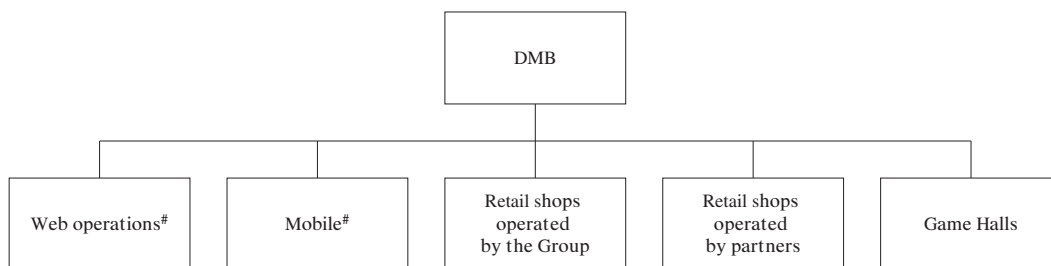
BRIEF DESCRIPTION OF THE GROUP’S BUSINESS

The Group’s business can be broadly divided into System and Games Development Business (“**SGDB**”) and Distribution and Marketing Business (“**DMB**”). The Group’s business structure is set out in the diagram below.

Upstream/Midstream



Downstream



The Group’s online business

1. SGDB Division

The SGDB division comprises (i) Welfare Computer Ticket Game (“**CTG**”) business which involves the design and provision of lottery systems and equipment (please refer to section titled “Offline Business” below for details), (ii) Sports CTG business which involves the design, manufacturing and sales of Sports CTG terminals, and (iii) Welfare Scratch Cards printing and validation services. The SGDB division participates in upstream and midstream lottery operations.

2. DMB Division

The DMB division distributes lottery products for both Welfare and Sports Lotteries in China (reference to China or the PRC in this announcement shall mean the People's Republic of China, excluding Hong Kong SAR, Macau SAR and Taiwan). The products distributed include CTG games, scratch card games, Single Match Games (“SMG”), high frequency games and video lottery products. Such products are distributed and sold through internet/web, mobile, retail shops operated by the Group, retail shops operated by partners and game halls. The DMB division participates in downstream lottery operations.

Web operations

The Group's web operations commenced in 2011 when the Group acquired the operations of Okooo.com (“Okooo”), which forms part of the DMB division. The web operations was restructured in late 2013 and was split into the operations of Okooo and the web referral business in 2014. The web operations have been suspended since March 2015. Please see the section titled “Online Business” below for details of the web operations.

Mobile

The Group cooperates with mobile operators to run the mobile electronic lottery platform. Customers can place purchases for lottery products through mobile phones by sending their instructions either via SMS texts or mobile Apps to their mobile operators. The instructions are then forwarded to the Group and the Group processes the instructions. In 2014, the Group developed three mobile Apps, two of which are owned by the Group. The third mobile App was developed for a government lottery centre and the Group provides support service for the mobile App.

Retail shops operated by the Group/partners

The Group operates retail shops and sells SMG and other lottery products at these shops. The Group also has cooperation arrangements to sell scratch cards at retail shops operated by its partners. The Group's partners principally comprise convenience store chains and supermarket chains, grocery and pharmacy chains, gasoline stations and post office.

Game Halls

The Group operates two game halls in the PRC, which has video lottery terminals and high frequency games for visitors to play. Lottery tickets are also sold at the game halls.

ALLEGATIONS AND COMMENTS CONCERNING THE GROUP IN THE REPORT

1. Online Business

The Report alleges that the Company overstated the revenue generated from the Okooo operations to investors.

The Company clarifies that the information it provided to investors regarding Okooo and the Group's online business is accurate. An overview of the Group's online business (including the Okooo operations), the details of the Group's interest in Okooo and the Company's response to the allegations in the Report are set out below.

(i) The Group's online business

The Company clarifies that the Group's online business is not a defined term and has generally been used by the Group to refer to the lottery distribution operations conducted through the web and mobile platforms.

The online business was the main contributor to the Group's overall growth between 2009 and 2014. The Okooo business formed a major part of the Group's online business before deconsolidation.

(ii) The Okooo operations

Okooo is part of the Group's online business and is the Group's only internet lottery platform. It is mainly a platform for SMG players and includes a statistics database, game preview and discussion forums for SMG players.

Between 2011 and September 2013, 澳客之家(北京)科技股份有限公司 (Beijing Okooo Technology Co., Ltd.*) (**“Beijing Okooo”**) held and operated the Okooo platform. Beijing Okooo together with other subsidiaries of the Company (collectively referred to as **“Beijing Okooo Group”**) acted as purchasing agents for Okooo’s customers. The other subsidiaries include 天津文采科技有限公司 (Tianjin Wencai Technology Co., Ltd.*) (**“Wencai”**), 天津票易科技有限公司 (Tianjin Piaoyi Technology Co., Ltd.*) (**“Piaoyi”**), 北京信盈東方科技有限公司 (Beijing Xinying Oriental Technology Co., Ltd.*) (**“Xinying”**), 天津彩之聯信息科技有限公司 (Tianjin Cai Zhi Lian Information Technology Co., Ltd.*) (**“Cai Zhi Lian”**) and 天津文英科技有限公司 (Tianjin Wenying Technology Co., Ltd.*) (**“Wenying”**).

Lottery customers placed their orders for lottery tickets on the Okooo website, and the Beijing Okooo Group purchased the tickets from lottery ticket machines on the customers’ behalf. PRC web lottery operators do not have access to the computer lottery system which is run by the provincial lottery centres and all purchases are made through physical lottery machines.

In September 2013, Beijing Okooo established a joint venture (the **“PRC Company”**) with People.cn, Co. Ltd. (**“People.cn”**), which operated the Okooo website and acted as purchasing agent for lottery customers.

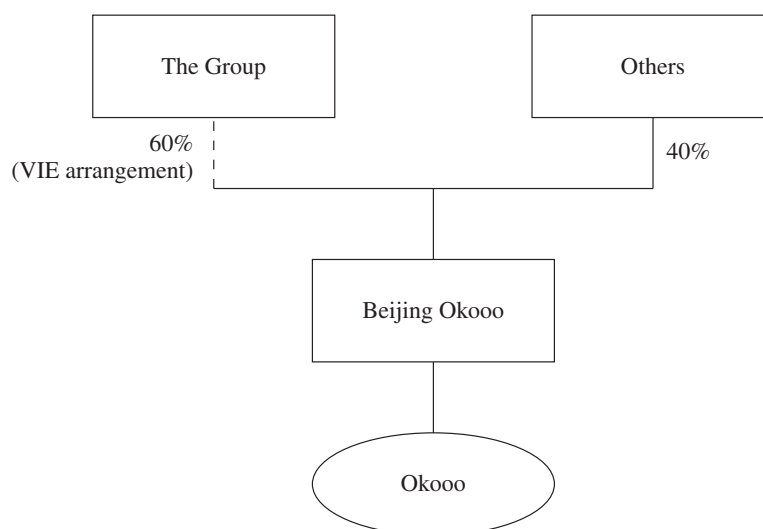
The Beijing Okooo Group and subsequently the PRC Company received a commission from lottery centres in return. The commission rate is determined by negotiations with lottery centres.

(iii) The Group's interest in Okooo

Acquisition of Beijing Okooo

In July 2011, the Group entered into a share purchase agreement to acquire from a third party 100% equity interest in 深圳市飛海貿易有限公司 (Shenzhen Feihai Trading Co., Ltd.*) (“**Feihai**”) for a cash consideration of HK\$250,000,000. Feihai held 60% interest in Beijing Okooo through a variable interest entity (“**VIE**”) structure. Beijing Okooo in turn held the Okooo platform, which was its main asset and business. The transaction was completed in September 2011 and did not constitute a notifiable or connected transaction of the Company. The Company did not appoint any directors to the board of Beijing Okooo after the acquisition. The Company intended to have Beijing Okooo's existing management operate the business so as to utilise their expertise and business connections.

The remaining 40% interest in Beijing Okooo was held by individuals who were the founders of Beijing Okooo and were independent third parties of the Company.



In August 2014, the Group perfected the arrangement by entering into a nominee agreement with the registered shareholder of the 60% interest in Beijing Okooo. Pursuant to the agreement, the registered shareholder confirmed that it held the 60% interest on behalf of Feihai.

Establishment of the PRC Company

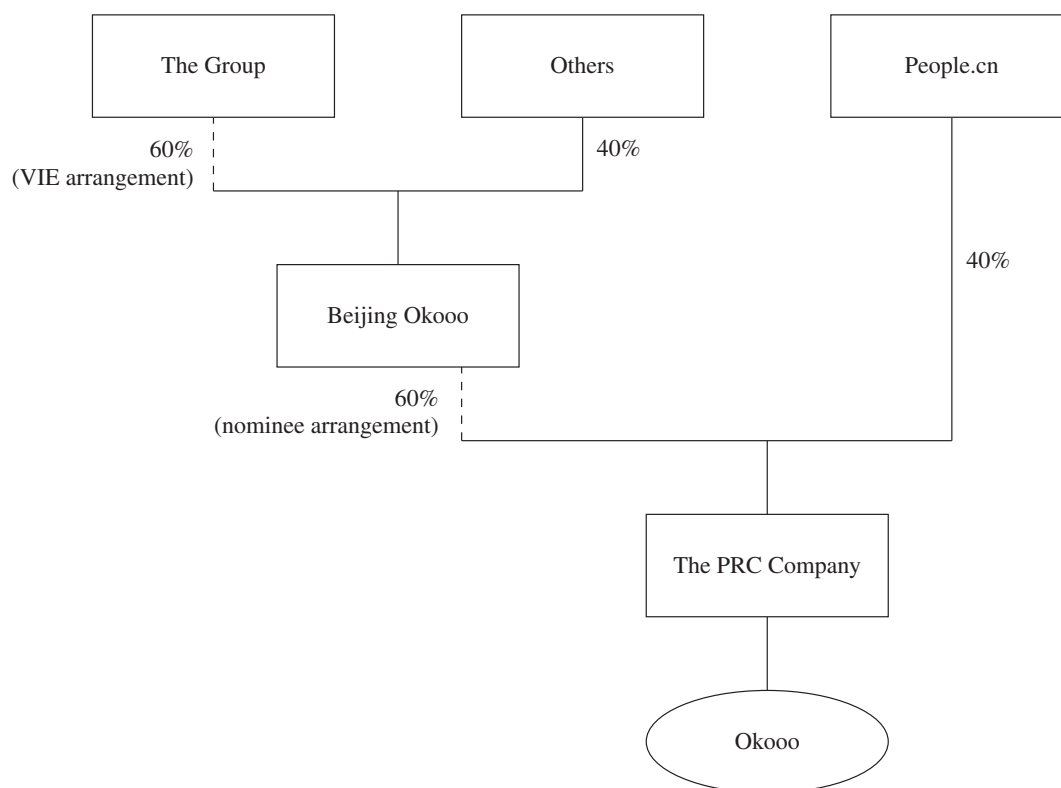
In September 2013, Beijing Okooo established a joint venture (i.e. the PRC Company) with People.cn (which was then an independent third party of the Company), by injecting the Okooo website and related assets into the PRC Company. People.cn paid RMB20 million in capital contribution. This did not constitute a notifiable or connected transaction of the Company.

Beijing Okooo held 60% interest in the PRC Company. The Company's effective interest in Okooo was reduced by 24% (from 60% to 36%) upon the establishment of the PRC Company. This reduction did not constitute a notifiable or connected transaction of the Company.

The board of the PRC Company consisted of 5 members: People.cn appointed 3 directors and Beijing Okooo appointed 2 directors. Beijing Okooo also had the right to nominate the general manager of the PRC Company.

Okooo is a restricted business in the PRC. Beijing Okooo holds its interest in the PRC Company through PRC entities which act as its nominees. These nominees have entered into agreements with Beijing Okooo in which they agreed *inter alia* to act as nominees for Beijing Okooo and to seek Beijing Okooo's approval on resolutions relating to the operations and management of the PRC Company. The Group does not have any direct contractual arrangement with the PRC Company.

The PRC Company began to run the Okooo operations by November 2013. There was no change in the business model of Okooo after the formation of the PRC Company. The PRC Company's only business is Okooo.

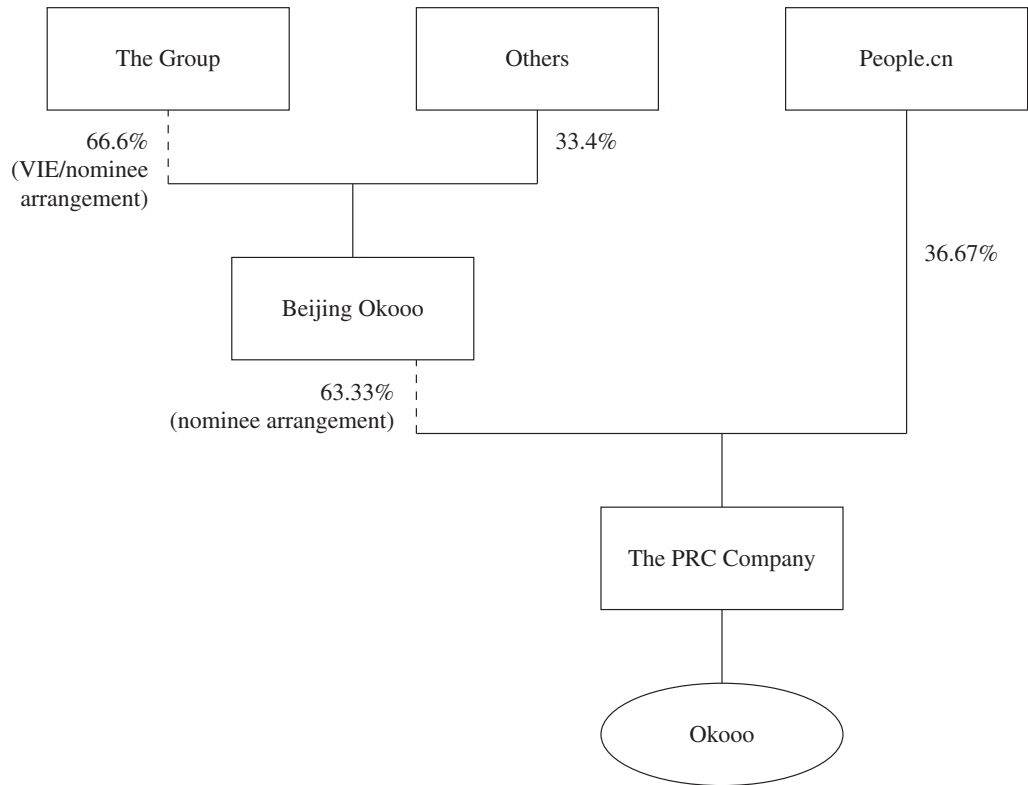


Further investments in Beijing Okooo and the PRC Company

The Company always had a plan to increase its stake in Beijing Okooo and the PRC Company. The Company did not enter into any memorandum of understanding or letter of intent in relation to this investment plan.

As part of the plan, in 2014, Beijing Okooo increased its shareholding in PRC Company from 60% to 63.33% by making a capital investment of RMB200 million. The investment was completed by August 2014 and the additional 3.33% interest was held by a nominee on Beijing Okooo's behalf. Beijing Okooo also entered into a nominee agreement with its nominee in relation to the additional 3.33% interest. The increase in 3.33% interest in the PRC Company by Beijing Okooo's nominee did not constitute a notifiable or connected transaction of the Company.

The Company also increased its shareholding in Beijing Okooo from 60% to 66.6%. In October 2014, a wholly owned subsidiary of the Group entered into a framework agreement with a vendor to purchase 6.6% interest in Beijing Okooo for HK\$380 million. The vendor, who was not a substantial shareholder or otherwise a connected person of the Company, held her 6.6% interest in Beijing Okooo through a nominee. Upon completion of the transaction, the vendor entered into a nominee agreement with the Group in November 2014 agreeing *inter alia* to act as its nominee and to act in accordance with the instructions of the Group. The increase in 6.6% interest in Beijing Okooo did not constitute a notifiable or connected transaction of the Company.



The Company has obtained legal opinions on the nominee arrangements regarding the Group's interest in Beijing Okooo and the PRC Company. The Company has been advised that the arrangements do not violate PRC laws and are valid. The Company's auditor reviewed the legal opinions when considering the consolidation of Beijing Okooo and the PRC Company.

(iv) Turnover and profits generated from the operations of Okooo

Since 2011 when the Group acquired 60% in Beijing Okooo, the turnover[△] generated from the Okooo operations had been consolidated into the Group's consolidated accounts. The turnover and profits (loss) generated from the Okooo platform between 2011 and 2014 are summarised below. The turnover and profit (loss) form part of the Group's consolidated accounts.

Table 1 – Turnover and profits (loss) generated from the Okooo platform

			January to November 2013	November and December 2013 ¹	2014 ²
	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000	2013 ¹ HK\$'000	2014 ² HK\$'000
Turnover generated from the operations of Okooo	108,500	291,847	341,887	28,247	-
Profit (loss) generated from the operations of Okooo	48,849	109,273	145,257	15,662	(150,275) ³

Note 1: From November 2013 onwards, the PRC Company began to operate the Okooo website.

Note 2: The PRC Company was deconsolidated from 1 January 2014 onwards. Beijing Okooo remains a subsidiary of the Group.

Note 3: The breakdown of the HK\$150,275,000 is as follows:

	HK\$
Beijing Okooo Group operating loss	1,288,000
Amortisation of intangible assets	17,705,000
Impairment of intangible assets	121,885,000
Loss on deconsolidation of the PRC Company	9,397,000
Total loss	150,275,000

The intangible assets represent the long term contracts entered into between the Beijing Okooo Group and lottery centres. Full impairment was made on the value of these contracts because of the suspension of internet lottery in the PRC.

The Company presented information on the Group's turnover in the 2014 annual results presentation made to investors ("**Results Presentation**"). The Results Presentation included information on the Group's audited turnover and the accounting adjustments made. The following table summarises the unaudited breakdown of the Group's turnover for the financial years 2013 and 2014 and the accounting adjustments made in relation to the Group's web operations.

Table 2 – Reconciliation between the Group's turnover as per audited accounts and as presented in the Results Presentation

	2013 <i>HK\$ million</i>	2014 <i>HK\$ million</i>
SGDB	963	1,011
The operations of Okooo (January to November 2013)	342	-
The operations of Okooo (November to December 2013)	28	-
DMB (except Okooo)	<u>832</u>	<u>677</u>
Total turnover (as per audited accounts)	2,165	1,688
Accounting adjustments for the operations of Okooo		
(January to December 2014)	-	432
Web referral business (orders placed online)	-	382
Web referral business (orders placed through mobile)	<u>-</u>	<u>133</u>
Turnover without adjustments (as presented in Results Presentation)	<u><u>2,165</u></u>	<u><u>2,635</u></u>

The Results Presentation was readily available on the Company's website (www.rexlot.com.hk) for approximately 1 month after the publication of the Company's results announcement dated 31 March 2015. It was uploaded to the "Investor Relations" section of the website. Once investors complete a simple registration procedure by providing their names and email addresses, investors would be able to access the Results Presentation on the website. This registration system was set up for the Company to monitor its investor profile.

(v) *Alleged insufficient disclosure in the Company's annual reports about its interest in Okooo*

The allegation in the Report that the Company has not disclosed Okooo's operations is wrong. The Company has made full and appropriate disclosure of the acquisition and operations of Okooo in its interim and annual reports.

The acquisition of Feihai and 60% of the Okooo platform was disclosed in the 2011 annual report (pages 6 and 150).

In 2012 and 2013, the Company reported the status and market position of the web operations in its annual reports (pages 6 and 11 of the 2012 annual report, page 28 of 2013 interim report and page 10 of 2013 annual report). The Okooo operations included both Sports Lottery (i.e. SMG ticket sales and Sports CTG) and Welfare Lottery (i.e. Welfare CTG and high frequency games). The Okooo operations were reported in the SMG section of the "Management Discussion and Analysis" section of the annual reports because SMG ticket sales constituted a majority part of the Okooo operations.

Information relating to the establishment of the PRC Company was disclosed in the "Management Discussion and Analysis" section of the Company's 2014 interim report. The Company also informed the public that Okooo had substantially increased its number of registered users in the preceding two years (page 23). The establishment of the PRC Company was not specifically mentioned in the 2013 annual report because it was part of the restructuring of the Group's web operations and the substantial business of Okooo had not changed after its establishment.

(vi) *Allegation that the establishment of the PRC Company was due to the suspension of the Okooo website in May 2013*

The Report suggests that the suspension of the Okooo website in May 2013 was due to the failure to distribute prize money and the sale of unauthorised lottery tickets. The Report further alleges that Okooo suffered reputational and financial damage as a result and this was the reason for establishing the joint venture with People.cn (i.e. the PRC Company).

The Company clarifies that the establishment of the joint venture with People.cn was unrelated to the suspension. The Group entered into the joint venture with People.cn for strategic reasons. As set out in the 2014 interim report, People.cn is the leading key news website in China (page 23). The Group believed that the joint venture would enable Okooo to further strengthen its market position in the industry.

Further, the rumours that the Okooo website was suspended because of the failure to distribute prize money and the sale of unauthorised lottery tickets are unfounded. In May/June 2013, the Okooo servers were attacked by hackers. As a result, the operations of the Okooo website were suspended. The PRC Public Security Bureau (“**PSB**”) was involved in investigating the matter. The Company understands that the PSB did not place any charges upon completing the investigation. The Okooo website resumed operations in June 2013.

During the suspension of the Okooo website, two statements were posted on the Okooo website to inform users that the site would be suspended due to technical issues. Users were informed that the Okooo operations were lawful and that the rumours relating to the operations of Okooo were untrue.

(vii) Allegations relating to the consolidation and deconsolidation of the PRC Company

The Report alleges that the Group had no basis to consolidate the PRC Company as a subsidiary and that the subsequent deconsolidation of the PRC Company was “dubious”.

The consolidation and subsequent deconsolidation of the PRC Company was in accordance with Hong Kong Financial Reporting Standard 10 (“**HKFRS 10**”). An analysis of the relevant provisions of HKFRS 10 and the basis for the consolidation and subsequent deconsolidation of the PRC Company are set out below.

A. *Accounting standards for consolidation*

HKFRS 10 provides the definitive guidance on the criteria for a company to consolidate its investment in an investee.

1. Basis of consolidation

HKFRS 10 provides that the ability of a company to consolidate its investment in an investee for financial reporting purpose depends on the ability of the reporting entity to control the investee company (paragraphs 5 to 7 of HKFRS 10).

2. Definition and assessment of control

Paragraph 5 of HKFRS 10 states that an investor, regardless of the nature of its involvement with an entity (the investee), shall determine whether it is a **parent** by assessing whether it **controls** the investee.

Paragraph 7 of HKFRS 10 provides that an investor controls an investee **if and only if** the investor has **all** of the following:

- a. power over the investee;
- b. exposure, or rights, to variable returns from its involvement with the investee; and
- c. the ability to use its power over the investee to affect the amount of the investor's returns.

In light of the above, it is clear that paragraph 7 sets out the necessary and adequate conditions for effecting control over an investee and hence whether an investee is to be consolidated by an investor in its financial statements.

3. Power over an investee

Paragraphs 10 to 14 of HKFRS 10 address the requirements for power over the investee (paragraph 7 (a) HKFRS 10).

An investor has power over an investee when the investor has **existing rights** that give it the **current ability** to direct the relevant activities, i.e. the activities that significantly affect the investee's returns (paragraph 10 of HKFRS 10).

Paragraph 13 of HKFRS 10 states that if two or more investors each have existing rights that give them **unilateral ability to direct different relevant activities**, the investor that has the current ability to direct the activities that **most significantly affect the returns of the investee** has the power over the investee.

Paragraph 14 of the HKFRS 10 further states, *inter alia*, an investor that holds only protective rights does not have power over an investee and consequently does not control the investee.

Appendix B Application Guidance of HKFRS 10, provides guidance on what constitute relevant activities and direction of relevant activities. Examples of relevant activities include (paragraph B11 of HKFRS 10):

- a. selling and purchasing of goods and services;
- b. managing financial assets during their life;
- c. selecting, acquiring or disposing of assets;
- d. researching and developing new products and processes; and
- e. determining a funding structure or obtaining funding.

Examples of decision about relevant activities include (paragraph B12 of HKFRS 10):

- a. establishing operating and capital decisions including budgets; and
- b. appointing and remunerating an investee's key management personnel or service providers and terminating their service.

Key management personnel is defined under Hong Kong Accounting Standard 24 (Revised) ("**HKAS 24**") as those persons having authority and responsibility for planning, directing and controlling the activities of the investee directly or indirectly including any directors of the investee.

4. Decision on whether to consolidate

An investor shall consider all facts and circumstances when assessing whether it controls an investee. The investor shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the above elements of controls listed in subsection 2 above (paragraph 8 of HKFRS 10).

If the facts and circumstances indicate the ability to control the relevant activities of the investee then the reporting entity will need to consolidate the investee in preparing its financial statements for reporting purposes and not consolidate the investee if the conclusion is otherwise.

B. Consolidation and deconsolidation of the PRC Company

The PRC Company was established in September 2013 as a joint venture between Beijing Okooo and People.cn. At the time, the Company through Beijing Okooo controlled 60% equity interest in the PRC Company. The Company was the majority investor of Beijing Okooo.

1. Purpose of setting up the PRC Company

The intention for setting up the PRC Company was to expand the Company's internet lottery business and through the support of People.cn to pave the way for the future internet lottery sales license as and when application procedure and details are released by the Chinese authorities.

The Company believes that People.cn was aware of this intention and there was an understanding between the Company and People.cn that People.cn would leave the management of the PRC Company to the Company and the management of Beijing Okooo ("**Our Side**") because of our experienced management team. The understanding was that People.cn would focus on how to deal with the future licensing of internet based lottery distribution as and when the opportunity arose.

The Company and People.cn did not enter into any written agreement in relation to the above intention and understanding. The role of each party was borne out by the corporate structure and the management arrangement adopted upon the set up of the PRC Company.

2. Corporate structure of the PRC Company

Pursuant to the terms of the Articles of the PRC Company (the “**PRC Company’s Articles**”), the board of directors of the PRC Company comprise 5 members, 3 members shall be nominated by People.cn and 2 members shall be nominated by Our Side (Article 13 of the PRC Company’s Articles). The board of the PRC Company shall appoint a Chairman who shall be a director nominated by People.cn. (Article 14 of the PRC Company’s Articles).

Furthermore, the PRC Company shall have a General Manager who shall be responsible for all daily operations of the PRC Company. The General Manager shall be nominated solely by Our Side even though as a matter of formality the approval from the board of the PRC Company is required (Article 21 of the PRC Company’s Articles).

As such, it is clearly reflected in the PRC Company’s Articles that all the operations of the PRC Company are managed and controlled by the General Manager and only Our Side can nominate him.

In order to utilise the experience and expertise of the Beijing Okooo’s management, the Company nominated them to take up the roles as Our Side’s two representatives on the board of the PRC Company and the General Manager.

3. Approval of major decisions of the PRC Company

Article 23 of the PRC Company’s Articles provides that all major decisions of the PRC Company shall be approved by the Chairman of the board of the PRC Company **and** the General Manager. Major decisions include situations where the PRC Company is to enter into material contracts, incur large expenses, participate in substantial projects or provide loans or security. The board of the PRC Company is not required under the PRC Company’s Articles to participate or approve these major decisions.

This arrangement demonstrates that neither party can unilaterally make any major decision in the PRC Company at corporate level without reference to and agreement by the other party. People.cn, despite the 3 directors nominated to the board of the PRC Company, only had a veto right on major decisions at board level (which is a protective right and applying paragraph 14 of HKFRS 10, People.cn did not have control over the PRC Company). Therefore, the General Manager is the key management personnel in charge of the operations of the PRC Company.

4. Shareholders' control at general meetings of the PRC Company

Shareholders resolutions require 2/3 voting rights to be approved (Article 12 of the PRC Company's Articles). Given the fact that Our Side controlled 60% of the voting rights of the PRC Company at its shareholders' meetings, People.cn would have veto rights on all resolutions only until such time as Our Side increased our shareholdings to over 2/3 of the voting rights. By such time Our Side would have obtained ultimate control of the PRC Company. Until then, neither party can unilaterally control shareholders' meetings.

Regardless of the above, the Company considered that the corporate structure and management arrangement as set out in the PRC Company's Articles effectively ensured that Our Side would have control over and be responsible for the operations of the PRC Company.

5. Management of the PRC Company

In 2013, Our Side nominated the General Manager. Given the understanding between the Company and People.cn that the management of the PRC Company would be left to Our Side, the board representatives of People.cn did not object to the appointment. Since 2013, the General Manager and the 2 directors appointed by Our Side had in reality managed the daily operations of the PRC Company. People.cn's 3 representatives did not participate in the management of the daily operations.

People.cn's 3 representatives were in charge of dealing with the authorities and planning for the application for future internet lottery sales licence as and when such regulations are finalised and announced by the Chinese regulatory authorities. As at the date of this announcement, no such regulation has been promulgated.

6. Power over daily operations (i.e. the relevant activities)

The corporate structure described above ensures that the General Manager was responsible for all daily operations of the PRC Company, including all sales and purchases of services, marketing, financing, research and development of system and products. The General Manager therefore had power over almost all relevant activities which most significantly affected the returns of the investee (paragraph 13 HKFRS 10).

The role of People.cn and the plan to apply for internet lottery sales license was not a relevant activity that can generate any returns for the PRC Company during the reporting period in question (paragraph 13 HKFRS 10).

As stated above, Our Side was the party which had the power to nominate the General Manager, thus ensuring that Our Side effectively had power in relation to all the relevant activities set out in paragraph B11 of HKFRS 10. Such activities significantly affected the returns of the PRC Company.

People.cn's powers operate more as veto or protective rights over the PRC Company and do NOT constitute power over the PRC Company for the purpose of paragraph 10 of HKFRS 10.

7. Consolidation of the PRC Company in 2013

Based on the above analysis, the Company had the power over the PRC Company for the financial year 2013 (paragraph 7(a) of HKFRS 10 referred to above).

As the Company's equity interest in the PRC Company entitled the Company to a variable return depending on the performance of the PRC Company during any financial reporting period, and given the active participation of key management personnel appointed by Our Side, the Company considered that the requirements under paragraphs 7(b) and (c) of HKFRS 10 were also satisfied during the reporting period of 2013.

Hence, pursuant to paragraph 5 of HKFRS 10, the Company was entitled to and required under the accounting standards to consolidate the PRC Company because it controlled the PRC Company in the reporting period for 2013.

The Company's auditor agreed with the Company's decision to consolidate the financial results of the PRC Company for 2013 when the auditor audited the Group's accounts in early 2014.

The Company's accounting treatment did not concern People.cn and therefore it had not discussed with People.cn its plan to consolidate the financial results of the PRC Company.

8. Allegation in the Report regarding People.cn's consolidation of the PRC Company

The Report seems to rely on People.cn's consolidation of the PRC Company as shown in its financial statements to suggest that the Company did not have any basis to consolidate the PRC Company in 2013.

As vindicated above, the Company had a valid basis to consolidate the PRC Company in 2013. Whether People.cn should or could consolidate an entity is not governed by the Hong Kong accounting rules, and is NOT a consideration under paragraph 5 of HKFRS 10.

9. Mutual understanding between the Company, People.cn and the remaining shareholders of Beijing Okooo

The Company's power to control the PRC Company was premised on cooperation between the Company and the management from Beijing Okooo. Such cooperation was the result of the understanding amongst the parties that over time the Company would further increase its stake in Beijing Okooo by purchasing additional shares from the minority shareholders. There were also discussions about possible ways to increase the Company's equity interest in the PRC Company, either by way of capital increase and/or acquisition of further interests in the PRC Company from People.cn.

After further investments in Beijing Okooo and the PRC Company (the "**Investment Plan**"), the Company expected that it would have more representation on the board of the PRC Company.

10. Regulatory development in 2014 and 2015

To the surprise of the lottery industry, the National Audit Office of the PRC commenced an audit on the use of lottery funds in 18 provinces in or around mid-November 2014.

Furthermore, in January 2015, provincial lottery centres were required to carry out self-inspection pursuant to the “Circular on Self-examination and Self-correction on Unauthorized Lottery Sale on the Internet”. On or about 28 February 2015, provincial lottery centres informed the PRC Company that the online distribution of lottery tickets should be suspended. The PRC Company in turn suspended the operations of Okooo in March 2015.

In light of this development, the Company reassessed the commercial viability of the Investment Plan. The advent of the self-inspection programme and the suspension of internet lottery sales increased the uncertainty and cast further doubts on the viability of the Investment Plan. As a result, by the end of February 2015, the Company decided to put on hold its plan to acquire further interest in the PRC Company and Beijing Okooo until such time as the regulatory uncertainty was cleared. Such a decision was made in the interest of the Company and the Shareholders. However, the decision was badly received by the minority shareholders and the management of Beijing Okooo who then withdrew their support of Our Side.

11. Deconsolidation of the PRC Company in 2014

Dissatisfaction with the Company’s decision to put on hold the Investment Plan resulted in the withdrawal of support of the management of Beijing Okooo from Our Side. The General Manager, who was initially part of the management of Beijing Okooo, also withdrew his support. This materially affected the Company’s ability and power to control and direct the operations of the PRC Company. In around February and March 2015, due to the withdrawal of support, the Company was not able to timely access the PRC Company’s full financial information and was only provided with the management accounts. The Company considered this as an indication of loss of control.

As a result, the Company considered that it was no longer able to unilaterally direct or have significant influence over the daily operations of the PRC Company, and ceased to have control over the PRC Company. The auditor and the Company agreed to deconsolidate the PRC Company for the year 2014. The Company was taken to have lost control over the PRC Company for the whole of the financial year 2014 because the Company did not have timely access to the PRC Company's full financial information for that year so as to complete the audit for that year. The Company was only provided the management accounts of the PRC Company without any of the underlying documents.

The Company believes that it would have been able to demonstrate that it had control over the PRC Company since 2013 had it proceeded with its Investment Plan.

The Company does not consider that the loss of control over the PRC Company was a result of internal control breakdown or deficiencies. The Company has been actively negotiating with the management of Beijing Okooo and People.cn to resolve the issue. It also closely monitors the status of the PRC internet lottery market and reserves the right to take further action.

12. Accounting treatment for the deconsolidation of the PRC Company

The date of the deconsolidation is taken to be 1 January 2014. The Company's auditor does not consider it necessary to deconsolidate the financial results of the PRC Company from 26 September 2013 (i.e. the date of establishment of the PRC Company). The financial effect of the deconsolidation on the Group's accounts for the year ended 31 December 2013 would have been *de minimis*. The financial information of the PRC Company from 26 September to 31 December 2013 is set out below in Table 3.

Table 3 – Audited financial information of the PRC Company

	As at 31 December 2013 <i>HK\$'000</i>
Balance Sheet	
Property, plant and equipment	864
Trade and other receivables	65,751
Cash and cash equivalents	35,933
Trade and other payables	(18,892)
Current tax liabilities	<u>(3,892)</u>
Net assets of the PRC Company	<u><u>79,764</u></u>
	For the year ended 31 December 2013 <i>HK\$'000</i>
Income Statement	
Turnover	<u><u>28,247</u></u>
Profit for the year	<u><u>15,662</u></u>

The turnover and profit was generated in November and December 2013.

The loss on deconsolidation of the PRC Company is set out in Table 4 below.

Table 4 – Audited loss on deconsolidation of the PRC Company

	As at 1 January 2014 HK\$'000
Net assets deconsolidated	79,764
Non-controlling interests	(31,905)
Cost of investment reclassified to available-for-sale financial assets	<u>(38,462)</u>
Loss on deconsolidation of the PRC Company	<u><u>9,397</u></u>

Upon deconsolidation, the cost of investment in the PRC Company was reclassified as available-for-sale financial assets in accordance with Hong Kong Accounting Standard 39. The Group invested a total of RMB230,000,000 (approximately HK\$273,810,000) in capital in the PRC Company. In 2014, the investment cost of approximately RMB34,546,000, being the initial capital of RMB30,000,000 (approximately HK\$38,462,000) and the subsequent investment of approximately RMB4,546,000 (HK\$5,682,000), was reclassified as an available-for-sale financial asset. The remaining amount of the investment was recognised as an available-for-sale financial asset in 2015 when the relevant legal formality was completed. The Company considers that the market value of the PRC Company exceeds its book value given the long term prospects of the PRC internet lottery business. The Company does not consider it necessary to make any impairment on the book value.

The Company's auditor has confirmed that it agreed with and stood by the above accounting treatment despite the allegations raised in the Report.

13. Financials and operations of Beijing Okooo

After the deconsolidation of the PRC Company, Beijing Okooo remained a subsidiary of the Company and its financials were consolidated in the Group's accounts for the financial year 2014.

The Company considered that it had control over Beijing Okooo. Pursuant to the articles of Beijing Okooo, the Group had sufficient voting rights to pass shareholders' resolutions in relation to Beijing Okooo's business and investment plans, to approve Beijing Okooo's budget and dividend proposal and to elect certain members to the board. Pursuant to the VIE arrangement, the Group had rights to fully manage Beijing Okooo. The Group had in its possession Beijing Okooo's company chop. It also had access to and obtained the books and records of Beijing Okooo when completing the audit for the financial year ended 31 December 2014. For the financial year 2014, Beijing Okooo served as a holding company in respect of its interest in the PRC Company and a subsidiary which engaged in the web referral business. The withdrawal of support from the Beijing Okooo management did not affect the Company's control over Beijing Okooo.

For the financial year ended 31 December 2014, Beijing Okooo did not generate any turnover and recorded a loss of approximately HK\$9,521,000 (this included loss on deconsolidation of the PRC Company of approximately HK\$9,397,000). Beijing Okooo had total assets of approximately HK\$559,183,000 and a net asset value of approximately HK\$348,251,000 as at 31 December 2014.

The Company's auditor agreed with the accounting treatment of Beijing Okooo.

14. Effect of the suspension of internet lottery sales on the PRC Company

The PRC Company's operations have been suspended since March 2015 and remain suspended. This suspension has adversely affected the Group's SMG business because the internet had been used as one of the key distribution channels for SMG products. The suspension has also affected the performance of the Group's Welfare CTG business.

The Company has obtained a legal opinion on the operations of Okooo and has been advised that the Group's online lottery business which was carried out through Okooo did not violate any PRC laws or regulations all through the period of its operations before its suspension. The Company does not have information on when internet lottery is expected to resume in the PRC.

(viii) Alleged overstatement of Okooo's financials

The Report alleges that the Company overstated the turnover generated from Okooo in the Results Presentation.

The Company stresses that the financial information in the Results Presentation in relation to the web operations is true and accurate. In the Results Presentation, the Company presented information on how much turnover would have been generated from web operations (i.e. the operations of Okooo and other web operations, being the Group's web referral business) had no accounting adjustments been made to deconsolidate the same from the Group's consolidated accounts. Assuming that no adjustments were made, the Group's turnover in 2014 would have been approximately HK\$2,635 million and the turnover generated from web operations would have been approximately HK\$947 million (RMB758 million). The approximately HK\$947 million (RMB758 million) represents approximately HK\$432 million (RMB346 million) generated from the operations of Okooo (i.e. the turnover of the PRC Company) and approximately HK\$515 million (RMB412 million) generated from the web referral business.

The Report misinterpreted Results Presentation to state that the entire amount of approximately HK\$947 million (RMB758 million) was generated from the operations of Okooo.

The operations of Okooo

The turnover of the operations of Okooo being approximately RMB346 million (HK\$432 million) was based on the PRC Company's unaudited accounts, and this was the latest information available to the Company prior to the publication of the Group's financial results on 31 March 2015. The discrepancy between approximately RMB346 million (HK\$432 million) and the turnover of approximately RMB286 million (HK\$357.5 million) reported in People.cn's Annual Report dated 13 April 2015 could be a result of the accounting adjustments made by People.cn.

Web referral business

The Company presented in the Results Presentation that web operations included the operations of Okooo and "others". "Others" represented the turnover generated from the Group's web referral business being approximately RMB412 million (HK\$515 million).

The Group commenced a referral business for internet lottery sales ("**Referral Business**") in or around April 2014. This was an additional channel to distribute lottery products. Through this additional channel, the Group was able to expand its source of customers and to increase its market share in internet lottery business.

The executive director of the Company approved of the commencement of the Referral Business. No formal Board resolution was required to approve the same because the Referral Business was part of the normal lottery operations of the Group.

Under this category of business, Beijing Okooo's management staff (the "**Referral Management**") and other third party referral agents formed a customer referral network (the "**Network**"). The third party referral agents were introduced to the Network through the connections of the Referral Management. The Network referred customers to web lottery sales platforms ("**WLSPs**").

The Referral Business was recorded in a wholly-owned subsidiary of Beijing Okooo (the “**Web Subsidiary**”). Prior to the commencement of Referral Business, the Web Subsidiary did not have any operations and was a dormant company. Its financial information was not consolidated in the Group’s accounts because the value of its assets was immaterial.

On 31 March 2014, the Web Subsidiary entered into lottery sales cooperation agreements (“**Referral Agreement**”) with the WLSPs. The Company's management executed the Referral Agreements on behalf of the Web Subsidiary. Pursuant to the Referral Agreements, the Web Subsidiary was responsible for procuring the referral of the Network’s customers to the WLSPs. The Web Subsidiary would receive referral and service fees in return.

It was also originally intended that the Network would be grouped under the Web Subsidiary, and that the parties would enter into written agreements to formalise the arrangement. The agreements would formalise the Group’s right to participate in the management of the Referral Business and to provide for the Network’s obligation to report to the Group and to assist in the audit of the Referral Business.

The financial information of the Web Subsidiary was consolidated into the Group’s 2014 interim results.

In March 2015, the Referral Business was suspended when all online lottery sales in the PRC were suspended. This suspension of internet lottery sales in China was unexpected and resulted in great uncertainty in the market and its industry participants. As a result, the intended formalisation of grouping the Network under the Web Subsidiary did not proceed.

In around March 2015, the Company prepared the financial statements for the Referral Business. The Company considered HKFRS 10 which governed the recognition of an entity as subsidiary and the issue of control.

The Referral Business was operated by the Network and the Company did not have direct representatives running the operations. By March 2015, the Company had decided to put on hold the Investment Plan. This was not well received by the management of Beijing Okooo, and caused the Referral Management to withdraw their support in respect of the Referral Business. This also led to the withdrawal of support from the Network referral agents who were introduced by the Referral Management. Without this support and also as a result of the internet suspension, the Company was unable to formalise the arrangement between the Web Subsidiary and the Network, which was intended to formalise the Group's right to participate in the management of the Referral Business.

The withdrawal of support also affected the collation of supporting documents for the Group's financial statements. The Group was unable to obtain from the Network and WLSPs sufficient financial information. This included summary of lottery sales generated by the lottery machines, confirmations on the amount of sales referred to the respective WLSPs, customer lists and purchase orders which were required for completing the audit. The Company considered this as an indication of loss of control.

For the reasons set out above, the Company considered that it did not have control over the Web Subsidiary and did not consolidate the Web Subsidiary into the Group. The auditor was aware of the circumstances of the Referral Business at the time. The auditor concurred with the Company's application of HKFRS 10 and agreed that the Web Subsidiary should not be consolidated as a subsidiary of the Group.

No adjustments to the 2014 consolidated accounts was necessary because the Web Subsidiary was not consolidated as a subsidiary in previous financial years. The Company made adjustments to the 2014 interim results to exclude financial information from the Referral Business, and this was disclosed in the 2015 interim results.

The approximately RMB412 million (HK\$515 million) in turnover generated in 2014 was booked to the Web Subsidiary. This is based on the monthly statements the Group received from the WLSPs. The Company's management had in mind the estimated amount the business would generate based on market data and the financial information in the monthly statements was in line with this expectation.

Out of the approximately RMB412 million (HK\$515 million) in turnover, approximately RMB306 million (HK\$383 million) was generated from customers who placed lottery purchase orders directly through the internet platform. The remaining approximately RMB106 million (HK\$133 million) was generated from customers who placed such lottery purchase orders indirectly with the online lottery operators via other interfaces such as mobile Apps or other electronic platforms.

The attributable profit from the Referral Business was approximately RMB92 million (HK\$115 million) for the financial year 2014. The Web Subsidiary is yet to receive the approximately RMB92 million due to the current internet lottery suspension. The Group is in negotiation with the WLSPs for the collection of this amount and proper documentation of such referral arrangements. Based on the results of such negotiation, the Group will consider the appropriate accounting treatment.

The Group believes that had it proceeded with its Investment Plan resulting in continued support from the Referral Management, it would have been able to demonstrate control over the Referral Business and include the same in its 2014 audited financial statements.

The Company has obtained a legal opinion on the Referral Business and has been advised that the Referral Business carried out between April 2014 and February 2015 was lawful.

Inclusion of the turnover of web operations in the Results Presentation

Despite the uncertainties in the PRC internet lottery market, the Company included the turnover generated from the web operations being approximately HK\$947 million (RMB758 million) in the Results Presentation to allow investors to understand the potential of the Group's business. It is the Company's intention to continue to increase investment/exposure in web operations after regulatory uncertainties have been cleared. This continues to be the Company's intention despite the current suspension of internet lottery in the PRC and the Company's decision to put on hold the Investment Plan.

The amount of turnover generated from the web operations was presented to investors in the Results Presentation only as a comparative analysis. Although the PRC Company was deconsolidated from the Group's accounts, the Group continues to hold interest in the PRC Company. The Group is also in negotiations to collect the attributable profits generated from the Referral Business. The information on the web operations would allow investors to better understand the Group's business profile and the progress the Group had achieved in these web operations during the financial year 2014.

The Company never had any intention to include in the Results Presentation any information which is misleading. The Company reiterated in the Results Presentation that the web operations were not included in the audited accounts and that internet lottery sales had been suspended.

Other allegations in the Report concerning the revenue of the Group's web operations

The Report's conclusion that Okooo represented 36% of the Group's reported revenue is wrong as the web operations (including Okooo) do not form part of the Group's reported turnover set out in the 2014 annual results.

The formula used in the Report to calculate the revenue generated by Okooo (i.e. RMB85 billion x 4.2% x 8%) is based on unofficial figures and unreliable assumptions.

The Report's analysis on market share of the PRC online lottery market is based on the information from www.enfodesk.com and is not accurate. Further, the turnover generated from the Group's web operations should not be compared against that of 500.com because 500.com only covers Sports Lottery. The Group's operations are much more extensive and cover Welfare Lottery as well as Sports Lottery.

2. Offline Business

The Report alleges that Company overstated the turnover generated from the Group's Welfare CTG business by two times. Its calculations show that the Group's Welfare CTG business generated approximately RMB289 million (HK\$371 million) in revenue in 2013. In support of the calculations, the Report alleges and relies on the following:

1. The Report alleges that the Company misled investors that the commission model was the only model used its Welfare CTG business. Out of 17 province covered by the Group, the Report found that at least 8 provincial customers used the buyout model for the provision of lottery machines.
2. The Report found that the market cut rate for the provision of lottery machines is generally 0.8% or lower. It assumed in the calculations that the "true" cut rate for the Welfare CTG market was 0.58% in 2013.
3. The State Administration for Industry & Commerce ("SAIC") 2013 filing for 深圳市思樂數據技術有限公司 (Shenzhen Sinodata Technology Co., Ltd.*) ("Sinodata") show that it generated a revenue of approximately RMB302 million (HK\$371 million) only.

Each of the matters raised by the Report are addressed below.

Business model for the Welfare CTG business

The Group's Welfare CTG business is the main revenue generating unit of the Group's offline business. It is important to note that the analysis in the Report is focused solely on the provision of lottery machines, while the Group's Welfare CTG business is much more extensive. The Group's business includes provision of lottery machines, server (both hardware and software) set up and maintenance, operating systems and data centres, mobile lottery systems, high frequency games, provision of services through banks (such as via standing orders or through automated teller machines), lottery automated vending machines and systems, and operating systems and machines for game halls.

The Group's Welfare CTG business uses both the commission model and the buyout model. With the buyout model, products are sold to customers at an agreed fixed price. With the commission model, the Group is paid a percentage of the revenue generated from lottery sales as commission. Determination of the model to be used depends on the products and services under consideration, the circumstances of the various provinces and the negotiated terms of contract. The Group uses both models for the provision of lottery machines, server (both hardware and software) set up and maintenance, while the other businesses referred to above (such as mobile lottery systems, high frequency games, provision of services through banks) mostly use the commission model.

The Report does not cite any sources for the assumption that approximately half the provincial lottery market operated through a one-off buyout model. The assumption over-generalises the operations of the lottery market. In many provinces, a mixed model is adopted for different types of Welfare CTG business. Currently, the Group's Welfare CTG business uses the buy-out model in 2 provinces, the commission model in 5 provinces and a combination of the two models in 11 provinces.

The provision of lottery machines to provinces using the buyout model represented approximately 20% and 33% of the turnover for the Group's Welfare CTG business in 2014 and 2013 respectively. The turnover generated from the provision of lottery machines to the provinces using the commission model represented approximately 16% and 18% of the total Welfare CTG turnover of the Group in 2014 and 2013 respectively.

Contrary to the assertion in the Report, the Company has not represented to investors that its Welfare CTG business operates solely on the commission model. The Company presented in the Results Presentation that the average cut rate for its entire Welfare CTG business in 2014 was 0.94%. This does not imply that the Group's entire Welfare CTG business operates on the commission model.

Cut rate for provision of lottery machines

The Report purports to use the “average” of the cut rate of Fujian province, Guangdong province and Shanghai to calculate the estimated turnover of the Group's Welfare CTG business. These cut rates are only for lottery machine ticket sales and are not representative of the whole of the Group's Welfare CTG business.

The cut rates for lottery machine ticket sales and other lottery related products and services vary depending on the circumstances of various provinces. For example, the cut rates for lottery machine ticket sales range from 0.52% to 2%. The cut rate depends on the terms of contracts negotiated with lottery centres.

Financial information in the SAIC filing of Sinodata

The Report cites the SAIC filing of Sinodata (which is not a public document and had therefore been obtained by unlawful means) in support of its estimate that the Group's Welfare CTG business generated approximately RMB289 million (HK\$371 million).

The turnover generated from Sinodata's business does not represent the Group's entire Welfare CTG business. The SAIC filing of Sinodata does not include the turnover generated by Sinodata's eight subsidiaries. These eight subsidiaries operate a substantial part of the Group's Welfare CTG business, such as provision of lottery machines, server (both hardware and software) set up and maintenance, lottery automated vending machines, operating systems and data centres, mobile lottery systems, provision of services through banks (such as via standing orders or through automated teller machines) and operations of game hall.

The Sinodata group includes Sinodata and its eight subsidiaries, being 深圳市思樂網絡技術有限責任公司 (Shenzhen Sinocyber Tech. Co., Ltd.*), 深圳市思樂數據設備服務有限公司 (Shenzhen Sinodata Equipment Services Co., Ltd.*), 深圳市思遠卓越科技開發有限公司 (Shenzhen Siyuan Zhuoyue Technology Development Co., Ltd.*) and five other subsidiaries. Their turnover respectively represented approximately 45%, 50%, 3%, 1% and 1% of the Group's Welfare CTG business in 2014.

The Report's calculation that the Group's Welfare CTG business revenue generated approximately RMB289 million

For the reasons explained above, the Report is wrong in its calculations to assume that (i) the Group's Welfare CTG business consists solely of the provision of lottery machines to the provinces, (ii) half of the business operated on the buyout model and the other half operating on the commission model, and (iii) the cut rate for the commission model was 0.58%.

Based on the unaudited financial information, the Group's Welfare CTG generated approximately HK\$865 million in 2014 and approximately HK\$814 million in 2013. The unaudited breakdown of the Group's offline business is set out in the table below.

Table 5 – The unaudited turnover of the Group's offline business

	2013	2014
	<i>HK\$ million</i>	<i>HK\$ million</i>
Provision of lottery machines to provinces	415	308
Other types of Welfare CTG business	399	557
Welfare CTG business	814	865
Other offline business	595	554
The Group's offline business	<u>1,409</u>	<u>1,419</u>

Intended disposal of Sinodata and subsidiaries

As disclosed in the circular of the Company dated 29 February 2016, a wholly-owned subsidiary of the Company and a purchaser (being a connected person of the Company) entered into a Sale and Purchase Agreement on 4 January 2016 (as supplemented and amended on 23 February 2016) pursuant to which, among other things, the wholly-owned subsidiary conditionally agreed to sell and the purchaser conditionally agreed to purchase the entire issued share capital of Multi Glory Limited, which would indirectly hold Sinodata (100%), 深圳市思遠卓越科技開發有限公司 (Shenzhen Siyuan Zhuoyue Technology Development Co., Ltd.*) (50%) and 深圳市思樂數據設備服務有限公司 (Shenzhen Sinodata Equipment Services Co., Ltd.*) (100%) (the “**Disposal**”).

3. Cash and bank balances

The Report alleges that the Company inflated its reported cash balance, asserting the Group should have earned a higher amount of interest income had it maintained its reported cash balance.

The Company confirms that it has accurately reported the Group’s cash and bank balances and interest income. The breakdown of the Group’s cash and bank balances as at 2012 to 2014 financial year end is set out below.

Table 6 – Cash and bank balances

	2014	2013	2012
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Deposits in RMB	959	922	559
Deposits in HKD and other currencies	326	222	331
Cash in hand (in all currencies)	<u>8</u>	<u>2</u>	<u>7</u>
Total	<u>1,293</u>	<u>1,146</u>	<u>897</u>

The Report's interest calculations

The Report's calculations of the interest income the Group should have received are misleading. It wrongly assumes that all of the Group's cash is kept as RMB one-day call deposits. The Group does not make call deposits or fixed deposits, so as to maintain liquidity. Further, the "cash balance" referred to in the Report includes both cash at banks and cash in hand. It is the Group's practice for its PRC subsidiaries to keep certain amounts in cash which are not interest bearing.

The Group has kept a substantial amount of the proceeds from convertible bonds in Hong Kong dollars for better control, and the proceeds were remitted to the PRC when capital was needed. It is not the Group's practice to transfer funds into the PRC for the purpose of earning interest due to foreign exchange control. For the year ended 2014, the Company received HK\$1.9 billion for the proceeds of convertible bonds and the proceeds were kept as Hong Kong dollar deposits until the funds were utilised.

The RMB deposit balance is usually higher at year end compared to the rolling balance throughout the year because of the settlement of trade receivables.

The Group's interest calculations

According to the information published by the People's Bank of China, the interest rate for RMB savings deposit was 0.35% p.a.. The interest rate for Hong Kong dollar savings deposit was 0.0010% p.a.. Applying these interest rates to calculate the estimated interest income, the Group's interest income in 2014 would be comparable to the Group's actual interest income as reported in the 2014 annual report.

In the following calculations, it is assumed that: (i) the Group has a rolling bank balance equal to 70% of the cash at banks balance at year end; and (ii) 50% is deposited as RMB savings deposit and 50% is deposited in HKD savings accounts.

(HK\$'000)

Total rolling balance = $(1,293,000 - 8,000) \times 70\% = 899,500$

HKD deposit interest income = $899,500 \times 50\% \times 0.001\% = 4.5$

RMB deposit interest income = $899,500 \times 50\% \times 0.35\% = 1,574.1$

Total interest income = $4.5 + 1,574.1 = 1,578.6$

4. Dividends

The Report alleges that the Company's dividend payments were funded by the proceeds of convertible bonds. The Report assumes in its analysis that all acquisitions were funded by cash generated from operations and all dividend payments are funded by proceeds from the issuance of convertible bonds.

This analysis is misleading. The funds generated from operating activities were sufficient to cover the dividend payments. The proceeds from convertible bonds were mainly used to finance the acquisitions and working capital.

Dividend payments

The Company first declared and paid dividends in 2009. Between 2009 and 2014, the funds generated from operating activities were sufficient to cover the dividend payments.

A summary of the Group's consolidated statements of cash flows between 2009 and 2014 is set out below (investors are reminded to read the statements in full for details).

Table 7 – Summary of the consolidated statements of cash flows between 2009 and 2014

	2009	2010	2011	2012	2013	2014	TOTAL
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Operating activities							
Operating profit	450	680	752	867	926	(172)	3,503
Adjusted operating profit	49	83	189	210	299	1,150	1,980
Working capital changes	(162)	(391)	(246)	(709)	(634)	(1,876)	(4,018)
Net cash from (used in) operation activities	337	372	695	368	591	(898)	1,465
Investing activities							
Purchase of property, plant and equipment	(67)	(135)	(129)	(53)	(34)	(66)	(484)
Acquisitions	(300)	(434)	(1,088)	(184)	(385)	(488)	(2,879)
Others	6	–	(68)	(26)	8	(10)	(90)
Net cash used in investing activities	(361)	(569)	(1,285)	(263)	(411)	(564)	(3,453)
Financing activities							
Dividend payments	(14)	(60)	(81)	(143)	(149)	(291)	(738)
Issue of shares (net of issuing costs)	58	148	26	58	133	113	536
Net proceeds (repayment) of borrowings and finance leased	65	30	(58)	2	51	1	91
Repurchase of own shares	–	–	(21)	(60)	(33)	(54)	(168)
Proceeds from convertible bonds	–	–	944	460	–	1,859	3,263
Others	–	–	–	27	45	4	76
Net cash generated from financing activities	109	118	810	344	47	1,632	3,060
Operating cash inflow (outflow)	85	(79)	220	449	227	170	1,072

Although the operating cash flows for 2014 was negative, there had been net accumulated operating cash flows from previous years in the amount of approximately HK\$1,465 million. This amount does not include the proceeds from convertible bonds. The dividend declared in 2014 was paid from the accumulated operating cash flows.

The Company does not have a fixed dividend plan.

Application of proceeds of convertible bonds

A summary of the intended use (as disclosed in the announcements and circulars issued by the Company) and the actual use of net proceeds is set out below.

Table 8 – Intended and actual use of net proceeds from convertible bonds

	Intended use of net proceeds	Actual use of net proceeds
2011 convertible bonds (Net proceeds of approximately HK\$944 million)	General working capital and pursuing opportunities identified in the lottery market in China, particularly in the new electronic lottery market	6% general working capital; 94% for acquisition of Wencai, Piaoyi, Xinying; and 4% and 6.16% of Sinodata
2012 convertible bonds (Net proceeds of approximately HK\$460 million)	Repurchase of shares in the Company and general working capital	12% for share buy back; 88% for acquisition of Berkeley Services Limited, (“ Berkeley ”), Pointe Global Limited (“ Pointe ”) and additional 6.6% interest in Beijing Okooo
2014 convertible bonds (Net proceeds of approximately HK\$1,859 million)	For the convertible bonds issued in April 2014: 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 For the convertible bonds issued in July 2014: 70% of the net proceeds to finance the Group’s business expansion through organic growth and potential joint ventures and acquisition opportunities that may arise in the future and approximately 30% of the net proceeds for general corporate and working capital needs, including operating expenses such as employee benefit expenses, office expenses and utilities, professional fees and general administration costs	3% for share buy back; 10% for interest for convertible bonds; 47% to pursue internet opportunities; 27% as working capital advanced to Web Subsidiary; 7% for working capital for other lottery operations and general expenses; 6% early redemption of convertible bonds

The application of the proceeds from convertible bonds was in line with the intended use of proceeds as disclosed. The 2012 convertible bonds were issued to raise capital for share repurchase and general working capital. After the funds were raised, the Company decided to pursue business opportunities to increase market share, particularly in new lottery products, and utilised the proceeds from the 2012 convertible bonds to acquire Berkeley Services Limited, Pointe Global Limited and additional 6.6% interest in Beijing Okooo. The Company considers this application of the proceeds to be in line with the intended use.

The details of the acquisitions made between 2010 and 2014 and the source of funding are set out in the table below. “CB” represents the amount funded by the proceeds of convertible bonds and “IR” represents the amount funded by the Group’s internal resources.

Table 9 – Acquisitions between 2010 and 2014

Date of agreement	Target acquired	Total consideration	Source of funding
April 2010	Winrest International Limited (“ Winrest ”) – 100%	HK\$75,585,000 Cash	IR: 100%
	Had a wholly owned PRC subsidiary which was engaged in mobile lottery business		
June 2010	Sinodata – additional 5.09%	HK\$258,800,000 Cash	IR: 100%
July 2010	Dynasty Max Limited (“ Dynasty ”) – 100%	HK\$100,000,000 Cash	IR: 100%
	Had 80% interest in a PRC subsidiary which was engaged in development of new mobile value-added service for lottery business in the PRC		

Date of agreement	Target acquired	Total consideration	Source of funding
July 2011	Feihai – 100% Was an investment holding company which had a 60% interest in a company that was engaged in the provision of services to paperless and electronic distribution platform for the sales of lottery in the PRC	HK\$250,000,000 Cash	IR: 100%
July 2011	Wencai – 60% Was mainly engaged in the provision of services to paperless and electronic platform for the distribution of lottery in the PRC	HK\$250,000,000 Cash	CB: 60% IR: 40%
September 2011	Piaoyi – 60% Was mainly engaged in the provision of supporting services for lottery sales in the PRC through paperless and electronic lottery platform	HK\$200,000,000 Cash	CB: 69% IR: 31%
September 2011	Xinying – 60% Was mainly engaged in the provision of supporting services for lottery sales through paperless and electronic lottery platform	HK\$200,000,000 Cash	CB: 75% IR: 25%
December 2011	Sinodata – additional 4%	HK\$200,000,000 Cash	CB: 90% IR: 10%

Date of agreement	Target acquired	Total consideration	Source of funding
October 2012	Berkeley – 100% Would form a 50:50 joint venture company which would engage in the provision of lottery systems, terminals and related support services for the Welfare Lottery in the PRC	HK\$184,400,000 Cash	CB: 40% IR: 60%
December 2013	Sinodata – additional 6.16%	HK\$385,000,000 Cash	CB: 69% IR: 31%
May 2014	Pointe – 100% An operating subsidiary would be formed by the vendor of Pointe and a subsidiary of the Group and the Group would hold 60% of the operating subsidiary. The operating subsidiary would engage in the provision and related services for sports video lottery terminals in the PRC	HK\$106,952,000 Cash	CB: 93% IR: 7%
June 2014	The PRC Company – additional 3.33%	RMB200,000,000 (approximately HK\$250,000,000) Cash	IR: 100%
October 2014	Beijing Okooo – additional 6.6%	HK\$381,100,000 Cash	CB: 61% IR: 39%

None of the above transactions constituted a notifiable or connected transaction of the Company under the Listing Rules.

5. Acquisitions

(i) Queries about the Group's various acquisitions

The Report alleges that the Group acquired companies which do not have any substantial business.

The Company clarifies that each of the acquisitions had a business which was of strategic value to the Group at the material times. Winrest was acquired to expand the Group's business to the new distribution channel of mobile lottery business in 2010. The Group also acquired Dynasty in 2010 for the same purpose. Berkeley was acquired to for its high frequency games business and to expand the Group's coverage to a more strategic province (the Group's business now covers more than 50% of all the provinces in China). Pointe was acquired to expand the Group's business into the pioneer project for Sports Video Lottery Terminals ("VLT") operations.

The reason why these companies were not mentioned in subsequent information published by the Company is because their businesses were restructured and transferred to other operating subsidiaries within the Group. It is the Group's practice to restructure acquired businesses so that the businesses could be operated using administrative support and resources of the Group's established subsidiaries. The status of the acquired businesses has been reported in interim and annual reports as part of the Group's general business.

Details about these acquisitions were set out in the 2010, 2012 and 2014 annual reports respectively. None of the acquisitions was a notifiable transaction or a connected transaction for the purposes of the Listing Rules.

Further, the information in the Report concerning the acquisitions of the companies is inaccurate. The Company clarifies that the Group acquired Winrest for HK\$75,585,000 and Dynasty for HK\$100,000,000 in 2010 (see 2010 annual report). In December 2014, the Group acquired the remaining 49% interest in Pointe (see 2014 annual report).

Winrest

Winrest was acquired for its mobile lottery business in Guizhou province. Winrest's subsidiary had a contract with Guizhou Welfare Lottery Centre to provide unique mobile lottery services in the province. The Company considered this contract a valuable business opportunity and this was the reason for the acquisition of Winrest. This business is now operated by a subsidiary of Sinodata and will continue to be operated by the Group after the completion of the intended Disposal.

Berkeley

Berkeley was acquired for the business opportunity to establish a joint venture to engage in the provision of high frequency games services in Henan province. Prior to the acquisition, Berkeley had a project to establish a joint venture and to enter into a contract with the lottery centre. The terms of the acquisition were that the Group would acquire 51% interest in of Berkeley first for HK\$6,500,000, with an option to acquire the remaining interest for HK\$177,900,000 after the joint venture enters into the agreement with the lottery centre.

深圳市思遠卓越科技開發有限公司 (Shenzhen Siyuan Zhuoyue Technology Development Co., Ltd.*) took up Berkeley's role to establish the joint venture in January 2013 and the joint venture commenced operations in the same year. This business will be disposed of after the completion of the intended Disposal.

Pointe

Pointe was acquired for its Sports VLT business, which was subsequently transferred to and operated by a subsidiary (the “**Operating Subsidiary**”) of 深圳市金帆軟件技術有限公司 (Shenzhen Kingsail Software Tech. Co., Ltd.*) (a wholly owned subsidiary of the Company).

The Operating Subsidiary is authorised to operate lottery game halls in Hainan province, the first project being a game hall in a hotel in Hainan province, mainly consisting of Sports VLT games. The Operating Subsidiary commenced operations in February 2015. Hence, its financial information is not reflected in the Group's 2014 accounts.

(ii) Allegations relating to the 68% increase in prepayments

As compared to 2013, there was an increase of 124% (i.e. approximately HK\$1,178 million) in “prepayments and other receivables” in 2014. The Report alleges that 68% of the increase (i.e. approximately HK\$801 million) did not arise from the ordinary course of business.

Such allegation is unreasonable. As explained in the 2014 annual report, the amounts include “prepayments and other receivables” made to expand the Group's existing offline and online distribution platforms which is in line with the growing PRC lottery market; and to develop new lottery related business opportunities. This includes new distribution channels in the home entertainment media (approximately 37% of HK\$801 million) and retail stores (approximately 28% of HK\$801 million). These projects were carried out in the ordinary course of business to expand the Group's lottery ticket sales to new distribution channels. Prepayments are a common practice in the industry for these types of transactions and are required to be made at the initial stage of each transaction. The prepayments arose from due diligence work, market research, trial launches and other preparation work. The prepayments were paid subject to written agreements that the prepayments would be repaid to the Group if the Group decides not to proceed with the projects. Accounting principles do not require the prepayments to be expensed off to the income statement.

Further, the audit carried out by the National Audit Office of the PRC on the use of lottery funds in 18 provinces in the end of 2014 led to a longer collection period for the prepayments and other receivables due to the Group's lottery units. As the online lottery distribution market was suspended in March 2015, it does not affect the prepayments made in 2014.

The Report compares the percentage increase in the Group's "prepayments and other receivables" with the growth of the Welfare CTG market, noting that the growth of the Welfare CTG market was only 10.9% in 2014. The Company clarifies that prepayments include those made for the Welfare CTG business as well as other operating units of the Group's business. The percentage increase in "prepayments and other receivables" should not be compared against the growth of the Welfare CTG market, as there is no direct correlation between the two figures. In any event, it appears that the 10.9% growth cited in the Report represents the growth of the welfare lottery market (which includes Welfare CTG, Welfare Scratch Cards and Welfare VLT) for the month of December 2014 as compared to December 2013. Hence, it does not represent the growth of the Welfare CTG market in 2014.

The tables below set out the breakdown and the aging of the prepayments and other receivables as at 31 December 2014.

Table 10 – Breakdown of prepayments and other receivables as at 31 December 2014

	<i>HK\$'000</i>
Deconsolidation of Okooo	374,417
Home entertainment media project	300,000 ¹
Retail stores project	222,799 ²
Working capital advanced to Web Subsidiary	584,937 ³
Expansion and operations of existing business	<u>643,024</u>
	<u><u>2,125,177</u></u>

Note 1: The prepayment for the project will be disposed of and the amount will be recovered in full.

Note 2: The project has been put on hold due to the current environment of the lottery market. HK\$125,000,000 has been repaid to the Group in 2015. The Company expects to be repaid the remaining amount.

Note 3: HK\$305,500,000 has been repaid to the Group in 2015. The Group intends to dispose of the Web Subsidiary by disposing of its shares.

Table 11 – Aging of prepayments and other receivables as at 31 December 2014

	Within 3 months <i>HK\$'000</i>	Over 3 months and within 1 year <i>HK\$'000</i>	Over 1 year <i>HK\$'000</i>	Total <i>HK\$'000</i>
Prepayments and other receivables	584,937	1,032,138	508,102	2,125,177

The balance of “prepayments and other receivables” as at 31 December 2015 (as compared to 31 December 2014) has decreased by approximately 15.5%. Given the current market environment, the Company expects it might take a longer time to recover the remaining balance. The Company believes that there is no need to make to any impairment.

6. Auditor

The Report comments that the Company’s choice of auditor is unusual. The Report uses the audit fees collected by the auditor from the Company and REX Global Entertainment Holdings Limited to suggest that the auditor is a “captive” auditor.

This comment is unfair. The Company’s auditor is a reputable auditor who serves both private and public companies. The auditor holds valid qualifications to conduct financial audit on listed companies. The auditor is bound by professional rules of conduct and has confirmed its independence from the Group.

As confirmed by the Company’s auditor, the audit fees of the Company and REX Global Entertainment Holdings Limited combined constituted less than 15% of the total fees the auditor received in each of 2013 and 2014.

7. Valuation

Valuation of the Company's Shares

The Company would point out that the misleading allegations in the Report have been clarified. The Group has never misled the Shareholders or potential investors by fabricating or exaggerating about any of its operations or financial information. The Shareholders and potential investors should rely on the information published by the Company on the website of the Company and the Stock Exchange including the annual reports and the interim reports.

Given the inaccuracies in the Report, Shareholders and potential investors are asked to exercise extreme caution when reading the Report.

CONCLUSION

For the reasons set out above, the Board has unanimously agreed that the allegations are inaccurate. The allegations and comments in the Report are without due consideration of the underlying facts and are misleading to the Shareholders and potential investors. The audit committee has also reviewed the Report and this announcement. The audit committee draws the same conclusion as the Board.

The auditor of the Company has confirmed to the Board its position on the Company's financial statements set out in the 2013 and 2014 annual reports and the 2015 results announcement in light of the Report. The auditor considered the allegations in the Report and the Company's response in this announcement. The auditor considers the allegations are unfounded and it is not necessary to carry out additional work in view of the Report before confirming its unqualified opinion on the 2013, 2014 annual reports and the 2015 results announcement.

Save as stated in this announcement, having made such reasonable enquiries with respect to the Company as is reasonable in the circumstances, the Company confirms that it is not aware of any information which must be announced to avoid a false market in the Company's securities or of any inside information that need to be disclosed under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

This announcement is made by order of the Company. The Board collectively and individually accepts responsibility for the accuracy of this announcement.

Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

The Company will consider and adopt all reasonable measures to protect its interest. Currently, the Company is seeking legal advice from its legal advisers and reserves its rights to take legal actions against AA.

INTERPRETATION

All the terms used in this announcement, unless otherwise defined have the same meaning as set out in the Company's 2014 annual report.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended from 11:33 a.m. on 24 June 2015, pending the release of this announcement. An application has been made by the Company to the Stock Exchange for trading in the Shares to resume from 9:00 a.m. on 19 April 2016.

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

Hong Kong, 18 April 2016

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

△ *For the purpose of this announcement, turnover and revenue shall bear the same meaning. "Turnover" is used in this announcement to be consistent with the Group's financial statements.*