2015 Annual Report

China LotSynergy

China LotSynergy Holdings Limited

華彩控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock code: 1371

* For identification purpose only

Contents

Corporate Information

DIRECTORS

Executive Directors

Ms. LAU Ting *(Chairperson and Chief Executive Officer)*
Mr. WU Jingwei *(President)*
Ms. CHAN Tan Na, Donna *(Chief Financial Officer)*
Mr. LI Zi Kui

Non-executive Director

Mr. HOONG Cheong Thard

Independent Non-executive Directors

Mr. HUANG Shenglan
Mr. CHAN Ming Fai
Mr. CUI Shuming

COMPANY SECRETARY

Mr. WONG Hiu Wong

AUTHORISED REPRESENTATIVES

Ms. CHAN Tan Na, Donna
Mr. WONG Hiu Wong

AUDIT COMMITTEE

Mr. HUANG Shenglan
Mr. CHAN Ming Fai
Mr. CUI Shuming

REMUNERATION COMMITTEE

Ms. LAU Ting
Mr. HUANG Shenglan
Mr. CHAN Ming Fai

NOMINATION COMMITTEE

Ms. LAU Ting
Mr. HUANG Shenglan
Mr. CHAN Ming Fai

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 3308, 33rd Floor
Office Tower, Convention Plaza
1 Harbour Road, Wanchai, Hong Kong
Tel: (852) 2136 6618
Fax: (852) 2136 6608

COMPANY WEBSITE

www.chinalotsynergy.com

PRINCIPAL SHARE REGISTRARS

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

BRANCH SHARE REGISTRARS IN HONG KONG

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

LEGAL ADVISERS

Estera
Baker & McKenzie

PRINCIPAL BANKERS

Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
China Construction Bank (Asia) Corporation Limited

Financial Summary

A summary of results and the assets and liabilities of China LotSynergy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") are as follows:

RESULTS

	Year ended 31 December				
	2015	2014	2013	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**643,748**	1,034,769	743,756	607,255	528,136
Gross profit	**359,472**	725,864	543,981	482,506	431,676
Share option expenses	**(92,230)**	(12,378)	(7,031)	(1,015)	(19,750)
Finance costs	**(61,412)**	(55,600)	(22,656)	(19,825)	(19,495)
(Loss)/Profit before income tax	**(370,124)**	435,752	349,202	271,529	267,006
Income tax expense	**(46,006)**	(93,433)	(87,000)	(69,196)	(48,703)
(Loss)/Profit for the year	**(416,130)**	342,319	262,202	202,333	218,303
(Loss)/Profit attributable to:					
Owners of the Company	**(497,654)**	100,010	88,556	67,513	66,485
Non-controlling interests	**81,524**	242,309	173,646	134,820	151,818
	(416,130)	342,319	262,202	202,333	218,303

ASSETS AND LIABILITIES

	As at 31 December				
	2015	2014	2013	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total current assets	**1,988,385**	2,621,235	1,169,688	938,338	948,416
Total assets	**3,161,389**	3,934,211	2,381,534	1,998,308	1,766,710
Total liabilities	**(1,344,021)**	(1,728,446)	(925,358)	(743,763)	(549,172)
Net assets	**1,817,368**	2,205,765	1,456,176	1,254,545	1,217,538

Management Discussion and Analysis

The Group is engaged in the provision of technology and operation services for lottery systems, terminal equipment and gaming products in China's lottery market. The businesses of the Group cover various lottery products ranging from video lottery, computer-generated ticket games ("CTG") and KENO-type lottery to new media lottery. By building up its technical competencies, expanding into new markets and upholding high standards of corporate governance, the Group has established a solid foundation and an outstanding corporate brand name, providing it with comprehensive capabilities for sustainable development.

CHINA'S LOTTERY MARKET

According to sales figures published by the Ministry of Finance ("MOF"), total annual sales of China's lottery recorded a year-on-year ("YOY") decrease for the first time in ten years. Total lottery sales in 2015 amounted to RMB367.88 billion, representing a decrease of 3.8% as compared to 2014. Welfare Lottery sales decreased by 2.2% YOY to RMB201.51 billion, whereas Sports Lottery sales decreased by 5.7% YOY to RMB166.37 billion. As the industry's main source of revenue, Lotto's sales decreased by 4.9% YOY, and accounted for 64.1% of total lottery sales. Video Lottery, with sales increased by 12.5% YOY, is the only lottery category with positive sales growth, and accounted for 11.6% of total lottery sales. The sales of Single Match Games ("SMG") dropped 4.2% YOY, and accounted for 16.0% of total lottery sales. The sales of Paper-based Scratch Card dropped 11.9% YOY, and accounted for 8.2% of total lottery sales. The Lotto category remains the backbone of China's lottery industry, followed by Video Lottery, SMG and Scratch Card categories, which form the other three key pillars of the sector.

BUSINESS REVIEW AND OUTLOOK

Video Lottery Business

China Welfare Lottery Video Lottery ("VLT") Business

As a technology-rich product, VLT has been playing a vital role in China's lottery industry, and the Group has been the exclusive terminal provider for VLT. The VLT supply contract expired on 28 June 2015. In the first half of 2015, the total sales of VLT were RMB21.2 billion, representing YOY growth of 20.1%, which was the fastest growing lottery category. In the second half of 2015, while the total sales of China's lottery recorded a drop of 12.0% YOY, VLT achieved an increase of 6.0% to RMB21.28 billion. The total full year sales of VLT in 2015 grew 12.5% YOY to RMB42.47 billion, and accounted for 11.6% of total lottery sales. VLT was the only lottery category with positive growth among the five major categories including Lotto, SMG, Scratch Card, Video Lottery and KENO.

Dongguan Tianyi Electronic Company Limited ("DGTY"), a subsidiary of the Group, has made three generations of VLT terminal replacements and upgrades in the last 12 years from 2003 to 2015, supplying a total number of over 70,000 units of terminals. Currently, approximately 41,500 units of the third generation terminals are in good operational condition and support the sales of VLT nationwide. As at the end of 2015, these approximately 41,500 units of terminals have been rolled out in over 1,800 VLT halls across 28 provinces, cities, autonomous regions and municipalities in China.

DGTY's VLT supply contract expired on 28 June 2015. According to the supply contract, DGTY has the full ownership of the approximately 41,500 units of terminals generating all the sales of VLT, and has first right of refusal in the renewal of the VLT supply contract.

Management Discussion and Analysis

As at 28 June 2015, the Group had not received notification from China Welfare Lottery Issuance and Administration Centre ("CWLC") regarding a suspension of VLT sales after the expiry of the supply contract. The Group decided to maintain the VLT terminals it provided in fully operational condition for VLT's continued use after the expiry of the supply contract, so as to support the sustained and healthy growth of VLT. This ensured the consistent and steady sales growth of VLT in the second half of 2015. According to legally binding documents that the Group sent to CWLC and the relevant cooperation partner, the Group shall be paid for the terminals it provided that have been in operation during the interim period ("Interim Period") after the expiry of the supply contract and before the finalization of the new supply contract. The Group is in active discussion with CWLC and the relevant cooperation partner regarding arrangements for the Interim Period, the new supply contract, and the recovery of outstanding payment. Meanwhile, the Group reserves all its rights to protect its lawful interests.

According to the "Government Procurement Law of the People's Republic of China", the "Regulations on the Administration of Lotteries" and the relevant management regulations of the MOF and relevant authorities, CWLC should procure new VLT terminals by following government procurement procedures. The Group is one of the companies with the largest video lottery terminal manufacturing capacity worldwide. The terminals developed and manufactured by DGTY is the only VLT terminal approved and confirmed by all three ministries including the MOF, the Ministry of Public Security and the Ministry of Civil Affairs.

The Group has been the supplier of VLT terminals and related services for 12 years since 2003. It has unique and unmatched experience, capabilities and qualification for VLT terminal manufacturing and development. With the terminals and related services provided by the Group in the last decade or so, VLT has become one of China lottery industry's most pivotal lottery categories. Up to the end of 2015, the total sales of VLT had amounted to RMB179.57 billion including lottery funds of RMB38.97 billion raised for the government, representing a significant contribution to China Welfare Lottery. It is the genuine wish of the Group to continue to supply terminals and related services for VLT to ensure the steady, consistent and rapid growth of the game category, and contribute to the China lottery business as a whole.

CTG Business

In 2015, Guangdong province, which is jointly served by the Group's subsidiaries, Guangzhou San Huan Yong Xin Technology Company ("GZSH") and Beijing Bestinfo Cyber Technology Company Limited ("Bestinfo"), recorded Welfare CTG sales of RMB12.68 billion. The Province remained the largest provincial Welfare Lottery market in China in terms of sales for eight consecutive years. Chongqing, which is also served by GZSH, recorded Welfare CTG sales of RMB1.59 billion in 2015. Shanghai, which is jointly served by GZSH and Bestinfo, recorded Welfare CTG sales of RMB2.66 billion. Additionally, GZSH continued to provide terminal maintenance services to Shenzhen Welfare Lottery Issuance Centre.

Management Discussion and Analysis

The Group's Sports CTG business grew at an impressive pace in 2015. Guangzhou Lottnal Terminal Company Limited ("GZL"), a subsidiary of the Group, successively won bids for Sports Lottery CTG terminal procurement programmes of Gansu, Guizhou, Shaanxi, Guangxi, Hunan, Yunnan, Inner Mongolia, Guangdong, Henan, Liaoning, Heilongjiang and Zhejiang, expanding its business presence to 15 provinces, nearly half of the 31 provinces and regions in China. The Group is gradually establishing its leading position in the lottery industry. In 2015, the Group was the top selling Sports Lottery CTG terminal provider after winning bids for a total number of 13,928 units of terminals, accounting for 30% market share of the total nationwide Sports Lottery CTG terminal procurement volume. In 2016, the Group will leverage its unique technology and product advantages to further increase its terminal sales, and expand its high quality services to more provinces. At the same time, the Group will continue to maintain its collaboration with domestic and overseas terminal manufacturers to provide specialized terminal products and core components including lottery terminals and readers.

In 2015, the Group and National Sports Lottery Limited, which was established by Khmer First Investment Holding Group in Cambodia, launched Sports Lottery in Cambodia to offer CTG and scratch card games, with an aim of raising funds for the 32nd Southeast Asian Games to be held in Cambodia in 2023. In December 2015, the Group and Cambodia's Khmer Pool Welfare Lottery Co., Ltd launched Welfare Lottery in Cambodia to offer scratch card games in Cambodia, to raise funds for Cambodia's Red Cross. The parties are discussing extending their collaboration to offer high-frequency CTG in 2016. The Management believes that the development in such emerging markets will bring new opportunities for the Group.

In 2015, Bestinfo won a bid for Guangdong Welfare Lottery Issuance Centre's "Welfare Computer Ticket Game Lottery Information System Technical Services Procurement Project", for the provision of a new generation sales management system. The system was successfully launched on 7 March 2016. In 2016, Bestinfo will continue to develop a new generation comprehensive lottery information management system with comprehensive data analysis and management techniques for Shanghai Welfare Lottery Centre. The Group has become a comprehensive CTG terminal and services provider for Guangdong Welfare Lottery and Shanghai Welfare Lottery, and earned recognition from these lottery authorities with technical strength and quality service. Such outstanding performance has laid a solid foundation for the Group to win more projects.

New Media Lottery Business

The Group's New Media Lottery business had ups and downs in 2015. The joint announcement of eight government ministries to suspend online lottery sales, and the National Audit Office's audit report on the lottery funds of 18 provinces and cities were evident that the Central Government and the State Council attach great importance to the healthy development of China's lottery market. While the suspension had certain impact on new media lottery operations via mobile phone and the Internet, it showed that there is a compelling need for the lottery authorities to put in place standardized management for new media lottery, so as to create a favourable market environment for the development of new channels and new games in the future.

In response to the requirements of the relevant regulatory authorities, the Group made appropriate adjustment to its telephone lottery business. In addition to maintaining close ties with telecommunication operators, banks and other financial institutions, the Group has been working closely with provincial lottery authorities to enhance the technical development of telephone lottery sales system with innovative application proposals covering cloud computing, big data and work flow.

In April 2015, the Group won a bid for Henan Sports Lottery Centre's "Telephone Lottery Sales Management System Software Development Services Project", with responsibilities to provide Henan Sports Lottery Centre with a comprehensive range of services related to telephone lottery sales management system software development. The project is exemplar of the Group's rapid development in the new media lottery area.

Management Discussion and Analysis

In the meantime, rapid technological advancement has driven innovations in lottery development. Since the suspension of online lottery sales, the demands of new lottery patrons like white-collar consumers for new distribution channels and new games have become stronger. Society has called upon lottery authorities to accelerate the progress of lottery reformation and innovation, optimize lottery patron base and so on to meet market needs. In 2015, in light of market development, the Group made further progress on system construction and new project preparation for new type lottery, with the aim of capturing new markets.

Economic development, industry structure, technological advancement and media environment have given rise to new market opportunities. The Group is confident about the tremendous potential of new type lottery, and has cooperated more closely with lottery authorities to improve the relevant technical systems in preparation for the launch of the products. The Group's leading R&D and innovation capabilities in new type lottery games have given it competitive advantage in this area. The Group has developed a next-gen and industry leading new type lottery games that are fun, interactive, and have cross border features. The Group believes that the new type lottery will open up a new and vast consumer market to satisfy people's growing cultural and entertainment needs, as well as contribute additional fiscal revenue to the government.

In 2016, the Group will further improve the provincial telephone lottery sales system, commit more resources to new type lottery development, as well as continuously expand its business collaborations. Meanwhile, the Group will maintain its competitive advantage through cooperating with financial institutions and telecommunication operators, strengthen the relationship with various lottery authorities and provide players with innovative products and services, as part of the preparations for expanding its new media lottery business.

CONCLUSION

The Group's focus on building its own technology and product offering has enabled it to cover Video Lottery terminal, CTG terminal, CTG core transaction system, CTG management system, CTG game development and design, Scratch Card integrated management system, New Media Lottery sales system, New Media Lottery big data analysis system, and New Media Lottery game development and design. In addition, the Group has developed extensive operations and service capabilities for Video Lottery, CTG and New Media Lottery. For over a decade, the Group has showed its dedication to the lottery industry with extensive investment, accountability and responsiveness to earn recognition as a leading market participant. Exploring new opportunities in the market with caution and prudence, the Group believes its efforts will pay off in the long run. Meanwhile, the Group will shape its strategies and execution in response to prevalent market trend and development as part of its preparation for opportunities brought by China lottery's 13th Five-Year Plan, for the benefit of its shareholders, employees and society as a whole.

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK$643.7 million (2014: HK$1,034.8 million) for the year ended 31 December 2015, representing a decrease of approximately 38% over 2014. Loss attributable to owners of the Company for the year ended 31 December 2015 amounted to approximately HK$497.7 million (2014: profit of approximately HK$100 million), and is mainly due to impairment of goodwill of approximately HK$122.9 million (2014: Nil), fair value loss on financial assets at fair value through profit or loss of approximately HK$103.7 million (2014: HK$17.8 million), staff costs (excluding employee share option benefits) of approximately HK$143.9 million (2014: HK$121.2 million) and share option expenses of approximately HK$92.2 million (2014: HK$12.4 million).

Management Discussion and Analysis

The Group has continually discussed with China Welfare Lottery Centre on the interim arrangements after the expiry of the VLT supply contract ("the Supply Contract") on 28 June 2015 and consulted with China Welfare Lottery Centre on the status of the procurement procedures for the relevant new supply contract. On 11 August 2015, the Company's lawyer issued legal letters (the "Letters") to China Welfare Lottery Centre and Beijing China Lottery Online Technology Company Limited ("CLO"). The Letters requested, among others, China Welfare Lottery Centre and CLO to confirm that DGTY should be compensated for its provision of terminal services after the expiry of the Supply Contract. The Letters also stated that confirmation is deemed to be provided if there is no written reply from China Welfare Lottery Centre or CLO by 18 August 2015. As of the date of the Company's interim report and till 31 December 2015, DGTY has not received any reply or disagreement on the Letters from China Welfare Lottery Centre or CLO. Therefore, the Company considers that the Group should be compensated for its provision of terminal services after the expiry of the Supply Contract. The revenue model is still uncertain and the relevant interim arrangements were not finalized before the publication of the Company's interim and final results announcement. As of the date of the Company's interim report and till 31 December 2015, the Group has not yet received any compensation which is subject to the terms of the interim arrangements to be finalized. In addition, on the accounting side, given the above uncertainty, the recoverable amount of the cash generating unit in the VLT business was adversely affected. Therefore, on 14 August 2015, based on the information available at that time, the management of the Company decided to make an impairment of the remaining goodwill from the VLT business in the amount of approximately HK$95.3 million, and published on the same day a profit warning announcement to announce, among others, its expectation of impairment. The Company has informed its auditor of the information contained in this paragraph.

For the year ended 31 December 2015, the revenue, net profit and total assets from the VLT business (being the business under the Supply Contract) was approximately HK$434.7 million, approximately HK$123.2 million and approximately HK$1,187.9 million respectively, representing 68%, N/A and 38% respectively of the Group's total revenue, net profit and total assets. Regarding the VLT business, approximately 41,500 units of VLT terminals of the Company are still being used for the video lottery category, which is currently the fastest growing and steadily developing lottery category in China's Welfare Lottery space. The Company expects that there will be a significant impact on its financial position if there is not any new contract for supplying additional VLT terminals. Nevertheless, the Company believes that these approximately 41,500 units of VLT terminals that are currently operating will continue to generate substantial revenue for the Company. Meanwhile, DGTY is a high technology enterprise in China, equipped with state of art lottery equipment manufacturing as well as R&D capabilities given its self-built Guangdong Lottery Terminal Equipment Engineering and Technology Research Centre. It is able to take on extensive lottery equipment manufacturing and R&D work for domestic and overseas market participants. The Group has continually discussed with China Welfare Lottery Centre on the interim arrangements and consulted with China Welfare Lottery Centre on the status of the procurement procedures for the relevant new supply contract. The other business segments of the Group are well managed as mentioned in the above Business Review and Outlook and generating stable cash flow.

Financial assets at fair value through profit or loss comprised of debt securities listed in Hong Kong and outside Hong Kong, listed equity securities in Hong Kong and outside Hong Kong and unlisted fund investments (the "Financial Assets"). All the Financial Assets are liquid stocks and the Company intends to hold them as short-term investments. The Company has its treasury investment policy in place for the purpose of provision of the authority and guidelines to the Directors and management to undertake investment of surplus funds for the prudent management and control of risk in their investment portfolios. The acquisitions of the Financial Assets were conducted for the purpose of treasury activities of the Group and in accordance with the treasury investment policy of the Company. All the Financial Assets were acquired from independent third parties of the Company. As at 31 December 2015, the assets ratio of each of the Financial Assets did not exceed 5% (as defined in the Listing Rules). During the year under review, fair value loss on financial assets at fair value through profit or loss amounted to approximately HK$103.7 million (2014: HK$17.8 million).

Management Discussion and Analysis

LIQUIDITY, FINANCIAL RESOURCES, GEARING RATIO AND CAPITAL STRUCTURE

The Group believes that it has adequate financial resources to fund its capital and operating requirements. At 31 December 2015, the Company had an outstanding corporate guarantee for unlimited amount for total banking facilities of property installment loans of approximately HK$153.7 million (2014: HK$153.7 million), an outstanding corporate guarantee limited to approximately HK$17 million (2014: HK$17 million) for a banking facility of a property installment loan of approximately HK$17 million (2014: HK$17 million), an outstanding corporate guarantee for unlimited amount for credit facilities of investment purpose of US$20 million (2014: US$20 million) and an outstanding corporate guarantee for unlimited amount for credit facilities of investment purpose of US$5 million (2014: Nil) and overdraft for liquidity purpose of US$15 million (2014: Nil). At 31 December 2014, a subsidiary of the Group had an outstanding corporate guarantee for a maximum of RMB140 million plus interest and fees for a banking facility of a working capital loan of RMB200 million.

The Group had outstanding bank borrowings at 31 December 2015 of approximately HK$583 million (2014: HK$911.2 million). At 31 December 2015, the bank borrowings and banking facilities of the Group were secured by (i) leasehold land and buildings of the Group with a carrying amount of approximately HK$165.8 million (2014: HK$169.3 million); (ii) standby letters of credit issued by banks for an aggregate amount of US$32 million (2014: US$59 million); (iii) accounts receivable of nil (2014: HK$284 million); (iv) bank deposits amounting to approximately HK$275.5 million (2014: HK$500.7 million); and (v) financial assets of approximately HK$635.1 million (2014: HK$298.5 million).

In 2014, the Company had issued 5% convertible bonds (the "Convertible Bonds") due 2019 in total aggregate principal of HK$650 million. The Convertible Bonds shall be converted into the paid ordinary shares of HK$0.0025 each (the "Shares") of the Company at the applicable conversion price of HK$0.92 each. The Convertible Bonds bear interest at the rate of 5% per annum payable semi-annually in arrears. During the year under review, no Convertible Bonds had been converted into Shares by the bondholders and no redemption of the Convertible Bonds had been made by the Company. At 31 December 2015, the principal amount of the Convertible Bonds outstanding was HK$650 million (2014: HK$650 million).

In 2014, the Company had raised net proceeds of approximately HK$445 million from the issuance of a total of 594,034,513 new shares of the Company at the subscription price of HK$0.75 per share to Hongze Lake Investment Limited, being the subscriber and is a wholly owned subsidiary of Tencent Holdings Limited whose shares are listed on the Main Board of the Stock Exchange with stock code 700. The Company granted an option to the subscriber to subscribe for a further 273,140,969 new shares of the Company at the option price of HK$0.83 per share subject to the terms of the option. At 3 November 2015, option as abovementioned had lapsed.

The Group's total equity amounted to approximately HK$1,817.4 million at 31 December 2015 (2014: HK$2,205.8 million). At 31 December 2015, net current assets of the Group amounted to approximately HK$1,320.7 million (2014: HK$1,561.1 million), including approximately HK$792.6 million in cash and deposits with banks and financial institutions (2014: HK$907.9 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 31 December 2015 was approximately 42.5% (2014: 43.9%).

EXPOSURE TO EXCHANGE RATES FLUCTUATIONS

All the Group's assets, liabilities and transactions are denominated either in Hong Kong dollar, United States dollar or Renminbi. Foreign exchange risk arising from the normal course of operations is considered to be minimal.

Management Discussion and Analysis

PLEDGE OF ASSETS

At 31 December 2015, the Group's leasehold land and buildings at net book value of approximately HK$165.8 million (2014: HK$169.3 million) were pledged to banks to secure the bank borrowings granted to the Group. At 31 December 2015, the Group's accounts receivable of nil (2014: HK$284 million) and bank deposits amounting to approximately HK$253 million (2014: HK$488.8 million) were pledged to secure bank borrowings and banking facilities granted to the Group. At 31 December 2015, the Group's cash deposits and financial assets at an aggregate carrying value of approximately HK$657.6 million (2014: HK$310.4 million) were pledged to financial institutions to secure the credit facilities granted to the Group.

CONTINGENT LIABILITIES

At 31 December 2015, the Group did not have any material contingent liabilities (2014: Nil).

STAFF AND ENVIRONMENT POLICY

At 31 December 2015, the Group employed 445 full time employees (2014: 499). The management believes that the competence of employees is a major contributing factor to the Group's sustained growth and advancement in profitability. Staff remuneration is based on performance and experience. In addition to basic salary, benefits for employees include a performance-related bonus, contributory provident fund, medical insurance and regulated employees' social security program in China. The Group also adopted a share option scheme under which options may be granted to eligible staff based on individual performance. Training programs for staff are provided as and when required. The Group will further strengthen its team buildup, in order to offer enhanced services for China's lottery market. The Group understands that environmental protection has a material effect on society and working environment of the staff. Therefore, the Group strives to enhance the awareness of the staff in saving energy, including implementing rules of reducing electricity consumption in the offices and arranging collection of recyclable materials.

Biographies of Directors and Senior Management

DIRECTORS

LAU Ting

Board's Chairperson, Executive Director and Chief Executive Officer

Ms. Lau, aged 59, is the Board's Chairperson, an Executive Director and the Chief Executive Officer of the Company. Ms. Lau is the founder of the Group and is responsible for planning and leading the implementation of the Group's overall strategies for operational development. She has over twenty-five years of solid experience in business planning and management, mergers and acquisitions, and financial and human resources management. Ms. Lau was an executive director of Hong Kong listed Burwill Holdings Limited in the previous three years.

WU Jingwei

Executive Director and President

Mr. Wu, aged 44, joined the Group in 2007, and is an Executive Director and the President of the Company. Mr. Wu assists the Board's Chairperson in planning and leading the implementation of the Group's overall strategies for development. Mr. Wu has overall responsibilities for the operations and management of the Group's lottery business with extensive experience in leading the China Welfare Lottery Video Lottery Business, Computer-generated Ticket Games Business, Video Lottery Business and New Media Lottery Business. Mr. Wu has over twenty years of experience in information technology. Prior to joining the Group, Mr. Wu had held senior management positions in PKU Founder Group and Hisense Group. Mr. Wu holds a Bachelor's degree in Mechanical Engineering from Beijing Technology and Business University.

CHAN Tan Na, Donna

Executive Director and Chief Financial Officer

Ms. Chan, aged 35, joined the Group in 2012, and is an Executive Director and Chief Financial Officer of the Company. Ms. Chan is responsible for the management of several departments of the Group including finance, investor relations and company secretarial. She holds a Bachelor's degree in Economics and Finance from the University of Hong Kong and a Master's degree in Economics from Boston University, USA. She is a qualified Chartered Financial Analyst (CFA) and holds licenses in relation to asset management from the Hong Kong Securities Institute. From 2005 to early 2012, Ms. Chan held positions at Deutsche Bank's Corporate Finance department and Atlantis Investment Management (Hong Kong) Limited, where she was involved in several initial public offerings, share placements, mergers and acquisitions, and bond issuances. Her experiences span across different sectors including technology, media, telecommunication, real estate, natural resources and consumer goods. In her capacity as a fund manager, she was in charge of equity investments in listed and unlisted companies in the Greater China region. She has also worked with a diverse portfolio of clients from Europe and the USA including sovereign wealth funds, mutual funds, endowment funds as well as other institutional investors.

LI Zi Kui

Executive Director, Senior Vice President and General Manager of CTG Business Unit

Mr. Li, aged 52, joined the Group in 2011, and is an Executive Director, Senior Vice President of the Group and General Manager of CTG Business Unit of the Company. Mr. Li has over thirty years of solid management experience in the information technology sector. He had been engaged in the China Welfare lottery space as a chief engineer with technical management responsibility for nearly twenty years, gaining extensive experience with proven track record in various lottery segments including video lottery, computer ticket game and instant lottery. Mr. Li holds an EMBA from Beijing Institute of Technology.

Biographies of Directors and Senior Management

HOONG Cheong Thard

Non-executive Director

Mr. Hoong, aged 47, is currently a Non-executive Director and the Consultant of the Company. Mr. Hoong joined the Group in September 2006 and had been an Executive Director and the Chief Executive Officer of the Company until September 2008. Mr. Hoong has over ten years of experience in investment banking and has extensive experience in international capital markets and mergers and acquisitions. Mr. Hoong was a director in Equity Capital Markets at Deutsche Bank responsible for Greater China. He was also previously an executive director in Equity Capital Markets at UBS and has held senior positions in Corporate Finance at Barclays Group and a major international accounting firm where he was involved in auditing. Mr. Hoong is currently the executive director of Far East Consortium International Limited, a company listed in Hong Kong, and the director and president of AGORA Hospitality Group Co., Ltd., a company listed in Tokyo, Japan. Mr. Hoong is also a non- independent and a non-executive director of Land & General Berhad, a company listed in Malaysia. He is a member of the Institute of Chartered Accountants in England and Wales and holds a Bachelor's degree in Mechanical Engineering from Imperial College, University of London.

HUANG Shenglan

Independent Non-executive Director

Mr. Huang, aged 64, joined the Group in 2002, and is an Independent Non-executive Director of the Company. Mr. Huang was an executive director and the deputy governor of China Everbright Bank, Head Office and was an executive director and the general manager of China Everbright Technology Limited. Mr. Huang holds a Diploma in Arts from Huazhong Normal University and in International Economics from Huadong Normal University and a certificate in International Economic Law from Xiamen University and in Advanced Management Programme from the Harvard Business School, USA. Mr. Huang is also an independent non-executive director of Burwill Holdings Limited and a non-executive director of China Fortune Investments (Holding) Limited, which are listed companies in Hong Kong. Mr. Huang was an independent director of Chongqing Road & Bridge Co. Limited, a company listed in Shanghai and an independent non-executive director of Symphony Holdings Limited, in the previous three years.

CHAN Ming Fai

Independent Non-executive Director

Mr. Chan, aged 54, joined the Group in 2006, and is an Independent Non-executive Director of the Company. Mr. Chan is currently an independent business consultant. Prior to that, he was the chief executive officer of Full Seas Technology Group and the president of Dandelion Capital Group, which is a private financial advisory company. He has over twenty years of experience in investment banking and asset management. Mr. Chan had worked for Jardine Fleming Investment Management with a major responsibility to market unit trusts and asset management products in Hong Kong and subsequently in various Asian markets, and was particularly instrumental in the establishment of Jardine Fleming's investment trust operation in Japan, Korea and Indonesia. Mr. Chan also co-founded the KGI Group, which is a pan-Asian investment bank with shareholders including major investors and institutions in Asia, where he was the head of the asset management operation, which managed about USD400 million in hedge funds and other investment portfolios, and was also a member of the management committee of KGI Group. Mr. Chan is also an independent non-executive director of Burwill Holdings Limited, a company listed in Hong Kong. Mr. Chan holds a Bachelor's degree in Social Sciences with a major in Economics from the University of Hong Kong.

Biographies of Directors and Senior Management

CUI Shuming

Independent Non-executive Director

Mr. Cui, aged 78, joined the Group in 2008, and is an Independent Non-executive Director of the Company. Mr. Cui graduated from Renmin University of China. He was the deputy head of the Bank of China, Jiangsu branch, the executive director of The National Commercial Bank, Ltd. and the general manager of its Hong Kong branch, a director and the executive vice president of The Ka Wah Bank Limited and an independent non-executive director of two listed companies in Hong Kong, namely, Cheung Tai Hong Holdings Limited (currently known as ITC Properties Group Limited) and Wah Sang Gas Holdings Limited. Mr. Cui is currently an independent non-executive director of Burwill Holdings Limited and Yue Da Mining Holdings Limited, both are listed companies in Hong Kong. He has over forty years of experience in international finance and corporate planning and management.

SENIOR MANAGEMENT

LAN Jianzhang

Senior Vice President and General Manager of New Type Lottery Business Unit

Mr. Lan, aged 44, joined the Group in 2009. He is currently the Senior Vice President of the Group and General Manager of New Type Lottery Business Unit. Mr. Lan previously held a senior position at China Lottery Online Technology Co., Ltd, and was responsible for the strategy, product and business development. He has extensive and proven experience in the lottery industry including video lottery segment. Mr. Lan has over twenty years' experience in the information technology and internet sector. He previously held management positions at leading companies in the sector including the PKU Founder Group, where he was responsible for the development of high-end information technology and household appliances. Mr. Lan holds a Bachelor's degree from Beijing University of Aeronautics & Astronautics, a Master's degree in Physics from Chinese Academy of Sciences, and an EMBA from Beijing Institute of Technology.

HE Ying

Senior Vice President and General Manager of Mobile and Internet Services Business Unit

Ms. He, aged 46, joined the Group in 2007. She is currently the Senior Vice President of the Group, General Manager of Mobile and Internet Services Business Unit and General Manager of the Marketing Department. Ms. He had been the general manager of the marketing department at Founder Technology Group Corporation and vice general manager at Hisense Cyber Product Limited. Ms. He has been engaged in the information technology industry for twenty years, and has extensive experience in marketing and corporate management. Ms. He holds a Bachelor's degree in Computer Science from the Beijing University of Technology.

ZHU Xinxin

Senior Vice President and Director of the Group's Human Resource and Administrative Department

Ms. Zhu, aged 36, joined the Group in 2008. She is currently the Senior Vice President of the Group and Director of the Group's Human Resource and Administrative Department. Ms. Zhu had been the operation manager of Protiviti Independent Risk Consulting, China, a global business consulting and internal audit firm. Ms. Zhu had also worked in Accenture, a global leading management consulting, information technology services and outsourcing company. At Accenture, she participated in various projects including the CNOOC SAP implementation project, Robert Half International PeopleSoft Implementation project and BP Finance & Accounting Outsourcing project. Ms. Zhu holds a Bachelor's degree in Business and Finance from the University of Westminster and a Master's degree in Development Finance from the University of Manchester. Ms. Zhu also holds the Chief Human Resource Officer certificate, conducted by the Business School at Renmin University of China and ILR School at Cornell University.

Biographies of Directors and Senior Management

CHEN Hengben

Vice President and the Chairman of Guangzhou San Huan and Lottnal

Mr. Chen, aged 76, joined the Group in 2008. He is currently the Vice President of the Group and the Chairman of Guangzhou San Huan and Lottnal. Mr. Chen, who is among the pioneers in China engaged in the development of lottery systems and equipment, has over forty-five years of practical experience in computer and electronic engineering. He was a member of the Guangdong Provincial Committee of the Chinese People's Political Consultative Conference, a senior engineer for the Research Institute of China Ordnance Industry and the vice president covering technology for the Computer Center of Guangdong Provincial Science and Technology Commission; In 1992, he took part in establishing the Guangzhou Horse Racecourse and assumed the position of vice chief commander for the project construction of the Real Time Racing Lottery Bidding System for Guangzhou Horse Racecourse; In 1999, he was appointed as chief commander for the project construction of Macau Greyhound Racing Club's Real Time Lottery Bidding System. Afterwards Mr. Chan founded Guangzhou San Huan Yong Xin Technology Company Limited and Guangzhou Lottnal Terminal Technology Company Limited. Mr. Chen holds a Bachelor's degree in Computer Science from South China University of Technology.

LUO Xiaobing

Vice President and the General Manager of Bestinfo Cyber

Mr. Luo, aged 58, joined the Group in 2014. He is currently the Vice President of the Group and the General Manager of Bestinfo Cyber. Mr. Luo, who was a recipient of the First-class Prize of the State Science and Technology Progress Award, has over thirty years' experience in the information technology and lottery system sector. Mr. Luo has been engaged in the development of China Welfare Lottery's sales systems since 1991, and was the designer and developer of China's first generation lottery transaction, sales and management system. He participated in the planning and establishment of Welfare Lottery sales systems in numerous provinces, including Guangdong, Shanghai and Zhejiang. Mr. Luo founded Beijing Bestinfo Cyber Technology Co., Limited.

JI Youjun

Vice President and the General Manager of the Group's Technology Management Center

Mr. Ji, aged 43, joined the Group in 2007. He is currently the Vice President of the Group and the General Manager of the Group's Technology Management Center. Mr. Ji had been the head of household product development at Founder Technology Group Corporation and vice general manager at Hisense Cyber Product Limited. Mr. Ji has extensive experience in the development and management of information technology software and hardware products. He holds a Bachelor's degree in Mechanical Engineering and Manufacturing from Harbin University of Science and Technology.

CHONG Ming, John

Vice President and Director of the Group's Investor Relations

Mr. Chong, aged 44, joined the Group in 2001. He is currently the Vice President of the Group and Director of the Group's Investor Relations Department. Mr. Chong has over fifteen years of solid experience in corporate management and sino-foreign cooperation. Mr. Chong was an officer with the legal aid department of the Department of Justice and the Legislative Council Secretariat of Hong Kong respectively. Mr. Chong holds a Bachelor's degree in Translation and Interpretation from the City University of Hong Kong, and is currently completing a Juris Doctoral degree with the Chinese University of Hong Kong.

Biographies of Directors and Senior Management

ZHANG Yi

Vice President and Financial Controller (China)

Mr. Zhang, aged 39, joined the Group in 2008. He is currently the Vice President of the Group and Financial Controller (China), responsible for the overall financing and investment management of the Group's China region. Prior to joining the Group, Mr. Zhang had previously been the Investment Head of Investment Development Department of Fosun Group. Fosun Group is one of the largest non-state-owned corporations in China with operations in pharmaceutical, property development, steel, mining, retail, services and strategic investment. Mr. Zhang had also worked for Yongjin Group and Jiuzhitang Co., Ltd, both of which are famous corporations in China. Mr. Zhang has nearly sixteen years of experience in the financial management and investment management fields. Mr. Zhang holds a Bachelor's degree in Economics from Peking University's Guanghua School of Management and a Master's degree of International Business Administration. Mr. Zhang is also a non-practicing member of the Chinese Institute of Certified Public Accountants (CICPA) and a member of the Association of Chartered Certified Accountants (ACCA).

TAN Yung Kai, Richard

Financial Controller of the Group

Mr. Tan, aged 44, joined the Group in 2000. He is currently the Group's Financial Controller, responsible for the overall financial accounting of the Group. Mr. Tan has over twenty years of experience in the audit and the accounting fields. He had worked for Deloitte Touche Tohmatsu, an international accounting firm involved in the various auditing and due diligence activities. He holds a Bachelor's degree in Commerce from McGill University, Canada and a Master's degree in Corporate Finance from the Hong Kong Polytechnic University. Mr. Tan is a member of the Hong Kong Institute of Certified Public Accountants and American Institute of Certified Public Accountants.

SONG Xiaojun

Head of the Group's Legal Department

Ms. Song, aged 49, joined the Group in 2007. She is currently the Head of the Group's Legal Department. Ms. Song obtained her lawyer qualification certificate in Mainland China and has over twenty years of experience in legal areas, specialising in business matters, dispute resolutions and intellectual property. Ms. Song has worked at the China University of Political Science and Law, law firms in Mainland China and Hong Kong respectively. Ms. Song holds a Bachelor's degree in Law from the China University of Political Science and Law and a Master's degree (Magister Juris) in European and Comparative Law from Oxford University.

WONG Hiu Wong

Company Secretary of the Group

Mr. Wong, aged 32, joined the Group in 2009. He is currently the Group's Company Secretary, responsible for the overall compliance matters within the Group and providing advice to its corporate exercise and adaptation of latest corporate governance policies. Prior to joining the Group, Mr. Wong had worked for a Hong Kong listed group, responsible for the compliance issues of its companies listed on Main Board and GEM Board respectively. Mr. Wong is an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries and a member of The Hong Kong Institute of Directors. He holds a Bachelor's degree in Business from LSE, the University of London and a Master's degree in Corporate Governance and Directorship from the Hong Kong Baptist University.

Report of the Directors

The board of Directors of the Company (the "Board") presents to the shareholders their report together with the audited financial statements of the Group for the year ended 31 December 2015.

FINANCIAL RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2015 are set out in the consolidated statement of profit or loss on page 38.

No interim dividend was paid during the year.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2015 (2014: 0.25 HK cents).

PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The principal activity of the Company is investment holding.

The Group is principally engaged in the business of provision of technology and services for lottery systems, terminal equipment and gaming products in China's lottery market. The principal businesses of the Group cover various lottery products ranging from video lottery, computer-generated ticket games and KENO-type lottery to new media lottery.

Analysis of the Group's turnover and segment information for the year ended 31 December 2015 are set out in Note 5 to the consolidated financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

The Group's five largest customers accounted for about 85% of its turnover for the year. In addition, the largest customer of the Group accounted for about 68% of the Group's turnover.

The percentage of the Group's purchases attributable to the Group's five largest suppliers was about 29%. In addition, the largest supplier of the Group accounted for about 8% of the Group's purchases.

Save as disclosed above, none of the Directors, their respective associates nor shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had any interest in the above customers and suppliers at any time during the year.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in Note 15 to the consolidated financial statements.

SUBSIDIARIES

The particulars of the Company's principal subsidiaries as at 31 December 2015 are set out in Note 17 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in share capital during the year are set out in Note 32 to the consolidated financial statements.

Report of the Directors

CONVERTIBLE BONDS

The payment of a final dividend of 0.25 HK cents per share of the Company for the year ended 31 December 2014 (the "Final Dividend") has been approved by the shareholders of the Company at the annual general meeting held on 27 May 2015. Based on the adjustment provisions stipulated under condition 6(C)(3) of the terms and conditions of the Bonds, an adjustment will be made to the conversion price of the Bonds as a result of the Final Dividend. The conversion price of the Bonds, HK$0.93 per share, was adjusted to HK$0.92 per share with effect from 6 June 2015. With reference to the total outstanding principal amount of the Bonds of HK$650 million on 6 June 2015, the maximum number of shares that will be issued upon conversion of all the outstanding Bonds at the previous conversion price and the adjusted conversion price is 698,924,731 shares and 706,521,739 shares respectively. During the year ended 31 December 2015, there was no Convertible Bonds had been exercised by holders of the Convertible Bonds or redeemed by the Company. The Convertible Bonds are currently listed on the Stock Exchange.

OPTION GRANTED UNDER GENERAL MANDATE

Pursuant to a subscription agreement dated 16 October 2014, on 4 November 2014, the Company has allotted and issued a total of 594,034,513 new shares of the Company to Hongze Lake Investment Limited (the subscriber) and granted an option to the subscriber to subscribe for a further 273,140,969 new shares of the Company at the option price of HK$0.83 per share subject to the terms of the option. The option has been expired and lapsed on 3 November 2015 pursuant to the terms of the option.

RESERVES

Details of movements in reserves during the year are set out in Note 34 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2015, the distributable reserves to the shareholders in accordance with the Company's Bye-laws was approximately HK$83,612,000 (As at 31 December 2014: HK$247,498,000).

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws although there is no statutory restriction against the granting of such rights under the laws of Bermuda.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2015.

SHARE OPTION SCHEMES

As at 31 December 2015, there were options for 17,200,000 shares granted by the Company pursuant to the share option scheme, as adopted by the shareholders of the Company on 30 July 2002 (the "2002 Option Scheme"), which were valid and outstanding, representing approximately 0.20% of the issued shares of the Company on the date of this report. At the annual general meeting of the Company held on 18 May 2012, an ordinary resolution has be passed for the Company to terminate the operation of the 2002 Option Scheme in accordance with its terms (such that no further options could thereafter be offered under the 2002 Option Scheme but in all other respects the provisions of the 2002 Option Scheme shall remain in full force and effect and all options granted prior to such termination and not exercised at the date of termination shall remain valid) and a new share option scheme (the "2012 Option Scheme") has been adopted by the shareholders of the Company at the same day. On 27 May 2015, a resolution has been approved by the Company's shareholders to refresh the limit of granting option under the 2012 Option Scheme. More information can be referred in the Company's circular dated 28 April 2015. As at 31 December 2015, there were options for 890,125,000 shares granted by the Company pursuant to the 2012 Option Scheme which were valid and outstanding. 1,146,805,733 shares are available for issue (being the options were granted, including those granted before and after the refreshment of limit, and outstanding plus the options may be granted) under the 2012 Option Scheme, representing approximately 13.44% of the issued shares of the Company on the date of this report.

Report of the Directors

SHARE OPTION SCHEMES *(Cont'd)*

Summary of the principal terms of the 2012 Option Scheme is as follows:

(i) Purpose of the Option Scheme

The purpose of the option scheme is to provide incentives to Participants (as stated in paragraph (ii)) to contribute to the Group and to enable the Group to recruit high-calibre employees and attract resources that are valuable to the Group.

(ii) Participants

Any person being an employee, officer, buying agent, selling agent, consultant, sales representative, marketing representative, business representative of, or supplier or provider of goods or services to, the Group or its holding company or subsidiary, including any executive or non-executive director of the Group or its holding company or subsidiary.

(iii) Maximum number of shares

The limit on the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the option scheme and any other share option schemes of the Company and/or its holding company and/or its subsidiary must not exceed 30% of the number of issued shares from time to time.

(iv) Maximum entitlement of each Participant

Unless approved by shareholders of the Company in general meeting, no Participant shall be granted an option which would result in the total number of shares issued and to be issued upon exercise of all options granted and to be granted (including options exercised, cancelled and outstanding) to such Participant in any 12-month period up to and including the proposed date of grant for such options would exceed 1% of the number of shares in issue as at the proposed date of grant.

(v) Option period

An option may be exercised in accordance with the terms of the option scheme at any time during a period of not exceeding ten years to be notified by the Board to the grantee, such period to commence on the date of grant or such later date as the Board may determine and expiring on the last day of the said period. Under the Option Scheme, the Board may, at its discretion, prescribe a minimum period for which an option must be held before it can be exercised.

(vi) Payment on acceptance of option

HK$1.00 in cash is payable by the Participant who accepts the grant of an option in accordance with the terms of the option scheme on acceptance of the grant of an option.

(vii) Subscription price

The subscription price for the shares under the options to be granted under the option scheme will be a price determined by the Board and notified to a Participant at the time the grant of the options is made to (and subject to acceptance by) the Participant and will be at least the highest of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of the grant (subject to acceptance) of the option, which must be a business day; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant (subject to acceptance) of the option; and (c) the nominal value of the shares.

(viii) The life of the Option Scheme

The option scheme shall be valid and effective for a period of ten years commencing on 18 May 2012, after which period no further options will be granted or accepted but the provisions of the option scheme shall remain in full force and effect in all other respects.

Report of the Directors

SHARE OPTION SCHEMES *(Cont'd)*

Movements of share options granted under the 2002 Option Scheme and 2012 Option Scheme during the year ended 31 December 2015:

	Date of grant	Exercise price per Share HK$	Exercise period from	Exercise period until	No. of Shares under the options: outstanding at the beginning of the year	granted during the year	exercised during the year	cancelled during the year	lapsed during the year	outstanding at the end of the year	Closing price per Share at the date of grant of the options during the year HK$
2002 Option Scheme											
(i) Name of Director											
Mr. HOONG Cheong Thard	30/06/2006	0.285	16/08/2008	29/06/2016	17,200,000	–	–	–	–	17,200,000	–
(ii) Continuous contract employees	15/06/2009	0.500	15/06/2010	14/06/2015	5,000,000	–	(5,000,000)	–	–	–	–
	15/06/2009	0.500	15/06/2011	14/06/2015	5,000,000	–	(5,000,000)	–	–	–	–
Total:					27,200,000	–	(10,000,000)	–	–	17,200,000	
2012 Option Scheme											
(i) Name of Director											
Mr. WU Jingwei	14/07/2014	0.690	14/07/2017	13/07/2018	10,000,000	–	–	–	–	10,000,000	–
Ms. CHAN Tan Na, Donna	14/07/2014	0.690	14/07/2017	13/07/2018	10,000,000	–	–	–	–	10,000,000	–
Mr. LI Zi Kui	14/07/2014	0.690	14/07/2017	13/07/2018	5,000,000	–	–	–	–	5,000,000	–
Mr. HOONG Cheong Thard	14/07/2014	0.690	14/07/2017	13/07/2018	100,000	–	–	–	–	100,000	–
Mr. HUANG Shenglan	14/07/2014	0.690	14/07/2017	13/07/2018	100,000	–	–	–	–	100,000	–
Mr. CHAN Ming Fai	14/07/2014	0.690	14/07/2017	13/07/2018	100,000	–	–	–	–	100,000	–
Mr. CUI Shuming	14/07/2014	0.690	14/07/2017	13/07/2018	100,000	–	–	–	–	100,000	–
(ii) Continuous contract employees	13/11/2012	0.109	13/05/2013	12/05/2015	5,000,000	–	(5,000,000)	–	–	–	–
	13/11/2012	0.109	13/05/2014	12/05/2016	31,500,000	–	(20,000,000)	–	–	11,500,000	–
	14/07/2014	0.690	14/07/2017	13/07/2018	85,100,000	–	–	–	–	85,100,000	–
(iii) Other participants	14/07/2014	0.690	14/07/2017	13/07/2018	75,525,000	–	–	–	–	75,525,000	–
	29/10/2014	0.840	29/10/2015	28/10/2018	46,000,000	–	–	–	–	46,000,000	–
	29/10/2014	0.840	29/10/2017	28/10/2020	11,600,000	–	–	–	–	11,600,000	–
	02/01/2015	0.600	02/01/2015	01/01/2017	–	84,600,000	(44,600,000)	–	–	40,000,000	0.580
	10/07/2015	0.400	10/07/2015	09/07/2017	–	170,000,000	–	–	–	170,000,000	0.400
	29/10/2015	0.460	29/10/2015	28/10/2017	–	425,000,000	–	–	–	425,000,000	0.440
Total:					280,125,000	679,600,000	(69,600,000)	–	–	890,125,000	

Report of the Directors

SHARE OPTION SCHEMES *(Cont'd)*

Notes:

1. The options are recognised as expenses in the accounts in accordance with Hong Kong Financial Reporting Standard 2. Other details of share options granted by the Company are set out in Note 33 to the consolidated financial statements.

2. For the share options granted during the year: (i) the closing price per Share immediately before the date of grant of 2 January 2015 was HK$0.58; (ii) the closing price per Share immediately before the date of grant of 10 July 2015 was HK$0.39; and (iii) the closing price per Share immediately before the date of grant of 29 October 2015 was HK$0.445.

3. For the share options exercised under 2002 Option Scheme during the year, the weighted average closing price of Share immediately before the date on which the options for 10,000,000 Shares were exercised was approximately HK$0.710. For the share options exercised under 2012 Option Scheme during the year, the weighted average closing price of Share immediately before the date on which the options for 69,600,000 Shares were exercised was approximately HK$0.658.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

Ms. LAU Ting
Mr. WU Jingwei
Ms. CHAN Tan Na, Donna
Mr. LI Zi Kui

Non-executive Director

Mr. HOONG Cheong Thard

Independent Non-executive Directors

Mr. HUANG Shenglan
Mr. CHAN Ming Fai
Mr. CUI Shuming

In accordance with bye-law 99 of the Bye-laws of the Company, Ms. CHAN Tan Na, Donna, Mr. LI Zi Kui and Mr. CUI Shuming shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Biographical details of the Directors of the Company are set out on pages 11 to 13.

SENIOR MANAGEMENT

Biographical details of the senior management of the Group are set out on pages 13 to 15.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2015, the interests and short positions of the Directors and chief executive of the Company (including those interests and short positions which were taken or deemed to have interests and short positions under the provisions of the Securities and Futures Ordinance (the "SFO")) in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules") (the "Model Code"), were as follows:

(1) Interests in the Shares of the Company

	Number of Shares					Approximate percentage of the Company's issued share capital
Name of Director	Beneficial interests	Family interests	Corporate interests	Security interests in Shares	Total	
Ms. LAU Ting	37,974,373(L)	242,486,426(L)	727,213,326(L)	229,000,000(L)	1,236,674,125(L) *(Note 1)*	14.49%(L)
Mr. WU Jingwei	82,200,000(L)	–	–	–	82,200,000(L)	0.96%(L)
Ms. CHAN Tan Na, Donna	40,000,000(L)	–	–	–	40,000,000(L)	0.47%(L)
Mr. LI Zi Kui	28,000,000(L)	–	–	–	28,000,000(L)	0.33%(L)
Mr. HOONG Cheong Thard	6,000,000(L)	–	–	–	6,000,000(L)	0.07%(L)
Mr. HUANG Shenglan	1,100,000(L)	–	–	–	1,100,000(L)	0.01%(L)
Mr. CUI Shuming	2,000,000(L)	–	–	–	2,000,000(L)	0.02%(L)

Notes:

1. For the corporate interests, 75,052,874 shares were held by Hang Sing Overseas Limited ("Hang Sing") which was wholly owned by Orient Strength Limited ("Orient Strength"), a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 137,735,546 shares were held by Strong Purpose Corporation ("Strong Purpose"), a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 512,492,594 shares were held by Glory Add Limited ("Glory Add") which was wholly owned by Favor King Limited, a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 1,932,312 shares were held by Burwill Holdings Limited of which Ms. LAU Ting and Mr. CHAN Shing were the controlling shareholders. The shares of the family interests were owned by Mr. CHAN Shing. As Mr. CHAN Shing is the spouse of Ms. LAU Ting, the interests of each of Ms. LAU Ting and Mr. CHAN Shing were deemed to be the interests of each other.

2. The letter "L" denotes long position(s).

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES *(Cont'd)*

(2) Interests in Underlying Shares of the Company

As at 31 December 2015, certain Directors of the Company had the interests in respect of options to subscribe for the shares of the Company under the option schemes. Details of their interests in the share options of the Company are separately disclosed in the section "Share Option Schemes" of this report.

Save as otherwise disclosed above, as at 31 December 2015, none of the Directors or chief executive of the Company had, or were deemed under the SFO to have, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 31 December 2015, according to the register required to be kept by the Company under Section 336 of the SFO, the following persons (other than the Directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company:

Interests in the Shares and Underlying Shares of the Company

Name of Shareholder	Number of Shares						Approximate percentage interest in the Company's issued share capital
	Beneficial interests	Family interest	Investment manager	Security interests in Shares	Corporate interests	Total	
Mr. CHAN Shing	242,486,426(L)	266,974,373(L)	–	–	727,213,326(L)	1,236,674,125(L) *(Note 1)*	14.49%(L)
Tencent Holdings Limited	–	–	–	–	594,034,513(L)	594,034,513(L) *(Note 2)*	6.96%(L)
MIH TC Holdings Limited	–	–	–	–	594,034,513(L)	594,034,513(L) *(Note 2)*	6.96%(L)
Naspers Limited	–	–	–	–	594,034,513(L)	594,034,513(L) *(Note 2)*	6.96%(L)
Favor King Limited	–	–	–	–	512,492,594(L)	512,492,594(L) *(Note 1)*	6.01%(L)
Barclays Plc	–	–	42,344,609(L)	1,440,000(L)	496,121,011(L) 222,818,000(S)	539,905,620(L) 222,818,000(S)	6.33%(L) 2.61%(S)

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES *(Cont'd)*

Interests in the Shares and Underlying Shares of the Company *(Cont'd)*

Notes:

1. For the corporate interests, 75,052,874 shares were held by Hang Sing Overseas Limited ("Hang Sing") which was wholly owned by Orient Strength Limited ("Orient Strength"), a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 137,735,546 shares were held by Strong Purpose Corporation ("Strong Purpose"), a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 512,492,594 shares were held by Glory Add Limited ("Glory Add") which was wholly owned by Favor King Limited, a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 1,932,312 shares were held by Burwill Holdings Limited of which Ms. LAU Ting and Mr. CHAN Shing were the controlling shareholders. The shares of the family interests were owned by Mr. CHAN Shing. As Mr. CHAN Shing is the spouse of Ms. LAU Ting, the interests of each of Ms. LAU Ting and Mr. CHAN Shing were deemed to be the interests of each other.

2. These are the same lot of shares.

3. The letter "L" denotes long position(s) and the letter "P" denotes lending pool(s).

Save as disclosed above, as at 31 December 2015, there was no person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the option holdings disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the financial statements, there was no contracts of significance (as defined in Rule 15 of Appendix 16 of the Listing Rules) in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any Directors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONTRACTS WITH DIRECTORS

None of the Directors offering themselves for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

FINANCIAL SUMMARY

A summary of results, assets and liabilities of the Group is set out on page 3.

EMPLOYEE RETIREMENT BENEFIT

Details of the retirement benefit schemes of the Group and the employee retirement benefit costs charged to the consolidated income statement for the year are set out in Note 37.

COMPETING INTERESTS

The Directors believe that none of the Directors or their respective associates has any interest in any business which competes or potentially competes, either directly or indirectly, with the business of the Group.

Report of the Directors

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this report as required under the Listing Rules.

CONTROL CONTRACTS

History and background

In the early of 2008, with the objective to expand into the New Media Business, the Group acquired 北京華彩贏通科技有限公司 ("OPCO") in the form of loan extended to Ms. HE Ying and Mr. JI Youjun (collectively referred to as the "Nominees") and entered into the Control Contracts with the Nominees to control and extract all economic benefits from OPCO for the benefit of the Group. The Nominees were appointed as directors of OPCO or their subsidiaries respectively to oversee its operation under the instruction of the Company. The New Media Business, as the current business of OPCO, involves mobile value-added telecommunications business activities. According to the relevant PRC laws and regulations, a wholly foreign-owned enterprise is prohibited from engaging in any value-added telecommunications business. Therefore, a wholly foreign-owned enterprise is ineligible to apply for and obtain a value-added telecommunications business operation permit. The Control Contracts were entered into in order for the Group to manage and operate the business of OPCO, under which all the business, financial and operating activities of OPCO are managed by the Group and all economic benefits and risks arising from the business, financial and operating activities of OPCO are transferred to the Group by means of consulting fees payable by OPCO.

Principal terms of the agreements under the Control Contracts

The Control Contracts comprise (i) the Loan Agreements; (ii) the Equity Pledge Agreements; (iii) the Exclusive Equity Transfer Agreements; (iv) the Consulting and Servicing Agreements; and (v) the Agency Agreements. The principal terms of which are set out below:

Loan Agreements

Pursuant to the Loan Agreements, 北京優昌源科技有限公司 ("WFOE") (as lenders) provided loans to the Nominees (as borrowers) respectively. Pursuant to the Loan Agreements, among others:

— the Nominees were required to pledge their equity interests in OPCO to WFOE, respectively;

— the loans have a term of 20 years;

— under any circumstances, the repayment of the loans by the Nominees (in part or in full) can only be satisfied by the transfer of the equity interests in the respective OPCO (in part or in full) to the WFOE (or the nominees of the WFOE). For avoidance of doubt, regardless of whether the repayment is made upon the expiry of the loans, upon the request of the WFOE or under any other circumstances, save for the aforesaid repayment method, any other repayment methods adopted by the Nominees shall be invalid;

— the Nominees do not have the right to repay the loans prior to its expiry without the written consent of the WFOE; and

— in the event that the consideration for the transfer of the equity interests in the OPCO (please refer to the Exclusive Equity Transfer Agreements) is not more than the aggregated principal amount of the loans extended to the respective Nominees, the loans will be interest-free. However, if the consideration exceeds the aggregated principal amount of the loans extended to the respective Nominees, the interest of the loans shall be the difference between the consideration and the aggregated principal amount of the loans. Upon the completion of the transfer of the equity interests in the OPCO, the Nominees shall be deemed to have satisfied all of their repayment obligations under the Loan Agreements.

Report of the Directors

CONTROL CONTRACTS *(Cont'd)*

Equity Pledge Agreement

Pursuant to the Equity Pledge Agreement entered into by the Nominees, OPCO and WFOE, among others:

— the Nominees have pledged whole of the equity interest in OPCO owned by them to WFOE to guarantee the Nominees' obligations and liabilities owed to WFOE, including those under the Loan Agreements; and

— WFOE can exercise its rights under the Equity Pledge Agreement and enforce the right to the equity pledge, including, in the event of a breach, requiring the Nominees to dispose of the equity interest in OPCO, or asking the Nominees to transfer the equity interest in OPCO to WFOE to discharge the Nominees' obligations and liabilities towards WFOE if agreed by the parties.

Exclusive Equity Transfer Agreement

Pursuant to the Exclusive Equity Transfer Agreement entered into by the Nominees, OPCO and WFOE, among others:

— the Nominees and OPCO irrevocably grant the WFOE with the exclusive right to acquire or to designate a qualified entity to acquire, the equity interest in OPCO (in part or in whole) or the assets owned by the OPCO (in part or in whole) at any time. Subject to the full compliance of the relevant PRC laws and regulations, WFOE has the full discretion over the exercise time and manner of the aforesaid purchase option. The consideration under the purchase option is RMB50 million. Shareholders of OPCO shall not grant any parties, other than WFOE or the designated entity, the same or similar rights;

— subject to the full compliance of the relevant PRC laws and regulations, upon the exercise of the rights attached to the purchase option, WFOE or the designated entity has the right to acquire the entire equity interest in OPCO or all the assets owned by OPCO, and the consideration for the transfer will be offset against the total outstanding amount of loans under the Loan Agreements (details of which are set out above); and

— in the event that, subject to the relevant PRC laws, the consideration for the entire equity interest in OPCO or all the assets owned by OPCO exceeds the outstanding amount of the loans, the loans shall bear interest and the consideration shall be offset against the principal of the loans and the accrued interest.

Consulting and Servicing Agreement

OPCO and WFOE entered into the Consulting and Servicing Agreement. Pursuant to which, among others:

— OPCO engages WFOE to provide exclusive sales and consultancy services for a period of twenty years with an automatic extension for a further ten years in absence of a written termination notice from WFOE;

— unless WFOE consents in writing, OPCO shall not accept sales and consultancy services provided by any third party;

— OPCO warrants that OPCO will not transfer, dispose, lease, encumber its assets (including tangible and intangible, existing and assets to be acquired), unless it is within the normal course of business of OPCO; and

— OPCO shall not distribute any dividend to its shareholders.

Report of the Directors

CONTROL CONTRACTS *(Cont'd)*

Agency Agreement

Pursuant to the Agency Agreement between OPCO, the Nominees and WFOE, the Nominees unconditionally and irrevocably authorise the natural persons designated by WFOE to exercise the rights of the Nominees as the shareholders of OPCO, including but not limited to, the right to attend shareholders' meetings and exercise the voting rights attached to the equity interest in OPCO held by the Nominees. The Nominees also agree to appoint the personnel recommended by WFOE as director(s), general manager, finance director and other senior management of the OPCO. The Nominees also agree to act on the recommendations of the aforesaid appointees. In addition, the Nominees and OPCO shall grant to WFOE A the rights to manage all the assets of OPCO in the event of liquidation, termination of business, deregistration and any business termination related procedures. The Agency Agreement has a term of twenty years with an automatic extension for a further one year. WFOE can terminate the Agency Agreements by serving a 30-day prior written notice.

Dispute Resolution

Each of the Control Contracts is governed by PRC laws and provides for the resolution of disputes through arbitration in accordance with the arbitration rules of the China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會). The arbitration shall take place in Beijing and the outcome of the arbitration shall be final and binding. The Control Contracts provide that arbitrators may award remedies in rem over the equity interests in or assets of OPCO in arbitration. They also provide that courts in the places where the parties of the Control Contracts are located shall have the power to grant interim remedies (such as property reservation and evidence reservation) in support of the arbitration pending formation of the arbitral tribunal or on appropriate time. The PRC Legal Adviser of the Company has also advised that the tribunal has no power to grant injunctive relief or winding up order under the PRC laws. Therefore, the dispute resolution provisions of the Control Contracts do not include the provision that an arbitral tribunal has the power to grant injunctive relief as remedy.

Succession

As advised by the PRC Legal Adviser of the Company, the provisions set out in the Control Contracts are also binding on the Nominees' successors. Under the Succession Law of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the Control Contracts. In case of a breach, the Group can enforce its rights against the successors. Therefore, the PRC Legal Adviser is of the view that (i) the Control Contracts are sufficient for the protection of the Group even in the event of death of any Nominee; and (ii) the death of any Nominee would not affect the validity of the Control Contracts, and the Group can enforce its right under the Control Contracts against the successors of the Nominees. The PRC Legal Adviser also confirmed that under the PRC law, a natural person cannot declare bankruptcy. Furthermore, pursuant to the Exclusive Equity Transfer Agreement, the WFOE can exercise the purchase option to acquire or to designate a qualified entity to acquire, the equity interest in the OPCO (in part or in whole) or the assets owned by the OPCO (in part or in whole) at any time. Subject to the full compliance of the relevant PRC laws and regulations, the WFOE shall have the full discretion over the exercise time, manner and exercise price of the aforesaid purchase option.

Financial Information of OPCO

The revenue, profit/loss and net assets attributable to the OPCO are set out in Note 17(c) to the consolidated financial statements.

The Control Contracts in place during the Year

The Control Contracts entered into between the Group, OPCO and Nominees are continuously in place during the year.

Report of the Directors

CONTROL CONTRACTS *(Cont'd)*

Risk Factors

For the year ended 31 December 2015, there is no unwinding of the Control Contract as the restrictions that led to the adoption of the Control Contracts are not removed. As disclosed in the Company's announcement dated 4 October 2013, risk factors in connection with the Control Contracts are listed below (terms used in this section shall have the same meanings as defined in the Company's announcement dated 4 October 2013 unless otherwise stated):

— If the PRC Government determines that the Control Contracts are not in compliance with applicable PRC laws and regulations, our business, financial condition or results of operations could be adversely affected.

In the opinion of the PRC Legal Adviser of the Company, the Control Contracts are in compliance with existing PRC laws and regulations. There are, however, substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, there is no assurance that the PRC regulatory authorities will not take a view contrary to that of the PRC Legal Adviser. In such event, the payment of services fee from the OPCO to the WFOE as stipulated under the Control Contracts could be hampered or even terminated.

The Group may have to rationalise or restructure the operations of the OPCO under the Control Contracts or terminate the New Media Business operated by the OPCO in extreme circumstances where (i) the existing Control Contracts are invalidated by the PRC courts for non-compliance of applicable laws and regulations; and/or (ii) the Company is unable to satisfy the then applicable PRC laws and regulations, which may include but not limited to "The Regulations for the Administration of Foreign-Invested Telecommunications Enterprises". Such rationalisation or restructuring or termination of the New Media Business could result in the diversion of management attention and the incurrence of substantial operating and production costs which could adversely affect the Group's business, financial condition or results of operations.

— The Control Contracts may not be as effective as direct ownership in providing operational control.

The Group relies on the Control Contracts with the OPCOs and its shareholders to operate the OPCO's businesses. These Control Contracts may not be as effective as direct equity ownership in providing the Group with control and security over the OPCO.

However, under the Control Contracts, if the OPCO or their registered shareholders fail to perform its, his or her respective obligations under these Control Contracts, the Group may have to incur substantial costs and expend significant resources and time to enforce those arrangements and rely on legal remedies under the PRC laws.

— The Nominees may not act in the interests of the Group and they may breach their contracts with the Group.

The Nominees may breach their contracts with the Group or otherwise have disputes with the Group, the Group may have to initiate legal proceedings, which involve significant uncertainties. Such disputes and proceedings may significantly disrupt the business operations of the Group, adversely affect the Group's ability to control the OPCO and/or otherwise result in negative publicity, and the Group cannot provide assurance that the outcome of such disputes and proceedings will be in the favour of the Group.

Report of the Directors

CONTROL CONTRACTS *(Cont'd)*

Risk Factors *(Cont'd)*

– The Control Contracts may be subject to scrutiny by the PRC tax authorities, which may result in a finding that the Group owes additional taxes than calculated or are ineligible for tax exemptions, or both, which could substantially increase the Group's taxes and thereby reduce the Group's net income in the future.

  Arrangements and transactions among related parties may be subject to audits or challenges by the PRC tax authorities. If any transactions of the Group entered into between subsidiaries of the Group in the PRC, any of the OPCO and their respective shareholders are determined by the PRC tax authorities not to be on an arm's length basis, or found to result in an impermissible reduction in taxes, the PRC tax authorities may adjust the profits and losses of such OPCO, which may result in additional taxes payable. In addition, the PRC tax authorities may impose late payment fees and other penalties to such OPCO for under-paid taxes. Thus, the Group's net income may be adversely and materially affected if the tax liabilities of any the OPCO increase or if it is found to be subject to late payment fees or other penalties.

In order to mitigate the risk as above mentioned, actions have been taken by the Company, including but not limited to, the following:

As disclosed in the Company's announcement dated 4 October 2013, the PRC Legal Adviser of the Company is of the opinion that each of the Control Contracts complies with, and is not in breach of, the PRC laws and regulations (including the Contract Law and the General Principles of Civil Code). The Company has continually monitored the development of PRC laws and regulations in relation to the Control Contracts. The Company noticed that the Ministry of Commerce of PRC published a discussion draft of the proposed new Foreign Investment Law for public comments at the beginning of 2015. The Company will closely monitor the progress of the drafting of the proposed new Foreign Investment Law. Once there is substantive change on the relevant law and regulation, the Group will use its reasonable endeavors to fulfill the relevant requirement including but not limited to the restructuring of the OPCO's corporate structure and Control Contracts or unwinding the Control Contracts.

Pursuant to the Agency Agreement, the Nominees agree to appoint the personnel recommended by the Group as director(s), general manager, finance director and other senior management of the OPCO. The Nominees also agree to act on the recommendations of the aforesaid appointees. The OPCO's senior management reports regularly to the Group's management about the operation of the OPCO to improve the effective control of the OPCO by the Group.

Each of the Control Contracts is governed by PRC laws and provides for the resolution of disputes through arbitration in accordance with the arbitration rules of the China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會). The arbitration shall take place in Beijing and the outcome of the arbitration shall be final and binding. The Control Contracts provide that arbitrators may award remedies in rem over the equity interests in or assets of OPCO in arbitration. They also provide that courts in the places where the parties of the Control Contracts are located shall have the power to grant interim remedies (such as property preservation and evidence preservation) in support of the arbitration pending formation of the arbitral tribunal or at an appropriate time.

The Company considers that tax risk of OPCO is low as the current revenue and tax expense of OPCO are in small size when compared to the whole Group as a whole. The Group has maintained close contact with the relevant tax authorities and, if needed, will use its reasonable endeavors to discuss with the relevant tax authorities and explain to them in order to minimize the associated risks.

Report of the Directors

CONTROL CONTRACTS *(Cont'd)*

Independent Non-executive Directors' Confirmation

Independent Non-executive Directors have reviewed the Control Contracts and confirm that:

— the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Control Contracts, so that the profits generated by the OPCO have been retained by WFOE;

— no dividends or other distributions have been made by the OPCO to the holders of their respective equity interests which are not otherwise subsequently assigned or transferred to the Group; and

— any new contracts entered into, renewed or reproduced between the Group and the OPCO during the relevant financial period are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the Shareholders as a whole.

AUDITOR

HLB Hodgson Impey Cheng Limited, the auditor of the Company, will retire and a resolution for its reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
LAU Ting
Chairperson

Hong Kong, 22 March 2016

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Directors believe that good corporate governance is an essential element in enhancing the confidence of shareholders, investors, employees, business partners and the community as a whole and also the performance of the Group. The board of Directors of the Company (the "Board") will review the corporate governance structure and practices from time to time and shall make necessary arrangements to ensure business activities and decision-making processes are made in a proper and prudent manner.

In the opinion of the Directors, the Company, at each applicable time, has complied with all the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules") (the "Code") for the financial year ended 31 December 2015, except for the deviations as disclosed in this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules as its code of conduct for dealings in securities of the Company by the Directors (the "Model Code"). Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard of dealings set out in the Model Code throughout the financial year ended 31 December 2015.

BOARD OF DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

Ms. LAU Ting
Mr. WU Jingwei
Ms. CHAN Tan Na, Donna
Mr. LI Zi Kui

Non-executive Director

Mr. HOONG Cheong Thard

Independent Non-executive Directors

Mr. HUANG Shenglan
Mr. CHAN Ming Fai
Mr. CUI Shuming

As at the date of this report, the Board comprised eight Directors, four of whom are Executive Directors, one is a Non-executive Director and three of whom are Independent Non-executive Directors. Details of backgrounds and qualifications of each Director are set out on the section headed "Biographies of Directors and Senior Management" of this annual report. The Company has arranged appropriate insurance cover in respect of legal actions against the Directors.

The Board is responsible for the overall strategic development of the Group. It also monitors the financial performance and the internal controls of the Group's business operations. Executive Directors are responsible for running the Group and executing the strategies adopted by the Board. Four Directors currently hold the position of Executive Director are also directors of various members of the Group. The day-to-day running of the Company is delegated to the management with department heads responsible for different aspects of the business/functions.

The Non-executive Directors (including the Independent Non-executive Directors) serve the relevant function of bringing independent judgement on the development, performance and risk management of the Group to the Board.

Corporate Governance Report

BOARD OF DIRECTORS *(Cont'd)*

Code provision A.1.1 stipulates that the Board should be held the Board should meet regularly and Board meetings should be held at least four times a year at approximately quarterly intervals. The relevant Code provision had not been fully complied with as the Company did not announce its quarterly results and that two regular Board meetings were held during the year. Board meetings will be held on other occasions when Board decisions are required. Notice of at least 14 days is given to all Directors for all regular Board meetings to give all Directors an opportunity to attend. All regular Board meetings adhere to a formal agenda in which a schedule of matters is addressed to the Board. All Directors have access to Board papers and related materials, and are provided with adequate information which enables the Board to make an informed decision on the matters to be discussed and considered at the Board meetings. Minutes of Board meetings are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

The Board considers that each Independent Non-executive Director of the Company is independent in character and judgement. The Company has received from each Independent Non-executive Director a written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. To the best knowledge of the Directors, there is no financial, business and family relationship among the members of the Board except that Ms. CHAN Tan Na, Donna is the daughter of Ms. LAU Ting.

The attendance of the Board Meeting, Committee Meetings and Annual General Meeting during the year are as follows:

	Number of meetings attended/eligible to attend				
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Annual General Meeting
Executive Directors					
Ms. LAU Ting	3/3	–	1/1	1/1	1/1
Mr. WU Jingwei	3/3	–	–	–	0/1
Ms. CHAN Tan Na, Donna	3/3	–	–	–	1/1
Mr. LI Zi Kui	3/3	–	–	–	0/1
Non-executive Director					
Mr. HOONG Cheong Thard	3/3	–	–	–	1/1
Independent Non-executive Directors					
Mr. HUANG Shenglan	3/3	2/2	1/1	1/1	1/1
Mr. CHAN Ming Fai	3/3	2/2	1/1	1/1	1/1
Mr. CUI Shuming	3/3	2/2	–	–	1/1

Corporate Governance Report

CHAIRPERSON AND CHIEF EXECUTIVE OFFICER

The Chairperson of the Company, Ms. LAU Ting, currently also assumes the role of the Chief Executive Officer. Although the Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual, the Board considers that given the nature of the Group's businesses which requires considerable market expertise, the vesting of the two roles provides the Group with stable and consistent leadership and allows for more effective planning and implementation of long term business strategies. The Board will from time to time review the effectiveness of the structure to balance the power and authority of the Board and the management.

NON-EXECUTIVE DIRECTORS

Although more than half of the Non-executive Directors of the Company are not appointed for a specific term as is stipulated in Code provision A.4.1, all of them are subject to retirement by rotation in accordance with the Bye-laws of the Company. The Board will ensure the retirement of each Director, other than the one who holds the office as Chairperson or Managing Director, by rotation at least once every three years. The Chairperson is not subject to retirement by rotation as is stipulated in Code provision A.4.2 as the Board considers that the continuity of office of the Chairperson provides the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group. Ms. CHAN Tan Na, Donna, Mr. LI Zi Kui and Mr. CUI Shuming are subject to retirement by rotation at the forthcoming annual general meeting in accordance with the Company's Bye-laws.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 10 August 2006 with specific written terms of reference which deal with its authority and duties. The terms of reference of the Remuneration Committee has been posted on the Company's website and is made available on request. The Remuneration Committee mainly responsible for determining the policy for the remuneration of Directors and the senior management, and on the establishment of a formal and transparent procedure for developing remuneration policy. The Remuneration Committee has the delegated responsibility to determine the remuneration packages, in consultation with the Chairman, the Deputy Chairman, the Managing Director or the Chief Executive Officer of the Company, of individual Executive Directors and Senior Management. The Remuneration Committee currently consists of three members, namely Ms. LAU Ting, the Executive Director, and Mr. HUANG Shenglan and Mr. CHAN Ming Fai, both being Independent Non-executive Directors. The chairperson of the Remuneration Committee is Mr. HUANG Shenglan.

In determining the emolument payable to Directors, the Remuneration Committee took into consideration factors such as time commitment and responsibilities of the Directors, abilities, performance and contribution of the Directors to the Group, the performance and profitability of the Group, the remuneration benchmark in the industry, the prevailing market/employment conditions and the desirability of performance-based remuneration. A meeting of the Remuneration Committee were held during the year.

Corporate Governance Report

NOMINATION COMMITTEE

The Nomination Committee was established on 15 March 2012 with specific written terms of reference which deal with its authority and duties. The terms of reference of the Nomination Committee has been posted on the Company's website and is made available on request. The Nomination Committee mainly responsible for making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors and identifying individuals suitably qualified to become Board members and making recommendations to the Board on the selection. The Nomination Committee currently consists of three members, namely Ms. LAU Ting, the Executive Director, and Mr. HUANG Shenglan and Mr. CHAN Ming Fai, both being Independent Non-executive Directors. The chairperson of the Nomination Committee is Ms. LAU Ting.

The Nomination Committee will identify suitable candidates for members of the Board when there is a vacancy or an additional director is considered necessary and will propose the appointment of such candidates to the Board for consideration. The Board will review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his qualifications, experience and background. A meeting of the Nomination Committee were held during the year.

The Nomination Committee have a policy concerning diversity of Board members in designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

AUDIT COMMITTEE

The Audit Committee was established in 2001 and currently comprises three members, Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Mr. CUI Shuming. All of them are Independent Non-executive Directors. The chairman of the Audit Committee is Mr. HUANG Shenglan. The Board considers that each Audit Committee member has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management in the Audit Committee.

The Audit Committee's functions include:

- to review and monitor financial reporting and the reporting judgement contained in them;
- to review financial and internal controls, accounting policies and practices with management and external auditor; and
- To oversight of the Company's financial reporting system, risk management and internal control system.

The Audit Committee held two meetings during the year under review and the external auditor, HLB Hodgson Impey Cheng Limited, has attended those two meetings.

The Audit Committee has reviewed and discussed with the management the accounting principles and practices adopted by the Group and auditing, internal controls and financial reporting matters. The audited financial results of the Group for the financial year ended 31 December 2015 have been reviewed by the Audit Committee. The terms of reference of the Audit Committee has been posted on the Company's website and is made available on request.

Corporate Governance Report

SENIOR MANAGEMENT'S REMUNERATION

The annual remuneration range of the Senior Management are set out as below:

	Number of Employees
From HK$0 to HK$1,000,000	3
From HK$1,000,001 to above	8

AUDITOR'S REMUNERATION

For the year ended 31 December 2015, the Group had engaged the Company's external auditor, HLB Hodgson Impey Cheng Limited, to provide the following services and the respective fees charged are set out as below:

	Fee Charged for the year ended 31 December	
	2015	2014
	HK$	HK$
Types of Services		
Audit for the Group	**950,000**	880,000
Other Services	**–**	180,000

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

The Directors' responsibilities for the accounts and the responsibilities of the external auditor to the shareholders are set out on page 36.

CORPORATE GOVERNANCE FUNCTION

The Board is to perform the corporate governance duties with written terms of reference which include the applicable code provisions as set out in the Code. The Board has reviewed the compliance with the Code and disclosure of the Company in this Corporate Governance Report and review the policy for corporate governance of the Company and duties performed by the Board. All Directors are able to make further enquiries and they may seek independent professional advice and consultation when necessary. To enhance proper and up-to-date understanding of the Company's operations and business, legal and other regulatory requirements and appropriate emphasis on the roles, functions and duties of Directors, the Company has provide relevant reading materials as professional development programs to the Directors. The Company has received training records of all Directors who have participated in continuous professional development to develop and refresh their knowledge and skills during the year as below:

	Training Records Received*
Executive Directors	
Ms. LAU Ting	✓
Mr. WU Jingwei	✓
Ms. CHAN Tan Na, Donna	✓
Mr. LI Zi Kui	✓
Non-executive Director	
Mr. HOONG Cheong Thard	✓
Independent Non-executive Directors	
Mr. HUANG Shenglan	✓
Mr. CHAN Ming Fai	✓
Mr. CUI Shuming	✓

* Finished the professional development programs including those provided by the Company in relation to the Corporate Governance, Ordinance Updating, Market Information Updating and Case Study.

Corporate Governance Report

INTERNAL CONTROL

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal controls system to safeguard the interests of shareholders and the assets of the Group. The Board has delegated to the management the implementation of the system of internal controls and reviewing of all relevant financial, operational, compliance controls and risk management functions.

INVESTOR RELATIONS

The Company is committed to maintain an open and effective investor relations policy and to update investors on relevant information/developments in a timely manner, subject to relevant regulatory requirements. Briefings and meetings with institutional investors and analysts are conducted from time to time. The Company also replied the enquiries from shareholders timely. The Directors host the annual general meeting each year to meet the shareholders and answer their enquiries.

Shareholders may whenever it thinks fit require a special general meeting to be called. Pursuant to Section 74 of the Bermuda Companies Act 1981, the Board, notwithstanding anything in its Bye-laws shall, on the requisition of members of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company as at the date of the deposit carrying the right of voting at general meetings of the Company, forthwith proceed duly to convene a special general meeting of the Company. The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company, and may consist of several documents in like form each signed by one or more requisitionists. The Company arranges for the notice to its shareholders to be sent at least 10 clear business days before each of the general meetings of the Company in accordance with Code Provision E.1.3. To put forward proposals at an annual general meeting or a special general meeting, the shareholders shall submit a written notice of those proposals with the detail contact information to the Company Secretary at the Principal Place of Business. The request will be verified with the Company's Branch Share Registrars and Transfer Office in Hong Kong and upon its confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting.

The corporate website of the Company (http://www.chinalotsynergy.com) provides an effective communication platform via which the public and investor community can enjoy fast, easy access to up-to-date information regarding the Group. Enquiries to the Board or the Company are welcome and can be addressed to the Investor Relations Department by mail to Unit 3308, 33rd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong or by fax to (852) 2136 6608.

Independent Auditors' Report

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE MEMBERS OF
CHINA LOTSYNERGY HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China LotSynergy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 38 to 116, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015 and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Hui Chun Keung, David
Practising Certificate Number: P05447

Hong Kong, 22 March 2016

Consolidated Statement of Profit or Loss

For the year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Turnover	5	**643,748**	1,034,769
Costs of sales and services			
— Depreciation of lottery terminals		**(118,219)**	(109,339)
— Others		**(166,057)**	(199,566)
		(284,276)	(308,905)
Gross profit		**359,472**	725,864
Other income	6	**32,908**	31,510
Other losses — net	7	**(234,930)**	(15,305)
General and administrative expenses		**(369,852)**	(239,256)
Share option expenses		**(92,230)**	(12,378)
Operating (loss)/profit	8	**(304,632)**	490,435
Finance costs	9	**(61,412)**	(55,600)
Share of loss of an associate	18	**(7)**	–
Share of (losses)/profits of joint ventures	19	**(4,073)**	917
(Loss)/Profit before income tax		**(370,124)**	435,752
Income tax expense	10	**(46,006)**	(93,433)
(Loss)/Profit for the year		**(416,130)**	342,319
(Loss)/Profit attributable to:			
Owners of the Company		**(497,654)**	100,010
Non-controlling interests		**81,524**	242,309
		(416,130)	342,319
(Loss)/Earnings per share attributable to owners of the Company during the year			
— basic	11	**(5.85) HK cents**	1.27 HK cents
— diluted	11	**(5.85) HK cents**	1.25 HK cents

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

	Note	2015 HK$'000	2014 HK$'000
(Loss)/Profit for the year		**(416,130)**	342,319
Other comprehensive expenses:			
Items that may be reclassified to profit or loss			
Fair value loss on available-for-sale financial assets	*21*	**(2,810)**	(377)
Reclassification adjustment on disposal of available-for-sale financial assets		**(9,514)**	–
Reclassification adjustment on impairment of available-for-sale financial assets		**4,318**	–
Release of currency translation reserve upon disposal of a subsidiary		**–**	1,394
Currency translation differences		**(69,659)**	(46,716)
Other comprehensive expenses for the year		**(77,665)**	(45,699)
Total comprehensive (expenses)/income for the year		**(493,795)**	296,620
Attributable to:			
Owners of the Company		**(555,329)**	63,282
Non-controlling interests		**61,534**	233,338
Total comprehensive (expenses)/income for the year		**(493,795)**	296,620

Consolidated Statement of Financial Position

At 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Non-current assets			
Property, plant and equipment	15	668,968	661,758
Intangible assets	16	448,336	555,430
Investment in an associate	18	4,764	–
Investments in joint ventures	19	32,534	51,567
Available-for-sale financial assets	21	10,000	35,161
Deferred income tax assets	31	8,402	8,807
Prepaid rentals		–	253
		1,173,004	1,312,976
Current assets			
Inventories	22	58,516	54,160
Accounts receivable	23	88,632	301,007
Prepayments, deposits and other receivables	24	371,134	459,992
Amounts due from joint ventures	19	–	337
Amount due from a related company	25	–	21,564
Financial assets at fair value through profit or loss	26	677,466	876,245
Cash and bank balances	27	792,637	907,930
		1,988,385	2,621,235
Total assets		3,161,389	3,934,211
Current liabilities			
Accounts and bills payable	28	16,489	41,513
Accruals and other payables		60,278	72,657
Amounts due to joint ventures	19	6,766	5,969
Income tax payable		1,105	28,822
Bank borrowings	29	583,038	911,213
		667,676	1,060,174
Net current assets		1,320,709	1,561,061
Total assets less current liabilities		2,493,713	2,874,037
Non-current liabilities			
Convertible bonds	30	602,156	588,321
Deferred income tax liabilities	31	74,189	79,951
		676,345	668,272
Net assets		1,817,368	2,205,765

Consolidated Statement of Financial Position

At 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Equity attributable to owners of the Company			
Share capital	32	21,330	21,131
Reserves	34	1,433,762	1,365,162
(Accumulated losses)/retained profits		(143,334)	375,396
		1,311,758	1,761,689
Non-controlling interests		505,610	444,076
Total equity		1,817,368	2,205,765

The consolidated financial statements on pages 38 to 116 were approved by the Board of Directors on 22 March 2016 and were signed on its behalf.

LAU TING
Director

CHAN TAN NA, DONNA
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Attributable to owners of the Company				
	Share capital HK$'000 *(Note 32)*	Reserves HK$'000 *(Note 34)*	Retained profits HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2014	19,017	886,497	289,091	261,571	1,456,176
Comprehensive income					
Profit for the year	–	–	100,010	242,309	342,319
Other comprehensive (expenses)/income:					
Release of revaluation reserve upon depreciation of leasehold land and building	–	(241)	241	–	–
Fair value loss on available-for-sale financial assets	–	(377)	–	–	(377)
Release of currency translation reserve upon disposal of a subsidiary	–	1,046	–	348	1,394
Currency translation differences	–	(37,397)	–	(9,319)	(46,716)
Total other comprehensive (expenses)/income	–	(36,969)	241	(8,971)	(45,699)
Total comprehensive (expenses)/income	–	(36,969)	100,251	233,338	296,620
Issue of new shares	1,485	444,040	–	–	445,525
Recognition of equity component of convertible bonds	–	51,692	–	–	51,692
Deferred tax on recognition of equity component of convertible bonds	–	(11,767)	–	–	(11,767)
Share option scheme:					
– value of employee services	–	6,131	–	–	6,131
– value of other participants' services	–	6,247	–	–	6,247
– share options exercised	878	78,878	–	–	79,756
– vested share options expired	–	(4,593)	4,593	–	–
Shares repurchased and cancelled	(249)	(54,994)	–	–	(55,243)
Dividends relating to 2013	–	–	(18,539)	–	(18,539)
Total contributions by and distributions to owners of the Company, recognised directly in equity	2,114	515,634	(13,946)	–	503,802
Dividends paid to non-controlling interests	–	–	–	(50,833)	(50,833)
Total transactions with owners, recognised directly in equity	2,114	515,634	(13,946)	(50,833)	452,969
At 31 December 2014	21,131	1,365,162	375,396	444,076	2,205,765

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Attributable to owners of the Company				
	Share capital HK$'000 *(Note 32)*	Reserves HK$'000 *(Note 34)*	(Accumulated losses)/ retained profits HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2015	21,131	1,365,162	375,396	444,076	2,205,765
Comprehensive expense					
(Loss)/Profit for the year	–	–	(497,654)	81,524	(416,130)
Other comprehensive (expenses)/income:					
Release of revaluation reserve upon depreciation of leasehold land and building	–	(241)	241	–	–
Fair value loss on available-for-sale financial assets	–	(2,810)	–	–	(2,810)
Reclassification adjustment on disposal of available-for-sale financial assets	–	(9,514)	–	–	(9,514)
Reclassification adjustment on impairment of available-for-sale financial assets	–	4,318	–	–	4,318
Currency translation differences	–	(49,669)	–	(19,990)	(69,659)
Total other comprehensive (expenses)/income	–	(57,916)	241	(19,990)	(77,665)
Total comprehensive (expenses)/income	–	(57,916)	(497,413)	61,534	(493,795)
Share option scheme:					
– value of employee services	–	10,865	–	–	10,865
– value of other participants' services	–	81,365	–	–	81,365
– share options exercised	199	34,286	–	–	34,485
Dividends relating to 2014	–	–	(21,317)	–	(21,317)
Total contributions by and distributions to owners of the Company, recognised directly in equity	199	126,516	(21,317)	–	105,398
At 31 December 2015	21,330	1,433,762	(143,334)	505,610	1,817,368

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Cash flows from operating activities			
Operating cash flows before changes in working capital	35	148,853	616,470
Changes in working capital	35	333,390	(1,145,887)
Cash generated from/(used in) operation	35	482,243	(529,417)
Income tax paid		(85,216)	(87,443)
Net cash generated from/(used in) operating activities		397,027	(616,860)
Cash flows from investing activities			
Purchase of property, plant and equipment		(171,332)	(152,822)
Proceeds from disposal of property, plant and equipment		881	1,138
Purchase of intangible assets		(30,635)	(40,733)
Capital contribution to an associate		(4,876)	–
Repayment from/(advance to) a joint venture		337	(258)
Decrease/(increase) in loan receivables		28,695	(202,927)
Interest received		33,695	33,181
Dividend received		–	38,281
Proceeds from disposal of available-for-sale financial assets		22,351	–
Decrease in pledged time deposits with maturity of more than three months		219,512	–
Increase in pledged bank deposits		(10,630)	(11,907)
Acquisition of a subsidiary	38	–	(71,346)
Disposal of a subsidiary	39	–	(570)
Net cash generated from/(used in) investing activities		87,998	(407,963)
Cash flows from financing activities			
Interest paid		(47,577)	(45,961)
Proceeds from issue of shares		34,485	525,281
Proceeds from issue of convertible bonds		–	630,374
Share repurchased		–	(55,243)
Repayment of bank borrowings		(557,918)	(214,171)
Proceeds from bank borrowings		233,575	332,767
Dividends paid to non-controlling interests		–	(50,833)
Dividends paid to Company's shareholders		(21,317)	(18,539)
Net cash (used in)/generated from financing activities		(358,752)	1,103,675
Net increase in cash and cash equivalents		126,273	78,852
Cash and cash equivalents at beginning of the year		407,245	339,850
Effect of foreign exchange rate changes		(16,401)	(11,457)
Cash and cash equivalents at end of the year *(Note)*	27	517,117	407,245

Note: Cash and cash equivalents include cash in hand, deposits held at call with banks and financial institutions, other short-term highly liquid investments with original maturities of three months or less.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

1. GENERAL INFORMATION

China LotSynergy Holdings Limited (the "Company") was incorporated in Bermuda on 13 September 2000 as an exempted company with limited liability under the Companies Act of Bermuda.

The Company and its subsidiaries (collectively referred to as the "Group") are technology and operation service providers of lottery systems, terminal equipment and gaming products in China's lottery market. The principal businesses of the Group cover various lottery products ranging from video lottery, computer ticket game and KENO-type lottery to new media lottery.

The Company's shares are currently listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.1 Basis of preparation *(Cont'd)*

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following new and amended standards are mandatory for the first time for the financial year beginning 1 January 2015:

Amendments from annual improvements to HKFRSs — 2010–2012 Cycle, on HKFRS 8, "Operating segments", HKAS 16, "Property, plant and equipment" and HKAS 38, "Intangible assets" and HKAS 24, "Related party disclosures".

Amendments from annual improvements to HKFRSs — 2011–2013 Cycle, on HKFRS 13, "Fair value measurement".

Amendments and interpretations as mentioned above are not expected to have a material effect on the Group's operating results, financial position or comprehensive income.

(b) New Hong Kong Companies Ordinance (Cap. 622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

(c) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.1 Basis of preparation *(Cont'd)*

2.1.1 Changes in accounting policy and disclosures (Cont'd)

(c) *New standards and interpretations not yet adopted (Cont'd)*

Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess HKFRS 9's full impact.

HKFRS 15, "Revenue from contracts with customers" deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 "Revenue" and HKAS 11 "Construction contracts" and related interpretations. HKFRS 15 is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of HKFRS 15.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) *Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.2 Subsidiaries *(Cont'd)*

2.2.1 Consolidation (Cont'd)

(a) *Business combinations (Cont'd)*

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred assets. When necessary, amounts reported by subsidiaries have been adjusted to confirm with the Group's accounting policies.

(b) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or finance asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate is accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in an associate includes goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in consolidated statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in an associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the consolidated statement of profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.4 Joint arrangements

Under HKFRS 11 *Investments in joint arrangements* are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

The Group determines at each reporting date whether there is any objective evidence that the investment in a joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board that makes strategic decisions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK$, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of debt securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.6 Foreign currency translation *(Cont'd)*

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate the includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.7 Property, plant and equipment

Leasehold land classified as finance lease and all other property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred.

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Leasehold land classified as finance lease	Shorter of remaining lease term or useful life
Building	2.5%
Lottery terminals leased to third parties under operating leases	20%
Leasehold improvements	20% – 50% (over the period of leases)
Plant and equipment	10% – 20%
Computer equipment and software	20% – 33%
Office equipment and furniture	10% – 25%
Motor vehicles	10% – 25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other losses – net" in the statement of profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.8 Intangible assets

(a) CLO Contract

The CLO Contract acquired in a business combination are recognised at fair value at the acquisition date. The CLO Contract has a finite useful life and is carried at cost less accumulated amortization and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the CLO Contract over the period of the contract.

(b) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(c) Development costs

Development costs represent all direct costs incurred by the Group in setting up systems and networks, including the cost of equipment, development cost and subcontracting expenditure. Such assets are recognised as intangible assets only if all of the following conditions are met:

- the technical feasibility of completing the asset so that it will be available for use or sale;
- the intention to complete the asset and use or sell it;
- the ability to use or sell the asset;
- how the asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the asset or the asset itself or, if it is to be used internally, the usefulness of the asset;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the asset; and
- the ability to measure reliably the expenditure attributable to the asset during its development.

Development costs that do not fulfill the above conditions are recognised as expenses in the period in which it is incurred. Development costs which are implemented for its intended use and fulfill the above conditions are amortised on a straight-line basis over their estimated useful lives.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.8 Intangible assets *(Cont'd)*

(d) Intellectual properties

Separately acquired intellectual properties are shown at historical cost. Intellectual properties acquired in a business combination are recognised at fair value at the acquisition date. Intellectual properties have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of intellectual properties over their estimated useful lives of ten to fifteen years.

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within twelve months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than twelve months after the end of the reporting period. These are classified as non-current assets.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of within twelve months of the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.10 Financial assets *(Cont'd)*

2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the statement of profit or loss within "other (losses)/gains – net" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of profit or loss as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of profit or loss.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of profit or loss as part of other income. Dividends on available-for-sale equity instruments are recognised in the statement of profit or loss as part of other income when the Group's right to receive payments is established.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.12 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.12 Impairment of financial assets *(Cont'd)*

(a) Assets carried at amortised cost (Cont'd)

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of profit or loss.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists for the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of profit or loss.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in statement of profit or loss on equity instruments are not reversed through the statement of profit or loss.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.14 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.15 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and financial institutions, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts (if any).

2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.19 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.20 Compound financial instruments

Compound financial instruments issued by the Group comprise convertible bonds that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component, which is included in shareholders' equity in other reserves. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

The liability component of a convertible instrument is classified as current unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

2.21 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.21 Current and deferred income tax *(Cont'd)*

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary differences can be utilised.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.22 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Bonus plans

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

(c) Retirement benefits

The Group operates a number of defined contribution plans. The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in independently administered funds.

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after the end of the reporting period are discounted to their present value.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.23 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees or consultants as consideration for equity instruments (options) of the Group. The fair value of the services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);

- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the statement of profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

(b) Share-based payment transactions among group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.24 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.25 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value-added tax. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

(a) Income from provision of lottery terminals and lottery sales channels is accounted for in accordance with the terms of the relevant contracts.

(b) Income from provision of consultancy services is recognised when services are rendered.

(c) Income from sale of equipment is recognised when the Group has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

2.26 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.27 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.28 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss on a straight-line basis over the period of the lease.

2.29 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the board of directors (the "Board"). Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group's foreign exchange risk arising from future commercial transactions, recognised assets and liabilities is considered to be insignificant. This is due to the Group's transactions being generally denominated in the functional currency of the respective group entities.

The Group manages the foreign exchange exposure arising from its normal course of business activities and investments in foreign operations by funding its local operations and investments through cash flow generated from business transactions locally. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(a) Market risk (Cont'd)

(i) Foreign exchange risk (Cont'd)

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Renminbi ("RMB") exchange rate, with all other variables held constant, of the Group's loss/profit after tax and the Group's equity, mainly as a result of foreign exchange gains/losses on translation of the foreign operations' net assets to the Group's HK$ reporting currency.

	Increase/ (Decrease) in RMB %	(Decrease)/ Increase in loss after income tax HK$'000	Increase/ (Decrease) in equity HK$'000
2015			
If HK$ weakens against RMB	**5**	**(7,524)**	**55,395**
If HK$ strengthens against RMB	**(5)**	**6,808**	**(50,107)**

	Increase/ (Decrease) in RMB %	Increase/ (Decrease) in profit after income tax HK$'000	Increase/ (Decrease) in equity HK$'000
2014			
If HK$ weakens against RMB	5	12,702	53,712
If HK$ strengthens against RMB	(5)	(12,077)	(48,554)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(a) Market risk (Cont'd)

(ii) Price risk

The Group is exposed to price risk arising from equity/debt investments classified as available-for-sale financial assets (Note 21) and held for trading investments (Note 26).

The following table demonstrates the sensitivity to 5% increase/decrease in the fair values of the investments with all other variables held constant and after any impact on tax, based on their carrying amounts at the end of the reporting period. For the purpose of his analysis, for available-for-sale investments, the impact is deemed to be on the available-for-sale investment revaluation reserve and no account is given for factors such as impairment which might impact the statement of profit or loss.

	(Decrease)/ Increase in loss before income tax HK$'000	**Increase/ (Decrease) in equity HK$'000**
2015		
5% increase in price	**(33,873)**	**500**
5% decrease in price	**33,873**	**(500)**

	Increase/ (Decrease) in profit before income tax HK$'000	Increase/ (Decrease) in equity HK$'000
2014		
5% increase in price	43,812	1,758
5% decrease in price	(43,812)	(1,758)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(a) Market risk *(Cont'd)*

(iii) Cash flow and fair value interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate time deposits and fixed-rate borrowings.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings. It is the Group's policy to keep its borrowing at floating rate of interests so as to minimise the fair value interest risk. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR and LIBOR arising from the Group's bank borrowings denominated in HK$ and United States dollars ("US$").

The following table demonstrates the sensitivity to 5% increase/decrease in interest rates, with all other variables held constant, of the Group's loss/profit after income tax (through the impact on floating rate bank borrowings) and the Group's equity.

	Increase/ (Decrease) in interest rate %	Increase/ (Decrease) in loss after income tax HK$'000	(Decrease)/ Increase in equity HK$'000
2015			
HK$ and US$	**5**	**553**	**(553)**
HK$ and US$	**(5)**	**(553)**	**553**

	Increase/ (Decrease) in interest rate %	(Decrease)/ Increase in profit after income tax HK$'000	(Decrease)/ Increase in equity HK$'000
2014			
HK$ and US$	5	(622)	(622)
HK$ and US$	(5)	622	622

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(b) Credit risk

The Group reviews the recoverability of its financial assets periodically to ensure that potential credit risk of the counterparty is managed at an early stage and sufficient provision is made for possible defaults. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's financial assets, which comprise bank balances, accounts receivable, loan receivables, amounts due from joint ventures, amount due from a related company, debt securities, deposits and other receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. At the end of the reporting period, the Group had certain concentrations of credit risk as 74% (2014: 97%) and 85% (2014: 100%) of the Group's accounts receivable were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivable are disclosed in Note 23 to the consolidated financial statements.

(c) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other financial liabilities are based on the agreed repayment dates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(c) Liquidity risk (Cont'd)

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

	Carrying amount as per consolidated statement of financial position HK$'000	Total contractual undiscounted cash flows HK$'000	On demand or less than 1 month HK$'000	Between 1 and 3 months HK$'000	Between 3 months and 1 year HK$'000	Between 2 and 5 years HK$'000
2015						
Accounts and bills payable	16,489	16,489	16,489	–	–	–
Accruals and other payables	58,578	58,578	58,578	–	–	–
Amounts due to joint ventures	6,766	6,766	6,766	–	–	–
Bank borrowings	583,038	583,038	583,038	–	–	–
Convertible bonds	602,156	763,750	–	–	32,500	731,250
	1,267,027	1,428,621	664,871	–	32,500	731,250
2014						
Accounts and bills payable	41,513	41,513	41,513	–	–	–
Accruals and other payables	65,295	65,295	65,295	–	–	–
Amounts due to joint ventures	5,969	5,969	5,969	–	–	–
Bank borrowings	911,213	937,951	798,820	38,800	100,331	–
Convertible bonds	588,321	796,250	–	–	32,500	763,750
	1,612,311	1,846,978	911,597	38,800	132,831	763,750

Bank loans with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis. Taking into account the Group's financial position, the Board does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as total debt divided by adjusted capital. Total debt comprises accounts and bills payable, accruals and other payables, amounts due to joint ventures and bank borrowings as shown in the consolidated statement of financial position. Adjusted capital comprises convertible bonds and all components of equity (including share capital, reserves, accumulated losses/retained profits and non-controlling interests as shown in the consolidated statement of financial position).

The debt-to-adjusted capital ratios at 31 December 2015 and 2014 are as follows:

	2015 **HK$'000**	2014 HK$'000
Total debt	**666,571**	1,031,352
Adjusted capital	**2,419,524**	2,794,086
Debt-to-adjusted capital ratio	**27.5%**	36.9%

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised to three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.3 Fair value estimation *(Cont'd)*

The following table presents the Group's financial assets that are measured at fair value at 31 December 2015.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Financial assets at fair value through profit or loss				
— Listed debt securities	320,747	–	–	320,747
— Listed equity securities	306,327	–	–	306,327
— Unlisted fund investments	–	50,392	–	50,392
Available-for-sale financial assets				
— Unlisted fund investment	–	10,000	–	10,000
	627,074	60,392	–	687,466

The following table presents the Group's financial assets that are measured at fair value at 31 December 2014.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Financial assets at fair value through profit or loss				
— Listed debt securities	454,169	–	–	454,169
— Listed equity securities	269,580	–	–	269,580
— Unlisted fund investments	–	152,496	–	152,496
Available-for-sale financial assets				
— Unlisted fund investment	–	35,161	–	35,161
	723,749	187,657	–	911,406

There were no transfers between levels 1 and 2 during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.3 Fair value estimation *(Cont'd)*

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in level 1.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Level 2 fair values for fund investments have been determined based on net asset value of the relevant fund investments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) The Group tests whether intangible assets have suffered any impairment in accordance with the accounting policy stated in Note 2.8. Determining whether intangible assets are impaired requires an estimate of the value-in-use of the asset. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the assets and also choose a suitable discount rate in order to calculate the present value of those cash flows. Where the actual future cash flows are less than expected, a material impairment loss may arise.

(b) The Group's management determines the impairment of accounts receivable on a regular basis. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the impairment of accounts receivable at the end of the reporting period.

(c) Financial instruments such as equity investments and debt investments are carried at the consolidated statement of financial position at fair value. The best evidence of fair value is quoted prices in an active market. Where quoted prices are not available for a particular financial instrument, the Group uses valuation models or independent professional valuations to estimate the fair value. The use of methodologies, models and assumptions in valuing these financial instruments is subjective and requires varying degrees of judgement, which may result in significantly different fair values and results.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

5. TURNOVER AND SEGMENT INFORMATION

The Group is a technology and operation service provider of lottery systems, terminal equipment and gaming products in the China's lottery market. The principal businesses of the Group cover various lottery products ranging from video lottery, computer ticket game and KENO-type lottery to new media lottery. An analysis of the Group's turnover for the year is as follows:

	2015 HK$'000	2014 HK$'000
Income from provision of lottery terminals and lottery sales channels	**540,866**	973,847
Income from sales of equipment	**102,666**	60,712
Income from provision of consultancy services	**216**	210
	643,748	1,034,769

Segment information

The Group's revenue and contribution to (loss)/profit were mainly derived from the provision of technology and operation service for lottery systems, terminal equipment and gaming products in China's lottery market, which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the Group's senior management for purposes of resource allocation and performance assessment. Accordingly, no segment analysis is presented other than entity-wide disclosures.

Geographical information

(a) Revenue from external customers

	2015 HK$'000	2014 HK$'000
People's Republic of China ("PRC") (Country of domicile)	**643,748**	1,034,769

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2015		2014	
	Total assets HK$'000	**Additions to non-current assets HK$'000**	Total assets HK$'000	Additions to non-current assets HK$'000
PRC	**981,538**	**205,796**	1,093,816	283,605
Hong Kong	**167,454**	**840**	175,192	4,715
Cambodia	**5,610**	**1,862**	–	–
	1,154,602	**208,498**	1,269,008	288,320

The non-current assets information above is based on the locations of the assets and excludes financial instruments and deferred income tax assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

5. TURNOVER AND SEGMENT INFORMATION *(Cont'd)*

Information about major customer

Revenue from major customer whom amounted to 10% or more of the total revenue, is set out below:

	2015 HK$'000	2014 HK$'000
Customer A	434,705	810,212

6. OTHER INCOME

	2015 HK$'000	2014 HK$'000
Interest income from bank deposits and others	32,908	31,510

7. OTHER LOSSES – NET

	2015 HK$'000	2014 HK$'000
Fair value loss on financial assets at fair value through profit or loss	(103,697)	(17,802)
Reclassification adjustment on disposal of available-for-sale financial assets	9,514	–
Impairment of available-for-sale financial assets	(4,318)	–
Impairment of goodwill	(122,904)	–
Impairment of investment in a joint venture	(13,367)	–
Loss on disposal of property, plant and equipment	(99)	(476)
Loss on disposal of a subsidiary	–	(1,010)
Foreign exchange (losses)/gains	(59)	3,983
	(234,930)	(15,305)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

8. OPERATING (LOSS)/PROFIT

The Group's operating (loss)/profit is arrived at after charging:

	2015 HK$'000	2014 HK$'000
Costs of sales and services		
— Depreciation of lottery terminals	**118,219**	109,339
— Amortisation of intangible assets	**3,935**	330
— Business tax	**26,099**	48,647
— Cost of inventories recognised as expense	**96,740**	48,439
— Repairs and maintenance	**12,919**	7,738
— Commission and handling charges	**15,394**	86,764
— Others	**10,970**	7,648
	284,276	308,905
Operating lease rentals in respect of land and buildings	**16,939**	12,132
Auditors' remuneration	**950**	880
Amortisation of intangible assets	**3,263**	6,528
Depreciation of other items of property, plant and equipment	**12,311**	9,682

9. FINANCE COSTS

	2015 HK$'000	2014 HK$'000
Interest expenses on bank borrowings	**15,077**	22,940
Interest expenses on convertible bonds	**46,335**	32,660
	61,412	55,600

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

10. INCOME TAX EXPENSE

Hong Kong Profits Tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits for the year. No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2015 and 2014 as the Group had no assessable profits arising in or derived from Hong Kong for both years.

The applicable enterprise income tax rate for PRC subsidiaries are 25% (2014: 25%) except for subsidiaries which are qualified as High and New Technology Enterprises and would be entitled to enjoy a beneficial tax rate of 15% (2014: 15%).

	2015 HK$'000	2014 HK$'000
Current tax		
— PRC Enterprise Income Tax	**58,225**	88,540
— Adjustments in respect of prior years	**(8,057)**	(333)
Total current tax	**50,168**	88,207
Deferred tax *(Note 31)*		
— Origination and reversal of temporary differences	**(4,162)**	5,226
Income tax expense	**46,006**	93,433

The tax on the Group's (loss)/profit before income tax differs from the theoretical amount that would arise using the Hong Kong Profits Tax rate as follows:

	2015 HK$'000	2014 HK$'000
(Loss)/Profit before income tax	**(370,124)**	435,752
Tax calculated at 16.5%	**(61,070)**	71,899
Income not subject to tax	**(1,830)**	(5,029)
Expenses not deductible for tax purposes	**87,125**	18,654
Tax losses which no deferred income tax asset recognised	**14,315**	1,985
Utilisation of previously unrecognised tax losses	**(2,930)**	(2,370)
Adjustments in respect of prior years	**(8,057)**	(333)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**22,444**	9,975
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(3,991)**	(1,348)
Tax charge	**46,006**	93,433

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

11. (LOSS)/EARNINGS PER SHARE

(a) Basic

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2015	2014
(Loss)/Profit attributable to owners of the Company *(HK$'000)*	**(497,654)**	100,010
Weighted average number of ordinary shares in issue	**8,501,842,949**	7,856,192,688
Basic (loss)/earnings per share	**(5.85) HK cents**	1.27 HK cents

(b) Diluted

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

	2015	2014
(Loss)/Profit attributable to owners of the Company *(HK$'000)*	**(497,654)**	100,010
Weighted average number of ordinary shares in issue	**8,501,842,949**	7,856,192,688
Effect of dilutive potential ordinary shares:		
— Share options	**–**	147,787,262
Weighted average number of ordinary shares for diluted (loss)/earnings per share	**8,501,842,949**	8,003,979,950
Diluted (loss)/earnings per share	**(5.85) HK cents**	1.25 HK cents

The computation of diluted loss per share for the year ended 31 December 2015 did not assume the conversion of the convertible bonds and the exercise of the share options since their conversion and exercise would result in a decrease in loss per share.

The computation of diluted earnings per share for the year ended 31 December 2014 did not assume the conversion of the convertible bonds since their conversion would result in an increase in earnings per share. In addition, the computation of diluted earnings per share for the year ended 31 December 2014 did not assume the exercise of the option granted by the Company to a wholly owned subsidiary of Tencent Holdings Limited because the exercise price of that option was higher than the average market price for shares.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

12. STAFF COSTS

Staff costs (including directors' emoluments) comprise:

	2015 HK$'000	2014 HK$'000
Wages and salaries	131,621	109,641
Employee share option benefits	10,865	6,131
Social security costs	7,119	6,772
Pension costs – defined contribution plans	932	870
Other staff welfare	4,241	3,937
	154,778	127,351

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year included four (2014: three) directors of the Company, whose emoluments are set out in Note 13. The emoluments payable to the remaining one (2014: two) non-director and non-chief executive highest paid individual during the year are as follows:

	2015 HK$'000	2014 HK$'000
Basic salaries, other allowances and benefits in kind	6,240	8,949
Discretionary bonuses	530	840
Employer's contributions to pension schemes	17	142
	6,787	9,931

The emoluments fell within the following bands:

	Number of individuals	
	2015	2014
Emolument bands		
HK$3,000,001 – HK$3,500,000	–	1
HK$6,500,001 – HK$7,000,000	1	1

No emoluments were paid by the Group to the non-director and non-chief executive highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office during the year (2014: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

13. BENEFITS AND INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive of the Company for the year ended 31 December 2015 is set out below:

Name of director	Fees HK$'000	Salaries and allowance HK$'000	Discretionary bonuses HK$'000	Employee share option benefits HK$'000	Employer's contributions to pension scheme HK$'000	Total HK$'000
Executive directors						
Ms. Lau Ting	–	8,884	2,700	–	419	12,003
Mr. Wu Jingwei	–	5,834	2,640	983	18	9,475
Ms. Chan Tan Na, Donna	–	4,698	151	983	18	5,850
Mr. Li Zi Kui	–	2,354	38	491	18	2,901
Non-executive director						
Mr. Hoong Cheong Thard	413	–	–	10	–	423
Independent non-executive directors						
Mr. Huang Shenglan	367	–	–	10	–	377
Mr. Chan Ming Fai	342	–	–	10	–	352
Mr. Cui Shuming	336	–	–	10	–	346
	1,458	21,770	5,529	2,497	473	31,727

The remuneration of every director and the chief executive of the Company for the year ended 31 December 2014 is set out below:

Name of director	Fees HK$'000	Salaries and allowance HK$'000	Discretionary bonuses HK$'000	Employee share option benefits HK$'000	Employer's contributions to pension scheme HK$'000	Total HK$'000
Executive directors						
Ms. Lau Ting	–	8,290	2,780	25	395	11,490
Mr. Wu Jingwei	–	5,199	2,670	624	17	8,510
Ms. Chan Tan Na, Donna	–	4,391	2,599	595	17	7,602
Mr. Li Zi Kui	–	1,786	–	280	17	2,083
Non-executive director						
Mr. Hoong Cheong Thard	553	–	119	23	–	695
Independent non-executive directors						
Mr. Huang Shenglan	455	–	105	23	–	583
Mr. Chan Ming Fai	341	–	112	23	–	476
Mr. Cui Shuming	313	–	116	23	–	452
	1,662	19,666	8,501	1,616	446	31,891

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

13. BENEFITS AND INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE *(Cont'd)*

(a) Directors' and chief executive's emoluments *(Cont'd)*

Ms. Lau Ting is also the chief executive of the Company and her emoluments disclosed above include those for services rendered by her as the chief executive.

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The non-executive director's emoluments and the independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

Neither the chief executive nor any of directors of the Company waived or agreed to waive any emoluments in the years ended 31 December 2015 and 2014.

No emoluments were paid by the Group to the directors and the chief executive as an inducement to join or upon joining the Group, or as compensation for loss of office during the year (2014: Nil).

During the year ended 31 December 2014, 25,400,000 share options were granted to certain directors of the Company (including the chief executive) under the Company's share option scheme.

(b) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate and connected entities

The information about loans, quasi-loans and other dealings entered into by the Company or subsidiary undertaking of the Company, where applicable, in favour of certain connected entities of Ms. Lau Ting, a director of the Company, is set out in Note 25.

14. DIVIDENDS

The dividends paid in 2015 and 2014 were approximately HK$21,317,000 (0.25 HK cent per share) and HK$18,539,000 (0.24 HK cent per share) respectively.

The Board does not recommend the payment of a dividend for the year ended 31 December 2015 (2014: final dividend of 0.25 HK cent per share).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land held for own use under finance lease HK$'000	Buildings HK$'000	Lottery terminals leased to third parties under operating leases HK$'000	Lottery terminals under construction HK$'000	Leasehold improvement HK$'000	Plant and equipment HK$'000	Computer equipment and software HK$'000	Office equipment and furniture HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2014										
Cost	171,995	13,380	670,930	39,955	9,280	16,374	15,048	6,113	7,575	950,650
Accumulated depreciation	(10,578)	(1,143)	(269,956)	–	(8,365)	(6,695)	(11,269)	(3,948)	(3,585)	(315,539)
Net book amount	161,417	12,237	400,974	39,955	915	9,679	3,779	2,165	3,990	635,111
Year ended 31 December 2014										
Opening net book amount	161,417	12,237	400,974	39,955	915	9,679	3,779	2,165	3,990	635,111
Exchange differences	–	(19)	(8,629)	(997)	(13)	(209)	(70)	(25)	(66)	(10,028)
Acquisition of a subsidiary	–	–	–	–	–	–	4,505	–	–	4,505
Additions	–	–	–	129,332	2,230	6,992	9,009	4,702	1,883	154,148
Transfers	–	–	127,314	(127,397)	–	–	83	–	–	–
Disposals	–	–	(452)	–	–	–	(159)	(21)	(982)	(1,614)
Disposal of a subsidiary	–	–	–	–	–	–	(17)	–	–	(17)
Depreciation	(3,235)	(357)	(109,339)	–	(621)	(2,601)	(1,917)	(1,162)	(1,115)	(120,347)
Closing net book amount	158,182	11,861	409,868	40,893	2,511	13,861	15,213	5,659	3,710	661,758
At 31 December 2014										
Cost	171,995	13,355	780,100	40,893	11,392	22,958	25,313	10,323	8,295	1,084,624
Accumulated depreciation	(13,813)	(1,494)	(370,232)	–	(8,881)	(9,097)	(10,100)	(4,664)	(4,585)	(422,866)
Net book Amount	158,182	11,861	409,868	40,893	2,511	13,861	15,213	5,659	3,710	661,758
Year ended 31 December 2015										
Opening net book amount	158,182	11,861	409,868	40,893	2,511	13,861	15,213	5,659	3,710	661,758
Exchange differences	–	(30)	(14,767)	(1,757)	(83)	(520)	(391)	(196)	(157)	(17,901)
Additions	–	–	1,814	156,997	155	4,454	5,104	79	4,384	172,987
Transfers	–	–	198,652	(194,286)	–	–	(4,366)	–	–	–
Transfer to inventories	–	–	(14,711)	–	–	–	–	–	–	(14,711)
Disposals	–	–	–	–	–	–	(142)	(6)	(832)	(980)
Depreciation	(3,235)	(355)	(118,219)	–	(1,050)	(3,457)	(3,100)	(1,353)	(1,416)	(132,185)
Closing net book amount	154,947	11,476	462,637	1,847	1,533	14,338	12,318	4,183	5,689	668,968
At 31 December 2015										
Cost	171,995	13,313	731,799	1,847	11,136	26,427	23,951	10,003	10,025	1,000,496
Accumulated depreciation	(17,048)	(1,837)	(269,162)	–	(9,603)	(12,089)	(11,633)	(5,820)	(4,336)	(331,528)
Net book Amount	154,947	11,476	462,637	1,847	1,533	14,338	12,318	4,183	5,689	668,968

Notes:

(i) Depreciation of lottery terminals leased to third parties under operating leases of approximately HK$118,219,000 (2014: HK$109,339,000) has been charged in costs of sales and services. Depreciation of other items of property, plant and equipment of approximately HK$1,655,000 (2014: HK$1,326,000) has been capitalised in lottery terminals under construction and of approximately HK$12,311,000 (2014: HK$9,682,000) has been charged in general and administrative expenses.

(ii) At 31 December 2015, the Group's leasehold land and buildings with a carrying amount of approximately HK$165,767,000 (2014: HK$169,310,000) was pledged to secure bank borrowings granted to the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

16. INTANGIBLE ASSETS

	Goodwill HK$'000	CLO Contract HK$'000	Internally generated development costs HK$'000	Intellectual properties HK$'000	Total HK$'000
At 1 January 2014					
Cost	1,178,373	60,382	102,353	–	1,341,108
Accumulated amortisation and impairment	(854,725)	(50,591)	–	–	(905,316)
Net book amount	323,648	9,791	102,353	–	435,792
Year ended 31 December 2014					
Opening net book amount	323,648	9,791	102,353	–	435,792
Exchange difference	(1,059)	–	(1,597)	(515)	(3,171)
Acquisition of a subsidiary	38,620	–	–	50,314	88,934
Additions	–	–	34,420	6,313	40,733
Amortisation charge	–	(6,528)	–	(330)	(6,858)
Closing net book amount	361,209	3,263	135,176	55,782	555,430
At 31 December 2014					
Cost	1,201,209	60,382	135,176	56,110	1,452,877
Accumulated amortisation and impairment	(840,000)	(57,119)	–	(328)	(897,447)
Net book amount	361,209	3,263	135,176	55,782	555,430
Year ended 31 December 2015					
Opening net book amount	**361,209**	**3,263**	**135,176**	**55,782**	**555,430**
Exchange difference	**(1,729)**	**–**	**(3,656)**	**(2,242)**	**(7,627)**
Additions	**–**	**–**	**30,635**	**–**	**30,635**
Amortisation charge	**–**	**(3,263)**	**–**	**(3,935)**	**(7,198)**
Impairment	**(122,904)**	**–**	**–**	**–**	**(122,904)**
Closing net book amount	**236,576**	**–**	**162,155**	**49,605**	**448,336**
At 31 December 2015					
Cost	**1,198,888**	**–**	**162,155**	**53,699**	**1,414,742**
Accumulated amortisation and impairment	**(962,312)**	**–**	**–**	**(4,094)**	**(966,406)**
Net book amount	**236,576**	**–**	**162,155**	**49,605**	**448,336**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

16. INTANGIBLE ASSETS *(Cont'd)*

Notes:

(i) Amortisation of approximately HK$3,935,000 (2014: HK$330,000) and HK$3,263,000 (2014: HK$6,528,000) are included in "costs of sales and services" and "general and administrative expenses" respectively.

(ii) Internally generated development costs include all direct costs incurred in the setting up and development of systems and networks. The development costs for systems and networks are not yet implemented for intended use.

(iii) Impairment tests for goodwill

Goodwill is allocated to the CGU as follows:

	2015 HK$'000	2014 HK$'000
Provision of video lottery terminals ("VLT")	**–**	95,319
Provision of traditional computer lottery system and equipment	**199,403**	199,403
Provision of sales platform for high frequency lottery games	**–**	15,887
Provision of new media sales and marketing platform in telecom value-added business chain	**–**	12,317
Development of lottery transaction and management systems	**37,173**	38,283
	236,576	361,209

The recoverable amounts of the CGUs are determined based on a value-in-use calculation.

(a) Provision of VLT

The Company through its subsidiary, 東莞天意電子有限公司 ("天意公司") is principally engaged in the provision of VLT. 天意公司 entered into a contract ("CLO Contract") with Beijing China Lottery Online Technology Company Limited ("CLO"), pursuant to which 天意公司 provides CLO with VLT on an exclusive basis in the PRC. In consideration for the provision of VLT by 天意公司, CLO has agreed to pay to 天意公司 a service fee of 2% (inclusive of a maintenance fee of 0.4%) of the total revenue generated from the VLT sales system of CLO in the PRC. On 5 June 2012, 天意公司 entered into a supplementary agreement with CLO, pursuant to which both parties agreed to revise the service fee from 2% to 1.7% with effect from 1 January 2012.

The CLO Contract expired on 28 June 2015. 天意公司 continued to provide CLO with VLT after the expiry of the CLO Contract. At 31 December 2015, subject to the terms to be finalised, 天意公司 has not yet received any compensation for its provision of VLT after the expiry of the CLO Contract. Given the uncertainty, the Group's business performance relating to the provision of VLT has been adversely affected. The recoverable amount of goodwill allocated to this CGU has been reassessed and an impairment loss of approximately HK$95,319,000 (2014: Nil) was recognised during the year ended 31 December 2015.

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the average number of VLT connected and the daily turnover of each VLT during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 14.12% (2014: 16.08%), which reflects the specific risks relating to this CGU.

(b) Provision of traditional computer lottery system and equipment

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the budgeted turnover and expenses during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 14.12% (2014: 16.01%), which reflects the specific risks relating to this CGU. No impairment loss was recognised in respect of goodwill allocated to this CGU for the year ended 31 December 2015 as the recoverable amount of this CGU exceeded its carrying amount (2014: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

16. INTANGIBLE ASSETS *(Cont'd)*

Notes: (Cont'd)

(iii) Impairment tests for goodwill (Cont'd)

(c) *Provision of sales platform for high frequency lottery games*

During the year, eight PRC Government ministries called for a full suspension of online lottery sales. The Group's business performance relating to the provision of sales platform for high frequency lottery games has been adversely affected. The recoverable amount of goodwill allocated to this CGU has been reassessed and an impairment loss of approximately HK$15,538,000 (2014: Nil) was recognised during the year ended 31 December 2015.

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the budgeted turnover and expenses during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 14.12% (2014: 16.08%), which reflects the specific risks relating to this CGU.

(d) *Provision of new media sales and marketing platform in telecom value-added business chain*

The suspension of online lottery sales had impact on new media lottery operations via mobile phone and the internet. The recoverable amount of goodwill allocated to this CGU has been reassessed and an impairment loss of approximately HK$12,047,000 (2014: Nil) was recognised during the year ended 31 December 2015.

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the budgeted turnover and expenses during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 15.85% (2014: 18.08%), which reflects the specific risks relating to this CGU.

(e) *Development of lottery transaction and management systems*

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the budgeted turnover and expenses during each of the forecasting periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 14.12% (2014: 16.01%), which reflects the specific risks relating to this CGU. No impairment loss was recognised in respect of goodwill allocated to this CGU for the year ended 31 December 2015 as the recoverable amount of this CGU exceeded its carrying amount (2014: Nil).

(iv) Impairment test for development costs

The recoverable amount of development costs is based on a value-in-use calculation. The value-in-use calculation uses pre-tax cash flow projections approved by management covering a 5-year period. The key assumptions used for the cash flow projections included the budgeted revenue and expenses during each of the forecasting periods, which are determined by management based on its expectation of market development. All cash flows are discounted at a discount rate of 14.12% (2014: 16.08%). No impairment loss was recognised in respect of development costs for the year ended 31 December 2015 as the recoverable amount exceeded the carrying amount (2014: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

17. SUBSIDIARIES

The following is a list of the principal subsidiaries at the end of the reporting period:

Name	Place of incorporation/ establishment, Kind of legal entity *(Note (xi))*	Particulars of issued share capital/ registered capital	Interest held 2015	Interest held 2014	Principal activities
Held directly:					
China LotSynergy Limited	British Virgin Islands, Limited liability company	US$100	100%	100%	Investment holding
Flynn Technology Limited	British Virgin Islands, Limited liability company	US$1,000	100%	100%	Investment holding
Onwealth Holdings Limited	British Virgin Islands, Limited liability company	US$1	100%	100%	Investment holding
Held indirectly:					
Champ Mark Investments Limited	British Virgin Islands, Limited liability company	3,600 issued shares of no par value	100%	100%	Investment holding
Champ Technology Limited	Hong Kong, Limited liability company	HK$1	100%	100%	Investment holding
China LotSynergy Limited	Hong Kong, Limited liability company	US$500,000	100%	100%	Investment holding and provision of management service
China LotSynergy Asset Management Limited	Hong Kong, Limited liability company	US$2	100%	100%	Investment holding and treasury management
China LotSynergy Development Limited	Hong Kong, Limited liability company	HK$1	100%	100%	Investment holding
China LotSynergy Group Limited	Hong Kong, Limited liability company	HK$1	100%	100%	Investment holding
Corich International Limited ("Corich")	British Virgin Islands, Limited liability company	US$2,000,000	50% *(Note (xii))*	50% *(Note (xii))*	Investment holding
East Grand Enterprises Limited	Hong Kong, Limited liability company	HK$1	50% *(Note (xii))*	50% *(Note (xii))*	Investment holding
Goldwide Limited	Hong Kong, Limited liability company	HK$1	100%	100%	Investment holding
Lottnal Holdings Limited	Hong Kong, Limited liability company	US$350,000	80%	80%	Investment holding

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

17. SUBSIDIARIES *(Cont'd)*

Name	Place of incorporation/ establishment, Kind of legal entity *(Note (xi))*	Particulars of issued share capital/ registered capital	Interest held 2015	2014	Principal activities
Held indirectly: (Cont'd)					
Upmax Investments Limited	British Virgin Islands, Limited liability company	US$1	**100%**	100%	Investment holding
Willstrong Investments Limited	British Virgin Islands, Limited liability company	US$1	**80%**	80%	Provision of lottery system and equipment
天意公司 *(Note (i))*	PRC, Wholly foreign owned enterprise	HK$8,000,000	**50% *(Note (xii))***	50% *(Note (xii))*	Provision of VLT
北京靈彩科技有限公司 ("北京靈彩") *(Note (ii))*	PRC, Wholly foreign owned enterprise	HK$1,200,000	**50% *(Note (xii))***	50% *(Note (xii))*	Research and development of lottery system and equipment in the PRC
廣州洛圖終瑞技術有限公司 (Guangzhou Lottnal Terminal Company Limited) ("GZL") *(Note (iii))*	PRC, Wholly foreign owned enterprise	RMB20,274,063	**80%**	80%	Research and development and manufacturing of lottery ticket scanners and terminal equipment in the PRC and overseas
廣州市三環永新科技有限公司 (Guangzhou San Huan Yong Xin Technology Company Limited) ("GZSH") *(Note (iv))*	PRC,Sino-foreign equity joint venture enterprise	RMB10,000,000	**80%**	80%	Provision of lottery system and equipment in the PRC
北京優昌源科技有限公司 ("優昌源") *(Note (v))*	PRC, Wholly foreign owned enterprise	HK$10,000,000	**75%**	75%	Research and development of lottery system and equipment in the PRC
北京中大彩訊科技有限公司 ("中大彩訊") *(Note (vi))*	PRC, Wholly foreign owned enterprise	HK$10,000,000	**75%**	75%	Research and development of lottery system and equipment in the PRC

Notes to the Consolidated Financial Statements
For the year ended 31 December 2015

17. SUBSIDIARIES *(Cont'd)*

Name	Place of incorporation/ establishment, Kind of legal entity *(Note (xi))*	Particulars of issued share capital/ registered capital	Interest held 2015	2014	Principal activities
Held indirectly: (Cont'd)					
北京華彩贏通科技有限公司 ("華彩贏通") *(Note (vii))*	PRC, Limited liability company	RMB50,000,000	75%	75%	Research and development of lottery system and equipment in the PRC
北京贏彩通科技有限公司 ("贏彩通") *(Note (viii))*	PRC, Limited liability company	RMB5,000,000	75%	75%	Research and development of lottery system and equipment in the PRC
成都華彩贏通科技有限公司 ("成都華彩") *(Note (ix))*	PRC, Limited liability company	RMB1,000,000	75%	75%	Research and development of lottery system and equipment in the PRC
重慶拓扣網絡科技有限公司 ("重慶拓扣") *(Note (ix))*	PRC, Limited liability company	RMB1,665,000	52.5%	52.5%	Research and development and operation of sales platform for high frequency lottery in the PRC
廣州頂尚信息科技有限公司 ("廣州頂尚") *(Note (ix))*	PRC, Limited liability company	RMB10,000,000	52.5%	52.5%	Provision of new media sales and marketing platform in telecom value-added business chain in the PRC
廣州市射頻通訊咨詢有限公司 ("廣州射頻") *(Note (ix))*	PRC, Limited liability company	RMB1,000,000	52.5%	52.5%	Provision of new media sales and marketing platform in telecom value-added business chain in the PRC

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

17. SUBSIDIARIES *(Cont'd)*

Name	Place of incorporation/ establishment, Kind of legal entity *(Note (xi))*	Particulars of issued share capital/ registered capital	Interest held 2015	2014	Principal activities
Held indirectly: (Cont'd)					
廣州千訊信息科技有限公司 ("廣州千訊") *(Note (ix))*	PRC, Limited liability company	RMB1,000,000	52.5%	52.5%	Provision of new media sales and marketing platform in telecom value-added business chain in the PRC
廣州市天轅信息科技有限公司 ("廣州天轅") *(Note (ix))*	PRC, Limited liability company	RMB3,000,000	52.5%	52.5%	Provision of new media sales and marketing platform in telecom value-added business chain in the PRC
廣州博富電子科技有限公司 ("廣州博富") *(Note (ix))*	PRC, Limited liability company	RMB1,000,000	52.5%	52.5%	Provision of new media sales and marketing platform in telecom value-added business chain in the PRC
北京貝英斯數碼技術有限公司 (Beijing Bestinfo Cyber Technology Co., Ltd) ("Bestinfo") *(Note (x))*	PRC, Limited liability company	RMB5,000,000	100%	100%	Development of lottery transaction and management systems

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

17. SUBSIDIARIES *(Cont'd)*

Notes:

(i) 天意公司 is a wholly foreign owned enterprise established in the PRC to be operated for a period of 15 years up to 2018.

(ii) 北京靈彩 is a wholly foreign owned enterprise established in the PRC to be operated for a period of 50 years up to 2057.

(iii) GZL is a wholly foreign owned enterprise established in the PRC to be operated for a period of 20 years up to 2020.

(iv) GZSH is a sino-foreign equity joint venture established in the PRC to be operated for a period of 20 years up to 2027.

(v) 優昌源 is a wholly foreign owned enterprise established in the PRC to be operated for a period of 50 years up to 2057.

(vi) 中大彩訊 is a wholly foreign owned enterprise established in the PRC to be operated for a period of 50 years up to 2057.

(vii) 華彩贏通 is a limited liability company established in the PRC to be operated for a period of 20 years up to 2028. The equity interest is held by individual nominees on behalf of the Group.

(viii) 贏彩通 is a limited liability company established in the PRC to be operated for a period of 20 years up to 2030. The equity interest is held by individual nominees on behalf of the Group.

(ix) These companies are limited liability companies established in the PRC to be operated for an infinite period. The equity interests are held by individual nominees on behalf of the Group.

(x) Bestinfo is a limited liability company established in the PRC to be operated for a period of 20 years up to 2021.

(xi) The subsidiaries operate principally in their respective places of incorporation/establishment.

(xii) These companies are consolidated by the Group as the Group owns more than one half of the voting rights in the board of directors of these companies.

The above table lists the subsidiaries of the Group which, in the opinion of the Board, principally affected the results for the year or formed a substantial portion of net assets of the Group. To give details of other subsidiaries would, in the opinion of the Board, result in particulars of excessive length.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

17. SUBSIDIARIES *(Cont'd)*

(a) Material non-controlling interests

The total non-controlling interest for the period approximately HK$505,610,000 (2014: HK$444,076,000), of which approximately HK$510,196,000 (2014: HK$429,991,000) is for Corich. The remaining non-controlling interests are not material.

Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarised financial information for Corich:

Summarised statement of financial position

	Corich	
	2015	2014
	HK$'000	HK$'000
Current		
Assets	**940,724**	1,070,151
Liabilities	**(297,174)**	(684,430)
Total current net assets	**643,550**	385,721
Non-current		
Assets	**356,171**	451,741
Liabilities	**(51,473)**	(54,401)
Total non-current net assets	**304,698**	397,340
Net assets	**948,248**	783,061

Summarised statement of profit or loss and other comprehensive income

	Corich	
	2015	2014
	HK$'000	HK$'000
Revenue	**434,705**	810,212
Profit before income tax	**245,116**	516,159
Income tax expense	**(43,993)**	(92,385)
Profit for the year	**201,123**	423,774
Other comprehensive expense	**(35,936)**	(16,187)
Total comprehensive income for the year	**165,187**	407,587
Profit allocated to non-controlling interests	**98,366**	236,749
Dividends paid to non-controlling interests	**–**	45,782

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

17. SUBSIDIARIES *(Cont'd)*

(a) Material non-controlling interests *(Cont'd)*

Summarised cash flows

	Corich	
	2015	2014
	HK$'000	HK$'000
Cash flows from operating activities		
Cash generated from operations	**502,135**	235,190
Income tax paid	**(80,643)**	(84,733)
Net cash generated from operating activities	**421,492**	150,457
Net cash generated from/(used in) investing activities	**193,468**	(26,008)
Net cash used in financing activities	**(384,479)**	(123,441)
Net increase in cash and cash equivalents	**230,481**	1,008
Cash and cash equivalents at beginning of year	**164,546**	167,723
Effect of foreign exchange rate changes	**(8,680)**	(4,185)
Cash and cash equivalents at end of year	**386,347**	164,546

The information above is the amount before inter-company eliminations.

(b) Significant restrictions

Cash and short-term deposits of approximately HK$612,279,536 (2014: HK$733,611,000) are held in the PRC and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

(c) Aggregate financial information of subsidiaries in which the equity interest are held by individual nominees on behalf of the Group

	2015	2014
	HK$'000	HK$'000
Revenue	**63,435**	146,583
Profit for the year	**834**	47,524
Net assets	**32,651**	95,608

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

18. INVESTMENT IN AN ASSOCIATE

	2015 HK$'000	2014 HK$'000
At 1 January	–	–
Addition	4,876	–
Share of loss	(7)	–
Exchange differences	(105)	–
At 31 December	4,764	–

Particulars of the associate of the Group at the end of the reporting period are as follows:

Name	Particulars of registered capital	Place of business/ establishment	Interest held 2015	Interest held 2014	Principal activity	Measurement method
深圳市前海華彩金控科技有限公司 ("前海華彩")	RMB50,000,000	PRC	40%	–	Investment holding	Equity

The associate listed above is a private company and there is no quoted market price available for the investment.

Commitments in respect of the associate

The Group has the following commitment relating to its associate:

	2015 HK$'000	2014 HK$'000
Commitment to provide funding	19,099	–

Summarised financial information for the associate

Set out below are the summarised financial information for 前海華彩 which is accounted for using the equity method:

Summarised statement of financial position

	2015 HK$'000	2014 HK$'000
Current assets	11,927	–
Current liabilities	17	–
Net assets	11,910	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

18. INVESTMENT IN AN ASSOCIATE *(Cont'd)*

Summarised financial information for the associate *(Cont'd)*

Summarised statement of profit or loss and other comprehensive income

	2015 **HK$'000**	2014 HK$'000
Revenue	–	–
Loss from continuing operations	(17)	–
Income tax	–	–
Post-tax loss from continuing operations	(17)	–
Post-tax profit from discontinued operations	–	–
Other comprehensive expense	(263)	–
Total comprehensive expense	(280)	–
Dividends received from associate	–	–

The summarised financial information above represents amounts shown in the associate's financial statements prepared in accordance with HKFRS.

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in associate.

	2015 **HK$'000**	2014 HK$'000
Opening net assets	–	–
Capital contribution	12,190	–
Loss for the period	(17)	–
Other comprehensive expense	(263)	–
Closing net assets	11,910	–
Interest in associate @ 40%	4,764	–

Significant restrictions

Cash and short-term deposits of approximately HK$11,927,000 (2014: Nil) are held in the PRC and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

19. INVESTMENTS IN AND AMOUNTS DUE FROM/TO JOINT VENTURES

	2015 HK$'000	2014 HK$'000
At 1 January	**51,567**	95,705
Share of (losses)/profits	**(4,073)**	917
Impairment	**(13,367)**	–
Dividends received	**–**	(38,281)
Exchange differences	**(1,593)**	(6,774)
At 31 December	**32,534**	51,567

The amounts due from/to joint ventures are unsecured, interest-free and repayable on demand.

Particulars of the joint ventures of the Group at the end of the reporting period are as follows:

Name	Particulars of issued share capital	Place of business/ incorporation	Interest held **2015**	Interest held 2014	Principal activities	Measurement method
CLS-GTECH Company Limited ("CLS-GTECH")	US$25,689,900	PRC/British Virgin Islands	**50%**	50%	Development of nationwide unified platform for lottery operation in the PRC	Equity
IGT Synergy Holding Limited ("IGT Synergy")	HK$92,508,000	PRC/Cayman Islands	**–**	50%	Investment holding	Equity

The joint ventures listed above are private companies and there is no quoted market price available for their shares.

During the year, CLS-GTECH continued to be loss making. The Group therefore performed an impairment assessment on its investment in the joint venture and recognised an impairment loss of approximately HK$13,367,000 (2014: Nil) after taking into account the joint venture's business developments and financial performance. The recoverable amount of the joint venture has been determined on the basis of its value in use. The discount rate in measuring the amount of value in use is 14.12%.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

19. INVESTMENTS IN AND AMOUNTS DUE FROM/TO JOINT VENTURES *(Cont'd)*

Summarised financial information for joint ventures

Set out below are the summarised financial information for CLS-GTECH and IGT Synergy which are accounted for using the equity method:

Summarised statement of financial position

	CLS-GTECH		IGT Synergy	
	2015	2014	**2015**	2014
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current				
Cash and cash equivalents	**3,676**	7,324	**–**	–
Other current assets (excluding cash and cash equivalents)	**58,950**	59,082	**–**	112
Total current assets	**62,626**	66,406	**–**	112
Financial liabilities (excluding trade payables and provisions)	**26,044**	27,307	**–**	–
Other current liabilities (including trade payables and provisions)	**–**	–	**–**	–
Total current liabilities	**26,044**	27,307	**–**	–
Non-current				
Non-current assets	**29,733**	39,815	**–**	–
Financial liabilities	**–**	–	**–**	–
Other non-current liabilities	**–**	–	**–**	–
Total non-current liabilities	**–**	–	**–**	–
Net assets	**66,315**	78,914	**–**	112

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

19. INVESTMENTS IN AND AMOUNTS DUE FROM/TO JOINT VENTURES *(Cont'd)*

Summarised financial information for joint ventures *(Cont'd)*

Summarised statement of profit or loss and other comprehensive income

	CLS-GTECH		IGT Synergy	
	2015	2014	**2015**	2014
	HK$'000	HK$'000	**HK$'000**	HK$'000
Revenue	**249**	863	**–**	–
Depreciation and amortisation	**8,555**	8,860	**–**	–
Interest income	**2**	2	**–**	–
Interest expense	**–**	–	**–**	–
(Loss)/Profit from continuing operations	**(9,411)**	(10,156)	**(112)**	10,001
Income tax	**–**	–	**–**	–
Post-tax (loss)/profit from continuing operations	**(9,411)**	(10,156)	**(112)**	10,001
Post-tax profit from discontinued operations	**–**	–	**–**	–
Other comprehensive expense	**(3,188)**	(2,148)	**–**	(11,400)
Total comprehensive expense	**(12,599)**	(12,304)	**(112)**	(1,399)
Dividends received from joint ventures	**–**	–	**–**	38,281

The summarised financial information above represents amounts shown in the joint ventures' financial statements prepared in accordance with HKFRS.

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interests in CLS-GTECH and IGT Synergy.

	CLS-GTECH		IGT Synergy	
	2015	2014	**2015**	2014
	HK$'000	HK$'000	**HK$'000**	HK$'000
Opening net assets	**78,914**	91,218	**112**	78,073
(Loss)/Profit for the year	**(9,411)**	(10,156)	**(112)**	10,001
Other comprehensive expense	**(3,188)**	(2,148)	**–**	(11,400)
Dividends received	**–**	–	**–**	(76,562)
Closing net assets	**66,315**	78,914	**–**	112
Interests in joint ventures @ 50%	**33,158**	39,457	**–**	56
Goodwill	**–**	13,367	**–**	–
Unrealised gain on transaction between the Group and joint ventures	**(624)**	(1,313)	**–**	–
Carrying value	**32,534**	51,511	**–**	56

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

19. INVESTMENTS IN AND AMOUNTS DUE FROM/TO JOINT VENTURES *(Cont'd)*

Summarised financial information for joint ventures *(Cont'd)*

Significant restrictions

Cash and short-term deposits of approximately HK$420,000 (2014: HK$201,000) are held in the PRC and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

20. FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables HK$'000	Financial assets at fair value through profit or loss HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
2015				
Financial assets as per consolidated statement of financial position				
Available-for-sale financial assets	–	–	10,000	10,000
Accounts receivable	88,632	–	–	88,632
Deposits and other receivables	348,847	–	–	348,847
Financial assets at fair value through profit or loss	–	677,466	–	677,466
Cash and bank balances	792,637	–	–	792,637
	1,230,116	677,466	10,000	1,917,582

	Financial liabilities at amortised cost HK$'000
2015	
Financial liabilities as per consolidated statement of financial position	
Accounts and bills payable	16,489
Accruals and other payables	58,578
Amounts due to joint ventures	6,766
Bank borrowings	583,038
Convertible bonds	602,156
	1,267,027

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

20. FINANCIAL INSTRUMENTS BY CATEGORY *(Cont'd)*

	Loans and receivables HK$'000	Financial assets at fair value through profit or loss HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
2014				
Financial assets as per consolidated statement of financial position				
Available-for-sale financial assets	–	–	35,161	35,161
Accounts receivable	301,007	–	–	301,007
Deposits and other receivables	401,362	–	–	401,362
Amounts due from joint ventures	337	–	–	337
Amount due from a related company	21,564	–	–	21,564
Financial assets at fair value through profit or loss	–	876,245	–	876,245
Cash and bank balances	907,930	–	–	907,930
	1,632,200	876,245	35,161	2,543,606

	Financial liabilities at amortised cost HK$'000
2014	
Financial liabilities as per consolidated statement of financial position	
Accounts and bills payable	41,513
Accruals and other payables	65,295
Amounts due to joint ventures	5,969
Bank borrowings	911,213
Convertible bonds	588,321
	1,612,311

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2015 HK$'000	2014 HK$'000
At 1 January	**35,161**	35,538
Disposals	**(22,351)**	–
Net loss transferred to equity	**(2,810)**	(377)
At 31 December	**10,000**	35,161

Available-for-sale financial assets including the following:

	2015 HK$'000	2014 HK$'000
Unlisted fund investments, at fair value	**10,000**	35,161

The fair value of the unlisted fund investments is determined based on net asset value of the relevant fund investments.

Available-for-sale financial assets are denominated in US$.

22. INVENTORIES

	2015 HK$'000	2014 HK$'000
Raw materials	**22,623**	17,382
Work in progress	**5,475**	23,400
Finished goods	**31,844**	14,868
	59,942	55,650
Provision	**(1,426)**	(1,490)
	58,516	54,160

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

23. ACCOUNTS RECEIVABLE

Income from provision of lottery terminals and lottery sales channels is billed on a monthly basis and is due 15 to 30 days after month-end. Income from sales of equipment is billed upon the delivery of products and with credit periods ranging from 30 to 180 days. Income from provision of consultancy services is billed on a monthly or yearly basis and is due 30 days after the invoice date. The ageing analysis of the accounts receivable at the end of the reporting period, based on invoice date, is as follows:

	2015 HK$'000	2014 HK$'000
Less than three months	**14,771**	230,304
Over three months but less than one year	**73,050**	69,333
Over one year	**811**	1,370
	88,632	301,007

At 31 December 2015, accounts receivables of approximately HK$74,300,000 (2014: HK$214,109,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these accounts receivables is as follows:

	2015 HK$'000	2014 HK$'000
Less than three months	**2,072**	212,739
Over three months but less than one year	**71,417**	–
Over one year	**811**	1,370
	74,300	214,109

At 31 December 2014, accounts receivable of approximately HK$284,004,000 were pledged to secure bank borrowings granted to the Group.

The carrying amounts of the Group's accounts receivable are denominated in RMB.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in the Group's prepayments, deposits and other receivables at 31 December 2015 are loans receivables of approximately HK$193,271,000 (2014: HK$223,596,000), which are unsecured and repayment on demand. Except for an amount of approximately HK$161,994,000 (2014: HK$212,405,000) which bears interest ranging from 2% to 8% (2014: 2% to 10%) per annum, the remaining loan receivables are interest-free.

25. AMOUNT DUE FROM A RELATED COMPANY

The balance represented an amount due from a subsidiary of Burwill Holdings Limited, a company in which Ms. Lau Ting, the director of the Company has beneficial interests. The amount due was unsecured, interest-free and repayable on demand. The outstanding amount at the beginning of the year and the maximum amount outstanding during the year were approximately HK$21,564,000 (2014: HK$21,564,000). The carrying amount of HK$21,564,000 (2014: Nil) was impaired during the year as the amount was not recoverable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015 HK$'000	2014 HK$'000
Listed debt securities		
— in Hong Kong	185,315	98,419
— outside Hong Kong	135,432	355,750
Listed equity securities		
— in Hong Kong	38,482	13,909
— outside Hong Kong	267,845	255,671
Unlisted fund investments	50,392	152,496
	677,466	876,245

Changes in fair values of financial assets at fair value through profit or loss are recorded in "other losses — net" in the consolidated statement of profit or loss.

The fair value of listed securities is based on their current bid prices in an active market.

The fair value of the unlisted fund investments is determined based on net asset value of the relevant fund investments.

At 31 December 2015, listed securities of approximately HK$635,060,000 (2014: HK$298,537,000) were pledged to secure bank borrowings and banking facilities granted to the Group.

27. CASH AND BANK BALANCES

	2015 HK$'000	2014 HK$'000
Cash and bank balances	533,149	344,220
Time deposits	259,488	563,710
	792,637	907,930
Less: Pledged time deposits with maturity of more than three months	(252,983)	(488,778)
Pledged bank deposits	(22,537)	(11,907)
Cash and cash equivalents	517,117	407,245

At 31 December 2015, the Group had cash and bank balances of approximately HK$705,708,000 (2014: HK$733,611,000) which were denominated in RMB. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

At 31 December 2015, deposits of approximately HK$275,520,000 (2014: HK$500,685,000) were pledged to secure bank borrowings and banking facilities granted to the Group.

The bank balances are deposited with creditworthy financial institutions with no recent history of default.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

28. ACCOUNTS AND BILLS PAYABLE

The ageing analysis of the accounts and bills payable at the end of the reporting period, based on invoice date, is as follows:

	2015 HK$'000	2014 HK$'000
Less than three months	15,465	33,865
Over three months but less than one year	886	7,530
Over one year	138	118
	16,489	41,513

The carrying amounts of the Group's accounts payable are denominated in RMB.

29. BANK BORROWINGS

	2015 HK$'000	2014 HK$'000
Current		
Portion of term loans from bank due for repayment within one year	496,295	561,752
Portion of term loans from bank due for repayment after one year which contain a repayment on demand clause	86,743	349,461
	583,038	911,213

At 31 December 2015, the Group's bank borrowings were due for repayment as follows:

	2015 HK$'000	2014 HK$'000
Portion of term loans due for repayment within one year	496,295	561,752
Term loans due for repayment after one year *(Note)*		
After one year but within two years	20,680	262,678
After two years but within five years	29,492	42,778
After five years	36,571	44,005
	86,743	349,461
	583,038	911,213

Note: The amounts due are based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause.

The bank borrowings carry interest at rates ranging from 0.98% to 2.96% (2014: 0.96% to 6.9%) per annum.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

29. BANK BORROWINGS *(Cont'd)*

The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

	2015 HK$'000	2014 HK$'000
HK$	**192,658**	134,255
US$	**390,380**	602,394
RMB	**–**	174,564
	583,038	911,213

At 31 December 2015, the Group's bank borrowings and banking facilities were secured by: (i) the Group's leasehold land and buildings with a carrying amount of approximately HK$165,767,000; (ii) standby letters of credit issued by bank for an aggregate amount of US$32,000,000; (iii) the Group's bank deposits amounting to approximately HK$275,520,000; and (iv) the Group's trading securities of approximately HK$635,060,000.

At 31 December 2014, the Group's bank borrowings and banking facilities were secured by: (i) the Group's leasehold land and buildings with a carrying amount of approximately HK$169,310,000; (ii) standby letters of credit issued by bank for an aggregate amount of US$59,000,000; (iii) the Group's accounts receivable of approximately HK$284,004,000; (iv) the Group's bank deposits amounting to approximately HK$500,685,000; and (v) the Group's trading securities of approximately HK$298,537,000.

30. CONVERTIBLE BONDS

On 8 April 2014, the Company entered into a subscription agreement (the "Subscription Agreement") to issue 5% convertible bonds due 2019 of up to an aggregate principal amount of HK$780,000,000. On 17 April 2014, the issue of the convertible bonds in the principal amount of HK$580,000,000 (the "Firm Bonds") was completed. On 2 May 2014, the issue of the convertible bonds in aggregate principal amount of HK$70,000,000 (the "Exercised Option Bonds", and together with the Firm Bonds, the "Bonds") was completed pursuant to an option under the Subscription Agreement being partially exercised before the closing date of the option, bringing the total issue size of the convertible bonds to HK$650,000,000 in principal amount.

The Bonds are denominated in HK$ and listed on the Stock Exchange. The Bonds entitle the holders to convert them into ordinary shares of the Company at any time on or after 28 May 2014 up to the close of business on the 7th day prior to 17 April 2019 (the "Maturity Date") at an initial conversion price of HK$0.93 per ordinary share (subject to adjustment). The conversion price of the Bonds was adjusted to HK$0.92 per share with effect from 6 June 2015.

If the Bonds have not been converted, they will be redeemed on Maturity Date at par. Interest of 5% will be payable semi-annually in arrear.

The Company will, at the option of the holder of any bond, redeem all or some of that holder's bonds on 17 April 2017, at the principal amount of the Bonds together with interest accrued.

The Company may at any time after 1 May 2017 redeem the Bonds, in whole or in part, at their principal amount together with any interest accrued but unpaid to the date fixed for redemption, provided that the closing price of the shares of the Company for 20 out of 30 consecutive trading days prior to the date upon which notice of such redemption is given was at least 130% of the conversion price then in effect.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

30. CONVERTIBLE BONDS *(Cont'd)*

The Company may at any time redeem the Bonds, in whole but not in part, at their principal amount together with any interest accrued but unpaid to the date fixed for redemption, if prior to the date of the notice at least 90% in principal amount of the Bonds originally issued has already been converted, redeemed or purchased and cancelled.

The Bonds contains two components, liability and equity elements. The equity element is presented in equity heading "convertible bond equity reserve". The effective interest rate of the liability component is approximately 7.59% per annum.

The movement of liability component of the Bonds for the year is set out below:

	2015 HK$'000	2014 HK$'000
At 1 January	**588,321**	–
Issue	**–**	578,682
Interest charge	**46,335**	32,660
Interest paid	**(32,500)**	(23,021)
At 31 December	**602,156**	588,321

The fair value of the liability component of the convertible bonds at 31 December 2015 amounted to approximately HK$560,515,000 (2014: HK$657,254,000). The fair value is determined based on the market price of these bonds on the reporting date.

31. DEFERRED INCOME TAX

The movement in deferred income tax assets and liabilities during the year is as follows:

Deferred income tax liabilities:

	Intangible assets HK$'000	**Convertible bonds HK$'000**	**Accelerated tax depreciation HK$'000**	**Withholding tax on dividend income HK$'000**	**Total HK$'000**
At 1 January 2014	2,448	–	10,062	37,660	50,170
Acquisition of a subsidiary	12,579	–	–	–	12,579
Charged to equity	–	11,767	–	–	11,767
(Credited)/Charged to profit or loss	(1,632)	(1,590)	8,666	406	5,850
Exchange difference	(110)	–	(305)	–	(415)
At 31 December 2014	**13,285**	**10,177**	**18,423**	**38,066**	**79,951**
(Credited)/Charged to profit or loss	**(1,542)**	**(2,283)**	**40**	**(405)**	**(4,190)**
Exchange difference	**(672)**	**–**	**(900)**	**–**	**(1,572)**
At 31 December 2015	**11,071**	**7,894**	**17,563**	**37,661**	**74,189**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

31. DEFERRED INCOME TAX *(Cont'd)*

Deferred income tax assets:

	Tax losses HK$'000
At 1 January 2014	8,401
Credited to profit or loss	623
Exchange difference	(217)
At 31 December 2014	**8,807**
Charged to profit or loss	**(28)**
Exchange difference	**(377)**
At 31 December 2015	**8,402**

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. At 31 December 2015, the Group did not recognise deferred income tax asset in respect of tax losses amounting to approximately HK$126,591,000 (2014: HK$70,236,000) that can be carried forward to offset against future taxable profits. Tax losses amounting to approximately HK$34,500,000 (2014: HK$39,202,000) will expire from 2016 to 2020 (2014: 2015 to 2019).

At 31 December 2015, deferred tax liabilities has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK$752,799,000 (2014: HK$593,216,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

32. SHARE CAPITAL

	Authorised ordinary shares of HK$0.0025 each	
	Number of shares	HK$'000
At 1 January 2014, 31 December 2014 and 31 December 2015	16,000,000,000	40,000

	Issued and fully paid ordinary shares of HK$0.0025 each	
	Number of shares	HK$'000
At 1 January 2014	7,606,872,820	19,017
Issue of new shares *(Note (i))*	594,034,513	1,485
Share options exercised *(Note (ii))*	351,100,000	878
Shares repurchased and cancelled *(Note (iii))*	(99,800,000)	(249)
At 31 December 2014	8,452,207,333	21,131
Share options exercised *(Note (iv))*	79,600,000	199
At 31 December 2015	**8,531,807,333**	**21,330**

Notes:

(i) Pursuant to a subscription agreement entered into between the Company and a wholly owned subsidiary of Tencent Holdings Limited (the "Subscriber") on 16 October 2014, the Subscriber has subscribed for an aggregate of 594,034,513 new shares of the Company at a subscription price of HK$0.75 per share, and the Company has also agreed to irrevocably and unconditionally grant the option to the Subscriber to subscribe for a further 273,140,969 new shares at the option price of HK$0.83 per share (subject to adjustments (if any)) during the period from 4 November 2014 to 3 November 2015.

(ii) Share options were exercised by optionholders during the year ended 31 December 2014 to subscribe for a total of 351,100,000 shares of HK$0.0025 each by payment of subscription monies of approximately HK$79,756,000, of which approximately HK$878,000 was credited to share capital and the balance of approximately HK$78,878,000 was credited to the share premium account.

(iii) During the year ended 31 December 2014, the Company repurchased its own shares on the Stock Exchange as follows:

Month of repurchase	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate consideration paid HK$'000
April 2014	49,800,000	0.58	0.52	27,514
December 2014	50,000,000	0.57	0.54	27,729
				55,243

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on the repurchase of the shares of approximately HK$54,994,000 was charged to the share premium account.

(iv) Share options were exercised by optionholders during the year ended 31 December 2015 to subscribe for a total of 79,600,000 shares of HK$0.0025 each by payment of subscription monies of approximately HK$34,485,000, of which approximately HK$199,000 was credited to share capital and the balance of approximately HK$34,286,000 was credited to the share premium account.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

33. SHARE OPTION SCHEMES

(a) Share option scheme adopted on 30 July 2002 (the "2002 Option Scheme")

At the annual general meeting of the Company held on 30 July 2002, the shareholders of the Company approved the adoption of the 2002 Option Scheme.

Under the 2002 Option Scheme, the Company may grant options to employees (including executive and non-executive directors) of the Group and other participants to subscribe for shares in the Company, subject to a maximum of 30% of the issued share capital of the Company from time to time excluding for this purpose shares issued on exercise of options. The subscription price will be determined by the Board and will not be less than the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of the grant of the option, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant of the option; and (iii) the nominal value of the shares. A nominal consideration at HK$1 is payable for each grant. Share options can be exercised within a period of not exceeding 10 years commencing on the date of grant or such later date as the Board may determine and expiring on the last day of the period.

(b) Share option scheme adopted on 18 May 2012 (the "2012 Option Scheme")

At the annual general meeting of the Company held on 18 May 2012, the shareholders of the Company approved the termination of 2002 Option Scheme and the adoption of 2012 Option Scheme.

Under the 2012 Option Scheme, the Company may grant options to employees (including executive and non-executive directors) of the Group and other participants to subscribe for shares in the Company. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2012 Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of issued shares from time to time.

The subscription price will be determined by the Board and will not be less than the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of the grant of the option, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant of the option; and (iii) the nominal value of the shares. A nominal consideration at HK$1 is payable for each grant. Share options can be exercised within a period of not exceeding 10 years commencing on the date of grant or such later date as the Board may determine and expiring on the last day of the period.

The purpose of the share option schemes is to provide incentives to employees (including executive and non-executive directors) and other eligible participants to contribute to the Group and to enable the Group to recruit high-calibre employees and attract resources that are value to the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

33. SHARE OPTION SCHEMES *(Cont'd)*

Movements in number of share options outstanding and their related weighted average exercise prices are as follows:

	2002 Option Scheme		2012 Option Scheme		Total
	Average exercise price (HK$ per share)	Options (thousands)	Average exercise price (HK$ per share)	Options (thousands)	Options (thousands)
At 1 January 2014	0.48	156,000	0.11	271,600	427,600
Granted	–	–	0.73	243,625	243,625
Exercised	0.47	(116,000)	0.11	(235,100)	(351,100)
Expired	0.79	(12,800)	–	–	(12,800)
At 31 December 2014	0.36	27,200	0.65	280,125	307,325
Exercisable at 31 December 2014	0.36	27,200	0.11	36,500	63,700
At 1 January 2015	**0.36**	**27,200**	**0.65**	**280,125**	**307,325**
Granted	**–**	**–**	**0.46**	**679,600**	**679,600**
Exercised	**0.50**	**(10,000)**	**0.42**	**(69,600)**	**(79,600)**
At 31 December 2015	**0.29**	**17,200**	**0.52**	**890,125**	**907,325**
Exercisable at 31 December 2015	**0.29**	**17,200**	**0.47**	**692,500**	**709,700**

Options exercised in 2015 resulted in 79,600,000 (2014: 351,100,000) shares being issued at a weighted average price of HK$0.43 (2014: HK$0.23) each. The related weighted average share price at the time of exercise was HK$0.68 (2014: HK$0.67) per share.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

33. SHARE OPTION SCHEMES *(Cont'd)*

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry date	Exercise price (HK$ per share)	Options (thousands) 2015	2014
2002 Option Scheme			
15 June 2015	0.500	–	10,000
30 June 2016	0.285	**17,200**	17,200
		17,200	27,200
2012 Option Scheme			
13 May 2015	0.109	–	5,000
13 May 2016	0.109	**11,500**	31,500
2 January 2017	0.600	**40,000**	–
10 July 2017	0.400	**170,000**	–
29 October 2017	0.460	**425,000**	–
14 July 2018	0.690	**186,025**	186,025
29 October 2018	0.840	**46,000**	46,000
29 October 2020	0.840	**11,600**	11,600
		890,125	280,125
		907,325	307,325

The fair value of the options granted to employees during the year ended 31 December 2014 was approximately HK$32,598,000, of which the Group recognised the share option expenses of approximately HK$4,980,000 during the year ended 31 December 2014.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

33. SHARE OPTION SCHEMES *(Cont'd)*

The fair value of the options granted to employees during the year ended 31 December 2014 was estimated as at the date of grant using the Black-Scholes pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Grant date	**14 July 2014**
Expiry date	**14 July 2018**
Risk-free interest rate (%)	0.97
Expected volatility (%)	64
Expected life of options (year)	3.5
Dividend yield (%)	1
Share price (HK$ per share)	0.69

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had a total of 907,325,000 (2014: 307,325,000) share options outstanding under the share option schemes. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 907,325,000 (2014: 307,325,000) additional ordinary shares of the Company and additional share capital of approximately HK$2,268,000 (2014: HK$768,000) and share premium of approximately HK$468,128,000 (2014: HK$189,853,000) (before issue expenses).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

34. RESERVES

	Share premium HK$'000	Convertible bond equity reserve HK$'000	Capital reserve HK$'000 (Note)	Currency translation reserve HK$'000	Share-based compensation reserve HK$'000	Revaluation reserve HK$'000	Available-for-sale investments HK$'000	Total HK$'000
At 1 January 2014	759,047	–	15,158	65,095	27,704	11,110	8,383	886,497
Issue of new shares	444,040	–	–	–	–	–	–	444,040
Recognition of equity component of convertible bonds	–	51,692	–	–	–	–	–	51,692
Deferred tax on recognition of equity component of convertible bonds	–	(11,767)	–	–	–	–	–	(11,767)
Share option scheme:								
— value of employee services	–	–	–	–	6,131	–	–	6,131
— value of other participants' services	–	–	–	–	6,247	–	–	6,247
— share options exercised	100,086	–	–	–	(21,208)	–	–	78,878
— vested share options expired	–	–	–	–	(4,593)	–	–	(4,593)
Release of revaluation reserve upon depreciation of leasehold land and building	–	–	–	–	–	(241)	–	(241)
Fair value loss on available-for-sale financial assets	–	–	–	–	–	–	(377)	(377)
Release of currency translation reserve upon disposal of a subsidiary	–	–	–	1,046	–	–	–	1,046
Currency translation differences								
— overseas subsidiaries	–	–	–	(30,623)	–	–	–	(30,623)
— overseas joint ventures	–	–	–	(6,774)	–	–	–	(6,774)
Shares repurchase and cancelled	(54,994)	–	–	–	–	–	–	(54,994)
At 31 December 2014	1,248,179	39,925	15,158	28,744	14,281	10,869	8,006	1,365,162
Share option scheme:								
— value of employee services	–	–	–	–	10,865	–	–	10,865
— value of other participants' services	–	–	–	–	81,365	–	–	81,365
— share options exercised	39,000	–	–	–	(4,714)	–	–	34,286
Release of revaluation reserve upon depreciation of leasehold land and building	–	–	–	–	–	(241)	–	(241)
Fair value loss on available-for-sale financial assets	–	–	–	–	–	–	(2,810)	(2,810)
Reclassification adjustment on disposal of available-for-sale financial assets	–	–	–	–	–	–	(9,514)	(9,514)
Reclassification adjustment on impairment of available-for-sale financial assets	–	–	–	–	–	–	4,318	4,318
Currency translation differences								
— overseas subsidiaries	–	–	–	(47,971)	–	–	–	(47,971)
— overseas associate	–	–	–	(105)	–	–	–	(105)
— overseas joint ventures	–	–	–	(1,593)	–	–	–	(1,593)
At 31 December 2015	1,287,179	39,925	15,158	(20,925)	101,797	10,628	–	1,433,762

Note: Capital reserve represents the difference between the nominal value of the ordinary shares issued by the Company and the share capital of a subsidiary acquired through an exchange of shares pursuant to the group reorganisation (the "Reorganisation") on 6 September 2001.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

35. CASH GENERATED FROM/(USED IN) OPERATIONS

	2015 **HK$'000**	2014 HK$'000
Cash flows from operating activities		
(Loss)/Profit before income tax	**(370,124)**	435,752
Adjustments for:		
Depreciation	**130,530**	119,021
Amortisation of intangible assets	**7,198**	6,858
Loss on disposal of property, plant and equipment	**99**	476
Loss on disposal of a subsidiary	**–**	1,010
Share option expenses	**92,230**	12,378
Fair value loss on financial assets at fair value through profit or loss	**103,697**	17,802
Reclassification adjustment on disposal of available-for-sale financial assets	**(9,514)**	–
Impairment of available-for-sale financial assets	**4,318**	–
Impairment of goodwill	**122,904**	–
Impairment of investment in a joint venture	**13,367**	–
Impairment of amount due from a related company	**21,564**	–
Interest income	**(32,908)**	(31,510)
Finance costs	**61,412**	55,600
Share of loss of an associate	**7**	–
Share of losses/(profits) of joint ventures	**4,073**	(917)
Operating cash flows before changes in working capital	**148,853**	616,470
Changes in working capital:		
— Prepaid rentals	**247**	1,026
— Inventories	**7,882**	(27,032)
— Accounts receivable	**203,822**	(221,072)
— Prepayments, deposits and other receivables	**60,453**	(64,197)
— Financial assets at fair value through profit or loss	**95,082**	(894,047)
— Accounts and bills payable	**(23,751)**	34,497
— Accruals and other payables	**(11,142)**	24,334
— Amounts due to joint ventures	**797**	604
	333,390	(1,145,887)
Cash generated from/(used in) operation	**482,243**	(529,417)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

36. OPERATING LEASE COMMITMENTS

At 31 December 2015, the Group had aggregate future minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	2015 HK$'000	2014 HK$'000
Within one year	17,753	15,303
In the second to fifth years inclusive	25,940	28,314
Over five years	31,929	37,520
	75,622	81,137

37. EMPLOYEE RETIREMENT BENEFITS

The Group has arranged for its Hong Kong employees to participate in a defined contribution retirement scheme (the "Original Scheme"), which is managed by independently administered funds. The Group's monthly contributions are based on 5% of employees' monthly salaries. The employees are entitled to receive 100% of the Group's contribution and the accrued interest thereon upon retirement or leaving the Group after completing ten years of service or at a reduced scale of 30% to 90% after completing three to nine years of services.

For the Group's Hong Kong employees employed after 1 December 2000, the Group has arranged for these employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a maximum contribution, which has been adjusted from HK$1,250 to HK$1,500 per month per employee with effect from 1 June 2014.

As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement plans for its employees in the PRC. The Group contributes to the retirement plans at rates ranging from approximately 8% to 19% of the basic salaries of its employees, and has no further obligations for the actual payment of pensions or post-retirement benefits. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

During the year, the aggregate amount of the Group's contributions to the aforementioned schemes and plans were approximately HK$8,051,000 (2014: HK$7,642,000), with no (2014: Nil) deduction of forfeited contributions. At 31 December 2015, there was no material forfeited contribution available to reduce the Group's employer contribution payable in future periods (2014: Nil).

The Group had no contribution payable at 31 December 2015 (2014: HK$132,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

38. BUSINESS COMBINATION

On 15 December 2014, the Group acquired 100% of the equity interests in Bestinfo for a consideration of RMB60,000,000 (approximately HK$75,472,000). Bestinfo is a company specialised in the research and development of lottery transaction and management systems.

As a result of the acquisition, the Group is expected to further consolidate its presence at all levels of the lottery value chain. The goodwill of HK$38,620,000 arising from the acquisition is attributable to the anticipated profitability and the anticipated future operating synergy from the business combination.

The following table summarises the consideration paid for Bestinfo, the fair value of assets acquired and liabilities assumed at the acquisition date.

	HK$'000
Consideration:	
Cash	75,472
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	4,505
Intangible assets	50,314
Accounts receivables	1,183
Prepayments, deposits and other receivables	3,256
Cash and bank balances	4,126
Accruals and other payables	(13,953)
Deferred tax liabilities	(12,579)
Total identifiable net assets	36,852
Goodwill *(Note 16)*	38,620
	75,472
Net cash outflow on acquisition of Bestinfo	
Cash consideration paid	75,472
Cash and cash equivalents acquired	(4,126)
	71,346

Acquisition-related costs of HK$253,000 have been charged to general and administrative expenses in the consolidated statement of profit or loss for the year ended 31 December 2014.

The fair value and gross contractual amounts of accounts receivable and other receivables as at the date of acquisition amounted to HK$1,183,000 and HK$187,000, respectively.

The loss included in the consolidated statement of profit or loss for the period from 15 December 2014 to 31 December 2014 contributed by Bestinfo was approximately HK$2,417,000. Bestinfo contributed no revenue over the same period.

Had Bestinfo been consolidated from 1 January 2014, the consolidated statement of profit or loss for the year ended 31 December 2014 would show pro-forma revenue of approximately HK$1,059,672,000 and profit of approximately HK$339,256,000.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

39. DISPOSAL OF A SUBSIDIARY

On 1 April 2014, the Group disposed of its entire interest in 北京網人互聯科技有限公司 ("網人互聯"). The consideration for the disposal was settled through offsetting the amount due by the Group to 網人互聯 at 1 April 2014. The net assets of 網人互聯 at the date of disposal were as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	17
Prepayments, deposits and other receivables	733
Amount due from immediate holding company	49,741
Cash and bank balances	570
Accruals and other payables	(1,704)
	49,357
Release of currency translation reserve upon disposal	1,394
Loss on disposal of a subsidiary	(1,010)
Cash consideration	49,741
Net cash outflow on disposal of a subsidiary	
Cash consideration received	–
Less: Cash and cash equivalents disposed of	(570)
	(570)

40. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances as disclosed elsewhere in these consolidated financial statements, the Group had the following significant related party transactions during the year:

	2015 HK$'000	2014 HK$'000
Consultancy service income from joint ventures	135	172

Note: The above transaction was carried out in the normal course of business and in accordance with terms as agreed with related party.

Compensation of key management personnel

Key management includes directors and certain senior management who have important roles in making operational and financial decision. The compensation paid or payable to key management is shown below:

	2015 HK$'000	2014 HK$'000
Short-term employee benefits	35,527	39,618
Post-employment benefits	490	588
Employee share option benefits	2,497	1,616
	38,514	41,822

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

41. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of Financial Position

At 31 December 2015

	2015 HK$'000	2014 HK$'000
Non-current assets		
Investments in subsidiaries	9	9
Current assets		
Prepayments, deposits and other receivables	34	1,112
Amounts due from subsidiaries	2,160,429	2,174,874
Cash and bank balances	832	779
	2,161,295	2,176,765
Total assets	2,161,304	2,176,774
Current liabilities		
Accruals and other payables	7,418	7,254
Amounts due to subsidiaries	9,993	8
	17,411	7,262
Net current assets	2,143,884	2,169,503
Total assets less current liabilities	2,143,893	2,169,512
Non-current liabilities		
Convertible bonds	602,156	588,321
Deferred income tax liabilities	7,894	10,177
	610,050	598,498
Net assets	1,533,843	1,571,014
Equity attributable to owners of the Company		
Share capital	21,330	21,131
Reserves *(Note (a))*	1,512,513	1,549,883
	1,533,843	1,571,014

The statement of financial position of the Company was approved by the Board of Directors on 22 March 2016 and was signed on its behalf.

LAU TING	**CHAN TAN NA, DONNA**
Director	*Director*

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

41. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Cont'd)*

Note:

(a) Reserve movement of the Company

	Share premium HK$'000	Convertible bond equity reserve HK$'000	Contributed surplus HK$'000 (Note)	Share-based compensation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2014	759,047	–	16,209	27,704	11,313	814,273
Issue of new shares	444,040	–	–	–	–	444,040
Recognition of equity component of convertible bonds	–	51,692	–	–	–	51,692
Deferred tax on recognition of equity component of convertible bonds	–	(11,767)	–	–	–	(11,767)
Share option scheme:						
– value of employee services	–	–	–	6,131	–	6,131
– value of other participants' services	–	–	–	6,247	–	6,247
– share options exercised	100,086	–	–	(21,208)	–	78,878
– vested share options expired	–	–	–	(4,593)	4,593	–
Shares repurchased and cancelled	(54,994)	–	–	–	–	(54,994)
Profit for the year	–	–	–	–	233,922	233,922
Dividends relating to 2013	–	–	–	–	(18,539)	(18,539)
At 31 December 2014	1,248,179	39,925	16,209	14,281	231,289	1,549,883
Share option scheme:						
– value of employee services	–	–	–	10,865	–	10,865
– value of other participants' services	–	–	–	81,365	–	81,365
– share options exercised	39,000	–	–	(4,714)	–	34,286
Loss for the year	–	–	–	–	(142,569)	(142,569)
Dividends relating to 2014	–	–	–	–	(21,317)	(21,317)
At 31 December 2015	1,287,179	39,925	16,209	101,797	67,403	1,512,513

Note: Contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of a subsidiary acquired through an exchange of shares pursuant to the Reorganisation.