



中國生態旅遊集團
CHINA ECOTOURISM GROUP

China Ecotourism Group Limited
中國生態旅遊集團有限公司

(Formerly known as China LotSynergy Holdings Limited 華彩控股有限公司*)
(Incorporated in Bermuda with limited liability)

Stock code: 1371

2020 Annual Report

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Corporate Information

DIRECTORS

Executive Directors

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

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. CHAN Tan Na, Donna
Mr. HUANG Shenglan
Mr. CHAN Ming Fai

NOMINATION COMMITTEE

Ms. CHAN Tan Na, Donna
Mr. HUANG Shenglan
Mr. CHAN Ming Fai

AUDITOR

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

REGISTERED OFFICE

Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM 10, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Convention Plaza, 1 Harbour Road
Wan Chai, Hong Kong
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COMPANY WEBSITE

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PRINCIPAL SHARE REGISTRARS

MUFG Fund Services (Bermuda) Limited
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41 Cedar Avenue
Hamilton HM 12, Bermuda

BRANCH SHARE REGISTRARS IN HONG KONG

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Hopewell Centre, 183 Queen's Road East
Wan Chai, Hong Kong

LEGAL ADVISERS

Ocorian
Baker & McKenzie

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Industrial Bank Co. Ltd., Hong Kong Branch

Financial Summary

A summary of results and the assets and liabilities of China Ecotourism Group Limited (formerly known as China LotSynergy Holdings Limited; the “Company”) and its subsidiaries (collectively referred to as the “Group”) are as follows:

RESULTS

	Year ended 31 December				
	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Revenue	118,563	154,354	183,927	237,852	200,319
Gross profit/(gross loss)	27,515	61,492	95,941	117,498	(6,931)
Share option expenses	–	(5,065)	(13,237)	(10,174)	(18,998)
Finance costs	(86,034)	(53,922)	(33,396)	(40,367)	(56,904)
Loss before income tax	(630,445)	(546,345)	(153,860)	(179,358)	(441,700)
Income tax credit/(expense)	6,527	(3,755)	(8,861)	(15,741)	(37,901)
Loss for the year	(623,918)	(550,100)	(162,721)	(195,099)	(479,601)
(Loss)/Profit attributable to:					
Owners of the Company	(573,971)	(518,793)	(169,468)	(192,568)	(297,967)
Non-controlling interests	(49,947)	(31,307)	6,747	(2,531)	(181,634)
	(623,918)	(550,100)	(162,721)	(195,099)	(479,601)

ASSETS AND LIABILITIES

	As at 31 December				
	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Total current assets	284,952	311,539	832,814	866,304	1,382,954
Total assets	747,470	1,080,922	1,621,804	1,686,761	2,225,288
Total liabilities	(579,172)	(549,405)	(549,610)	(547,679)	(952,368)
Net assets	168,298	531,517	1,072,194	1,139,082	1,272,920

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 principal businesses of the Group cover various lottery products ranging from video lottery ("VLT"), computer-generated ticket games ("CTG") and KENO-type lottery to new media lottery, and continue to explore and develop other potential businesses, including natural and health food business as well as trading business. 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. The Group has gradually established a development layout at domestic and international levels by making great efforts to open up international markets over the past years.

CHINA'S LOTTERY MARKET

China's lottery market recorded a 20.9% decline in total sales to RMB333.951 billion in 2020, according to the sales data released by the Ministry of Finance ("MOF"). Welfare Lottery sales fell by 24.4% YOY to RMB144.488 billion, while Sports Lottery sales down 17.9% YOY to RMB189.463 billion. In terms of lottery types, sales of Lotto, Single Match Games ("SMG") and VLT have gone down, while Paper-based Scratch Card and KENO saw a rise in sales compared with last year. Lotto, which is still the industry's main source of revenue, posted a 2.4% YOY drop to RMB221.908 billion in its sales, accounting for 66.5% of total lottery sales. SMG sales decreased by 38.6% YOY to 74.917 billion, accounting for 22.4% of total lottery sales. VLT sales dived by 84.6% YOY to RMB6.795 billion, accounting for 2.0% of total lottery sales. Paper-based Scratch Card sales rose 3.1% YOY to RMB29.420 billion, accounting for 8.8% of total lottery sales. KENO sales skyrocketed 445.9% YOY to 0.911 billion, accounting for 0.3% of total lottery sales.

The Chinese lottery market experienced a record-long market closure in its history, a 49-day shutdown as a result of all operation of physical lottery stores had been suspended since 22 January, caused by the Coronavirus Disease 2019 (the "COVID-19") in 2020. The lottery point-of-sales were hit hard. Therefore, the MOF issued "Notice on Matters related to Effective Management of Lottery Issuance and Sales amidst Pandemic Prevention and Control". The provincial lottery authorities have introduced a variety of subsidy programs to relieve the pressure of first-line lottery distributors. Football leagues and mainstream basketball tournaments in more than 44 countries around the world were halted due to the COVID-19 pandemic, less than a week after China's lottery relaunched on 11 March, extracting a heavy toll on Jing Cai ("竞彩"), a major lottery type of Sports Lottery. In April, the MOF issued "Comment on Cessation of Sale of Seven Video Lottery Games, including Lianhuan Duobao (連環奪寶)", agreeing to the discontinuation of sales proposed by China Welfare Lottery Issuance and Administration Centre ("CWLC"). Sales of seven video lottery games, such as Lianhuan Duobao (連環奪寶) would be discontinued. In July, telephone sales of Shandong Sports Lottery and Hainan Sports Lottery were halted successively. In October, the MOF issued two important notices: "Notice on Matters Related to Further Revised Rules of SMG", further reducing the pay-out ratio, strengthening the supervision of day-to-day operation, including adjusting the timing of sales, restricting high-value betting and strengthening the management of terminals sales; "Notice on Matters Related to Orderly Withdrawal of High-Frequency Games", executing withdrawal of High-Frequency Games orderly with two designated points of time, from 1 November 2020 onwards and after 2021 Lunar New Year holiday.

Management Discussion and Analysis

Before that, the Chinese government had made continuous and strengthening efforts on monitoring, so as to strictly control the lottery market risks, further highlight the public welfare and social responsibility of the state's lottery. 12 ministries of the PRC, including the MOF, the General Administration of Sports ("GAOS"), the Ministry of Civil Affairs ("MOCA"), jointly announced a ban on online and telephone lottery sales in 2018. The MOF, the MOCA and the GAOS jointly issued "Notice on Strengthening the Management of Pay-out and Promotion of High-Frequency Games" and "Notice on Revised Rules of High-Frequency Games and SMG, and Intensified Lottery Market Governance" in January 2019, adjusting the rules of the high-frequency games and SMG, altering the range of betting multiples, strengthening the management of terminal sales, and discontinuing the pay-out and promotions. China's lottery sales recorded a 20% drop in 2020, shaken by multiple blows, including the prohibition of online and telephone lottery tickets sales, suspension of VLT sales, implementation of conservative policies such as new regulations on the market governance of high-frequency games and SMG as well as the outbreak of COVID-19.

China's lottery market policy has changed significantly, aiming to further optimize the lottery varieties and game structure. Introduction of new, higher-quality, more scientific and reasonable lottery games, restricting high-value betting and other irrational lottery purchase behaviour, which is the core values of the responsible lottery. Sales volume is no longer the main assessment indicator, shaping of responsibility lottery has become a new focus of work. It is the right choice and the only way to follow the healthy development of the lottery industry for Chinese lottery issuance and sales authorities. Later, in the light of the normalization of the pandemic, the MOF required lottery authorities at all levels to resume lottery issuance and sales in an orderly manner, bringing prevention and control needs of the COVID-19 pandemic and practical work together. Thanks to the prevention and control measures that have been winning the day, the lottery space across the mainland is backing on its feet.

Management Discussion and Analysis

BUSINESS REVIEW AND OUTLOOK

CTG Business

On the Welfare Lottery CTG side, Guangdong Province, which is served by the Group, remained the largest provincial Welfare Lottery market in China with sales reached approximately RMB11.843 billion in 2020. Leveraging on distinguished product design, excellent and discreet after-sales service, the Group further won a bid for the Welfare Lottery CTG terminal procurement programme in Guangdong province. Also, Shanghai Welfare Lottery CTG and Chongqing Welfare Lottery CTG, both are served by the Group, recorded sales of approximately RMB4.014 billion and RMB2.516 billion respectively.



In 2020, the Group's Sports Lottery CTG business recorded sustained growth against the backdrop of the outbreak of COVID-19, restricted rules of high-frequency games and SMG, and sinking demand on CTG terminal in various regions. The Group has drawn first blood in winning Sports Lottery terminal procurement programmes from Gansu in June and from Zhejiang, the fifth-largest Sports Lottery provincial market, in July. The Group has kept up the good work and won the year's largest Sports Lottery terminal procurement programme from Henan in October. The Group has been maintaining its leading position in the Sports Lottery space with a total order number of nearly 4,000 units of terminals. At the same time, riding on its splendid service capacities, the Group has been developing its terminal after-sales service business, winning bids for the Sports Lottery after-sales service procurement programmes in the provinces of Guizhou, Liaoning and others. Furthermore, "Notice on Sports Lottery CTG terminal usage in 2020" issued by the China Sports Lottery Administration Centre on 16 October 2020, unveiling the overall evaluation of traditional terminals and android terminals in terms of sales, acceptance, and failure rate. The Group was rated highly by nationwide provincial Sports Lottery authorities, ranking ahead of all manufacturers.



Its overseas market development has been delayed in 2020 due to the worldwide outbreak of COVID-19, but the Group made contributions and brought advanced lottery products and technologies to the African market. The Group launched an online lottery game regulatory system for Ghana's National Lottery Authority in the second quarter, while rolled out three new lottery games in Ghana in the third quarter.

In 2021, the Group will introduce new lottery products that are more suitable for the domestic market with greater interactions, and further establish the operational regulatory platform for Ghana's National Lottery Authority. On the Southeast Asian market, the Group is working with its Philippine partners to develop a handheld terminal lottery business, which is expected to be available for external sales by mid-2021, facilitating the Philippine's National Lottery Authority to develop new sales channels in a move to make a continuous contribution to public welfare fundraising in Philippine.



Management Discussion and Analysis

Video lottery business

As a technology-rich product, VLT plays a vital role in China's lottery industry. The Group is the exclusive terminal equipment provider for China Welfare Lottery Video Lottery — VLT (“Welfare VLT”). VLT sales was only RMB6.793 billion in 2020, hitting by double whammy as the outbreak of COVID-19 in early 2020 and suspension of sales at the end of July.

The Chinese lottery market suffered market closure in 2020 due to the outbreak of COVID-19, VLT was no exception to this suspension. Unlike most of the other lottery types, which resumed sales in mid-March, the operation of VLT did not resume until 11 May, which is the same day that CWLC announced that VLT was about to exit the lottery market. Seven video lottery games, including VLT, were withdrawn from the Chinese lottery space 81 days, from 11 May to 31 July, after sales resumed.

VLT sales reached more than RMB360 billion in 6,243 days. VLT made a great contribution with cumulatively generated not less than RMB75 billion for the country's public welfare fund, based on the VLT fundraising ratio of 22% (formerly 20%).

Dongguan Tianyi Electronic Company Limited (“DGTY”), a subsidiary of the Group, has been the supplier of Welfare VLT terminal for 17 years since 2003. The terminal developed and manufactured by DGTY is the only Welfare VLT terminal approved and confirmed by all three ministries including the MOF, the Ministry of Public Security and the MOCA. DGTY has made three generations of terminal replacements and upgrades in the last 17 years, supplying a total number of over 70,000 units of terminals. As of the end of July 2020, approximately 41,500 units of the third-generation terminals have been placed in over 2,000 Welfare VLT halls across 28 provinces, cities, autonomous regions and municipalities in China, supporting the entire Welfare VLT sales nationwide.

DGTY's Welfare VLT supply contract expired in June 2015. According to the supply contract agreed by both parties, DGTY has full ownership of the Welfare VLT terminals. Estimably, sales of Welfare VLT has continued its upward climb and achieved satisfactory performance on the back of the superb quality of DGTY's third-generation terminals, notwithstanding the absence of new terminal over the last five years and hit by the COVID-19. DGTY was well recognized by authorities and players thanks to its strong technological prowess and integrated service capabilities.

In order to protect the Group's lawful rights and interests, DGTY has filed a civil action with the People's High Court of Beijing, claiming compensation from Beijing China Lottery Online Technology Company Limited (“CLO”) for the continued use of terminals after the expiry of the supply contract. The “Civil Judgement” of the People's High Court of Beijing was delivered on 10 August 2018, which ruled that CLO is required to pay DGTY cooperation remuneration amounted to approximately RMB1.36 billion and partial interest. On 25 March 2021, the Group received a civil judgment from the Supreme People's Court, ruled that the civil judgement of the People's High Court of Beijing was revoked and CLO is required to pay DGTY RMB54,835,734.43 and the interest accrued. The Group may use all legal means in order to protect its legal rights and interests, according to legally binding documents that the Group sent to CWLC and CLO along with unanimous accreditation reached by domestic civil law experts, DGTY shall be paid for the provision of this terminals for Welfare VLT's continued used after the expiry of the supply contract.

The launching of the new video lottery business is at a standstill, according to the “Notice on Terminating the Purchase of New Video Lottery Terminals” issued by CWLC. And now, the business prospects of VLT is up in the air prior to the thorough discussion among the State Council and the MOF.



Management Discussion and Analysis

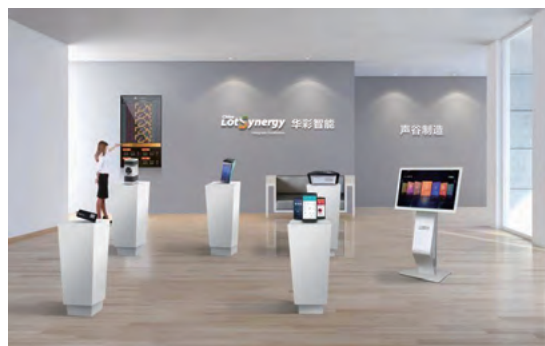
The Group is equipped with the largest dedicated VLT terminal production capacity in China and even in the world, with the most extensive technical tools and experience in design, development, testing and production quality control of video lottery terminal. The Group will actively follow up and participate, endeavour a healthy development of video lottery, and make the greatest contribution to China's lottery business.



New Retail, Artificial Intelligence Business Opportunities

In 2020, the Group continued to step up its efforts in the development of new products and models under the new environment.

The traditional lottery sales channel already cannot meet the diversified needs of its customer and the need for digitalized and integrated lottery retail channel is gradually arising, resulting from the rise of electronic payments and artificial intelligence. Lottery authorities also continue to beef up the foundation of sales channels and enhance management practices.



In response to these development opportunities, the Group has taken the lead to introduce the notion of new lottery retail, opening up new ideas of lottery business expansion by product and channel innovations.

The Group has stepped up its R&D efforts in fields of artificial intelligence and others, fully used of innovative technologies such as intelligent hardware, the Internet of Things, big data, blockchain and artificial intelligence etc. across the lottery retail channels, namely operation, management, marketing and others, and developed cloud AI-based smart lottery outlets total solution. The solution consisted of intelligent terminal products, as well as a full range of intelligent hardware and software products that are servicing at lottery authorities and point-of-sale, namely intelligent storefront management system, intelligent payment system, intelligent marketing and sales platform, smart lottery big data service system and others. The cloud AI-based smart lottery outlets total solution not only effectively solves the survival and development problem of traditional lottery outlets, but also enriches its vitality, offers the player with new experience,

Management Discussion and Analysis

allows a better regulated and healthier operation environment, and provides the authorities with anew intelligent management tools. At present, the Group has entered into an agreement to jointly promote the business with partners in the lottery industry.

In orders to tap the board artificial intelligence application market, in 2018, the Group, as a leading player in China's lottery industry, has landed at China's Sound Valley — the national-level industrial base of artificial intelligence and garnered the award dedicated leading enterprises which settled there.

Leveraging on the robust foundation provided by China's Sound Valley, the Group has achieved milestones in the fields of intelligent hardware, intelligent voice, face recognition, big data and cloud computing, and has received several proprietary intellectual property rights such as patents and software copyrights. On that basis, the Group has developed a number of intelligent hardware products and intelligent software systems for various industries.

New forms of economies spurred by 5G, big data, blockchain, artificial intelligence and others, with the rise of new technologies, new industries and new models. Innovative technology serves as power engine in China. In the future, the group will live up to the opportunities given by the times, empower the lottery industries, and make a positive contribution to the healthy development of China's lottery market.

Business Opportunities in Hainan Video Lottery and Electronic Scratch Card

In 2018, the State Council issued "Guidance on Supporting Hainan in Comprehensively Deepening Reform and Opening Up", pointing out that it supports Hainan's exploration and development of SMG and scratch card that based on the large-scale international event, in a bid to promote the development of Hainan's sports undertakings and sports industry.

With the further development of the Hainan Free Trade Zone, the Group is poised to beef up its strategic layout and in-depth cooperation in the Hainan market, and actively looking into and develop new growth drivers of video lottery and electronic scratch card businesses.

The Group formed a task force with Sanya Asian Beach Games Organizing Committee with an objection to proactively promote the declaration and establishment of the Asian-Beach-Game-themed new lottery, driven by the 6th Asian Beach Games in Sanya. The Group formed a joint venture company with Guoao Group, the organizer of Asian Beach Games, and Sanya Tourism and Culture Investment Group, making full use of Hainan's policy advantages and geographical conditions, exploring the video lottery and electronic scratch card that suit Hainan's local market, curbing illegal lottery, enriching entertainment activities during the event, and fostering the sustainable development of tourism, culture and sports on the island.

Gamification and electronic sales are the most significant features of video lottery and electronic scratch card. Lottery games can be sold through mobile phones, tablets, and fixed terminals. The Group will have cross-border collaboration with other industries, namely tourism, sports and others, establishing a "sports + tourism + lottery" integrated entertainment service platform, propelling the development of synergies with numerous industries, and striving for shared prosperity.



Management Discussion and Analysis

Natural & Health Food Business

Tian Ran Lin Chang Food Limited (“TRLC”) recorded considerable growth in 2020. Health food received rising attention due to COVID-19. TRLC has been adhering to the beliefs of natural and healthy products with all of its products obtained China Forest food Certifications, gaining more consumer recognition.

TRLC has been enhancing the mushrooms products, nuts products, honey, fresh fruits and other products upon the market needs. After several years of development, the brand influence of TRLC has been growing by its products stability and sound user experience, especially mushroom products have been well received by customers and have become a must-buy item on some enterprises’ centralized procurement list, with a significant YOY increase in sales during the festivals when enterprises do more centralized purchasing, for instance, Lunar New Year, Dragon Boat Festival and others.

In 2020, TRLC explored more community group buying and enterprise centralized procurement in addition to its existing channels, like Benlai Life, optimized the supply system, reduced supply costs and increased profitability. In 2021, TRLC will open up more channels and develop more varieties of products subject to the particularities of each channel.



Trading Business

The Group believes that it can maintain its competitive advantage through innovation and creative, hence, the Group continues to explore other potential businesses. The Group deployed to launch a trading business for various types of goods other than lottery products through its existing networks and resources for the purpose of generating income and enhancing the Group’s competitiveness. The Group will continue to review the effectiveness of the relevant business.

Ecotourism Business in China

The Company has entered into a “Strategic Cooperation Agreement on Development of Ecotourism Spots in China” with China Eco Development Association in January 2021. The two parties intend to establish a comprehensive strategic partnership to cooperate in the development of the ecotourism business in China.

The Company expects that China’s ecotourism will meet new market development opportunities with the opening of high-speed rail across China and the new development pattern in which the domestic economic cycle plays a leading role. The Company believes that the strategic cooperation will enable the Group to utilize the respective resource advantages of both parties and cooperate more efficiently in the construction of ecotourism service system and related businesses.

Management Discussion and Analysis

The change of company name from “China LotSynergy Holdings Limited” to “China Ecotourism Group Limited” demonstrates the Group’s future strategy and provides the Group with a new corporate image which will enable the Group to better identify itself and capture potential business opportunities for its future development.

Conclusion

The sales of China’s lottery dragged down in 2019. The lottery industry was at the hardest time with sales tumbled in 2020 down to the one-two punch from the COVID-19 pandemic and policy adjustment.

In the past two years, the Chinese lottery has been shifting from simply pursuing sales volume and speed to quality and overall social benefits, with special emphasis on building up and carrying out a responsible lottery to promote a healthy ecosystem.

There is a need for adjusted policies with a combination of interception and guidance, and encourage the lottery industry’s product innovation and model innovation amidst the normalization of the COVID-19 pandemic, alongside shutting down of extensive lottery channels which took three decades to build up, a drastic drop in the public welfare fund, illegal lottery and online gambling were everywhere and mobile games went viral. The lottery is born best for paperless, electronic, dispersed and mobile consumption. Lottery sales via the internet and mobile should be attempted, coupled with the transformation of the existing physical lottery stores through artificial intelligence and new retail, in a way that enhances user experience and develops a new stratum of lottery players.

With its continuous investment and in-depth understanding of the lottery industry for more than a decade, the Group will bring its edges together and look for a wide range of cooperation in terms of sales channels, core systems, gaming products, lottery security, among others, contributing to the development of a responsible, reliable, healthy and sustainable China’s lottery ecosystem. The Group will push ahead internationalization of the lottery while rooting in China, continue to explore and innovate a more diverse business model.

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK\$118.6 million (2019: HK\$154.4 million) for the year ended 31 December 2020, representing a decrease of approximately 23% over 2019. Loss attributable to owners of the Company for the year ended 31 December 2020 amounted to approximately HK\$574 million (2019: HK\$518.8 million), and is mainly due to impairment losses of non-current assets amounting to approximately HK\$398.8 million (2019: HK\$19.5 million), and staff costs (excluding employee share option benefits) of approximately HK\$84.7 million (2019: HK\$97.5 million).

Liquidity, Financial Resources, Gearing Ratio and Capital Structure

As at 31 December 2020, the Group had net current liabilities of approximately HK\$242 million (2019: HK\$168.1 million). The management of the Group considers the liquidity position of the Group is sufficient to operate as a going concern in the foreseeable future. The management of the Group has given consideration to the following steps taken which expected to strengthen the Group’s financial position:

- (a) The Group has been actively negotiating with the relevant bank for renewal of the revolving bank borrowings with outstanding principal amount of HK\$212 million that are secured by the Group’s property located in Hong Kong. Taking into account the fair value of the pledged property in the amount of HK\$346 million as at 28 February 2021, the Directors believe that the Group will be able to renew the banking facilities;

Management Discussion and Analysis

- (b) The Group has also been actively negotiating with various banks and persons or institutions providing finance to obtain additional new credit facilities. Subsequent to the end of the reporting period, the Group successfully obtained new loan facilities in Hong Kong dollars up to HK\$78 million and Renminbi up to RMB90 million (equivalent to approximately HK\$107 million) from independent third parties;
- (c) In relation to a loan from a shareholder with principal amount of HK\$50 million that matured on 20 January 2021, the Group entered, on the same date as the maturity date, into a supplemental loan agreement with the shareholder to extend the maturity date from 20 January 2021 to 20 January 2022;
- (d) Subsequent to the end of the reporting period, the Group has obtained written confirmation from the shareholder mentioned in (c) that she will not demand the Group for repayment of another loan with principal amount of HK\$6.5 million and its accrued interest in the eighteen months from 24 March 2021;
- (e) Subsequent to the end of the reporting period, the Group has obtained written confirmations from the relevant directors which confirm that they will not demand the Group for repayment of the outstanding principals in the total amount of approximately HK\$19.54 million and accrued interest in the next eighteen months from 24 March 2021;
- (f) On 16 February 2021, the Group proposed to raise gross proceeds up to approximately HK\$220.75 million by issuing up to 2,207,541,466 rights shares on the basis of two rights shares for every one existing share at the subscription price of HK\$0.10 per rights share;
- (g) The Group has implemented measures to speed up the collection of outstanding accounts receivable. As referred to a civil judgment received from the Supreme People's Court of The People's Republic of China on 25 March 2021, the directors believe that the Group will be able to collect the outstanding accounts receivable of approximately RMB54.8 million (equivalent to approximately HK\$65.2 million) due from Beijing China Lottery Online Technology Company Limited before 31 December 2021; and
- (h) The Group will continue to take active measures to control administrative costs and maintain containment of capital expenditures.

The Group believes that it has adequate financial resources to fund its capital and operating requirements. As at 31 December 2020, the Company had an outstanding corporate guarantee limited to approximately HK\$240 million (2019: HK\$240 million) for a banking facility of an uncommitted revolving loan of approximately HK\$240 million (2019: HK\$240 million).

The Group had outstanding bank borrowings as at 31 December 2020 of approximately HK\$212.8 million (2019: HK\$245.5 million). As at 31 December 2020, 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\$346 million (2019: HK\$151.6 million); and (ii) a personal guarantee executed by a director of the Company (2019: a personal guarantee executed by a director of the Company).

Management Discussion and Analysis

At 1 January 2020, the outstanding convertible bonds of the Company were 7.5% convertible bonds due 2019 in the aggregate principal amount of HK\$174.8 million (the “New Option 1 Bonds”). Under the first supplemental trust entered on 28 March 2019, from 7 April 2019 onward, the interest will be charged at 8.5% and payable in arrear on the maturity date. On 28 April 2020, the Company and the holders of New Option 1 Bonds entered into the third supplemental trust deed to further extend the maturity date from 7 November 2020 to 7 November 2021. Repayments will be in three installments: (i) 15% of the principal amount outstanding on 7 November 2020; (ii) 15% of the principal amount outstanding on 7 May 2021; and (iii) remaining of the principal amount outstanding on the maturity date on 7 November 2021. The Company has repaid the first installment of HK\$26.22 million on 9 November 2020 which was being the next business day after 7 November 2020.

During the year under review, no New Option 1 Bonds had been converted into the shares of the Company by the bondholders. At 31 December 2020, the total outstanding principal amount of the New Option 1 Bonds was HK\$148.58 million. The maximum number of shares of the Company that will be issued upon conversion of all the outstanding New Option 1 Bonds was 74,290,000 shares of the Company.

The Group’s total equity amounted to approximately HK\$168.3 million at 31 December 2020 (2019: HK\$531.5 million). At 31 December 2020, net current liabilities of the Group amounted to approximately HK\$242 million (2019: HK\$168.1 million), including approximately HK\$76.4 million in cash and deposits with banks and financial institution (2019: HK\$64.7 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 31 December 2020 was approximately 77.5% (2019: 50.8%).

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.

Pledge of Assets

As at 31 December 2020, the Group’s leasehold land and buildings at net book value of approximately HK\$346 million (2019: HK\$151.6 million) were pledged to banks to secure the bank borrowings granted to the Group.

Contingent Liabilities

As at 31 December 2020, the Group did not have any material contingent liabilities (2019: Nil).

Staff

As at 31 December 2020, the Group employed 215 full time employees (2019: 265). 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.

Biographies of Directors and Senior Management

DIRECTORS

CHAN Tan Na, Donna

Board's Chairperson, Executive Director and Chief Executive Officer

Ms. Chan, aged 40, joined the Group in 2012, and is currently the Board's Chairperson, an Executive Director and Chief Executive Officer of the Company. Ms. Chan is responsible for planning and leading the implementation of the Group's overall strategies for operational development. 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). 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. In her capacity as a fund manager, she was in charge of equity investments in listed and unlisted companies in the Greater China region.

WU Jingwei

Executive Director and President

Mr. Wu, aged 49, joined the Group in 2007, and is currently 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.

LI Zi Kui

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

Mr. Li, aged 57, joined the Group in 2011, and is currently 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.

ZHU Xinxin

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

Ms. Zhu, aged 41, joined the Group in 2008. She is currently an Executive Director, 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

HUANG Shenglan

Independent Non-executive Director

Mr. Huang, aged 69, joined the Group in 2002, and is currently 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 a 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 executive director of Asia Investment Finance Group Limited in the previous three years.

CHAN Ming Fai

Independent Non-executive Director

Mr. Chan, aged 59, joined the Group in 2006, and is currently 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 thirty 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 holds a Bachelor's degree in Social Sciences with a major in Economics from the University of Hong Kong. Mr. Chan was an independent non-executive director of Burwill Holdings Limited and a non-executive director of Alliance Mineral Assets Limited in the previous three years.

CUI Shuming

Independent Non-executive Director

Mr. Cui, aged 83, joined the Group in 2008, and is currently 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 Yue Da Mining Holdings Limited, a listed company in Hong Kong. He has over forty years of experience in international finance and corporate planning and management. Mr. Cui was an independent non-executive director of Burwill Holdings Limited in the previous three years.

Biographies of Directors and Senior Management

SENIOR MANAGEMENT

LAN Jianzhang

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

Mr. Lan, aged 49, 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 51, 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.

WU Yunsong

Vice President

Mr. Wu, aged 53, joined the Group in 2008. He is currently the Vice President of the Group. Mr. Wu has over twenty years of management experience in research and development, manufacturing, quality control and operating of the information products and digital products. He was a vice general manager of Dongguan Founder Information Equipment Manufacturing Limited and Shenzhen Founder Digital Technology Limited. Mr. Wu holds a Bachelor's degree in Irrigation and Drainage Engineering Professional from Chengdu University of Science and Technology (now renamed Sichuan University).

Ji Youjun

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

Mr. Ji, aged 48, 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.

Biographies of Directors and Senior Management

TAN Yung Kai, Richard

Chief Financial Officer

Mr. Tan, aged 49, 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.

WONG Hiu Wong

Company Secretary of the Group

Mr. Wong, aged 37, 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 Chartered Governance Institute and The Hong Kong Institute of Chartered Secretaries. 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 2020.

PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The principal activity of the Company is investment holding.

The Group is engaged in the provision of technology and operation services for 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-generated ticket games and KENO-type lottery to new media lottery, and continue to explore and develop other potential businesses, including natural & health food business.

The particulars of the Company’s principal subsidiaries as at 31 December 2020 are set out in Note 20 to the consolidated financial statements.

Analysis of the Group’s revenue and segment information for the year ended 31 December 2020 are set out in Notes 5 and 6 to the consolidated financial statements.

Further discussion and analysis of the Group’s activities, including a fair review of the business of the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2020, an indication of likely future developments in the Group’s business, an analysis using financial key performance indicators, and a discussion on the Group’s compliance with the relevant laws and regulations that have a significant impact on the Group, can be found in Management Discussion and Analysis on pages 4 to 13 of this annual report and in Corporate Governance Report on pages 35 to 42 of this annual report. Besides, further discussion and review on the environmental policies and performance and relationship with employees, suppliers and customers of the Group, can be found in Environmental, Social and Governance Report on pages 43 to 51 of this annual report. The above sections form part of this report.

RISK AND UNCERTAINTIES

The Group’s financial condition, results of operations and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to the Group’s business. The key risks and uncertainties identified by the Group can be found in Management Discussion and Analysis on pages 4 to 13 of this annual report and in Control Contracts on pages 27 to 32 of this annual report. There may be other risks and uncertainties in addition to those shown above which are not known to the Group or which may not be material now but could turn out to be material in the future.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognises the importance of compliance with regulatory requirements and the risk of noncompliance with such requirements. The Group has been implementing system and allocating staff resources to ensure ongoing compliance with rules and regulations. The Group’s operations are mainly carried out by the Company’s subsidiaries in Hong Kong and the Mainland China while the Company itself was incorporated in Bermuda and its shares are listed on the Main Board of the Hong Kong Stock Exchange. The Group’s operations accordingly shall comply with relevant laws and regulations in Hong Kong, Bermuda and the Mainland China, and the respective places of incorporation of the Company and its subsidiaries. So far as the Board is concerned, there were no material breaches of or non-compliance with the relevant rules and regulations by the Group that have significant impacts on the business and operations of the Group.

Report of the Directors

FINANCIAL RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2020 are set out in the consolidated statement of profit or loss on page 57 of this annual report.

No interim dividend was paid during the year.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

MAJOR SUPPLIERS AND CUSTOMERS

The Group's five largest customers accounted for about 78% of its revenue for the year. In addition, the largest customer of the Group accounted for about 27% of the Group's revenue.

The percentage of the Group's purchases attributable to the Group's five largest suppliers was about 14%. In addition, the largest supplier of the Group accounted for about 48% of the Group's purchases.

Save as disclosed above, none of the Directors, their respective associates nor shareholders (which to the knowledge of the Board 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 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in share capital during the year are set out in Note 35 to the consolidated financial statements.

RESERVES

Details of movements in reserves during the year are set out in Note 37 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the distributable reserves to the shareholders in accordance with the Company's Bye-laws was Nil (As at 31 December 2019: Nil).

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

Save as the amendments to the terms and conditions of New Option 1 Bonds and the repayment of 15% of the principal amount of the Convertible Bonds outstanding on 7 November 2020 as disclosed in this report, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2020.

Report of the Directors

SHARE OPTION SCHEME

At the annual general meeting of the Company held on 18 May 2012, an ordinary resolution has been passed by the shareholders of the Company to adopt a new share option scheme (the “2012 Option Scheme”) for the Company. On 27 May 2015 and 13 June 2019, resolutions have been approved by the Company’s shareholders to refresh the limit of granting option under the 2012 Option Scheme respectively. More information can be referred in the Company’s circular dated 28 April 2015.

As the Share Consolidation had taken effect on 14 June 2019, adjustments were made to the exercise prices and the number of shares of the Company falling to be issued in respect of the outstanding share options in accordance with the terms and conditions of the 2012 Option Scheme and the Listing Rules. As at 31 December 2020, no valid and outstanding options were granted by the Company. As at 31 December 2020, 72,298,073 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 7.02% of the issued shares of the Company on the date of this report.

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, supplier or provider of goods or services to, or made valuable contribution 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.

Report of the Directors

(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

Movements of share options granted under the 2012 Option Scheme during the year ended 31 December 2020:

	Date of grant	Exercise price per Share HK\$	Exercise period from until		No. of Shares under the options					Closing price per Share immediately before the date of grant of the options during the year HK\$	
					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
2012 Option Scheme											
(i) Name of Director											
Ms. CHAN Tan Na, Donna	19/01/2018	1.72	20/01/2019	19/01/2020	600,000	-	-	-	(600,000)	-	-
Mr. WU Jingwei	19/01/2018	1.72	20/01/2019	19/01/2020	600,000	-	-	-	(600,000)	-	-
Mr. LI Zi Kui	19/01/2018	1.72	20/01/2019	19/01/2020	300,000	-	-	-	(300,000)	-	-
Ms. ZHU Xinxin	19/01/2018	1.72	20/01/2019	19/01/2020	300,000	-	-	-	(300,000)	-	-
Mr. HUANG Shenglan	19/01/2018	1.72	20/01/2019	19/01/2020	5,000	-	-	-	(5,000)	-	-
Mr. CHAN Ming Fai	19/01/2018	1.72	20/01/2019	19/01/2020	5,000	-	-	-	(5,000)	-	-
Mr. CUI Shuming	19/01/2018	1.72	20/01/2019	19/01/2020	5,000	-	-	-	(5,000)	-	-
(ii) Continuous contract employees	19/01/2018	1.72	20/01/2019	19/01/2020	3,450,000	-	-	-	(3,450,000)	-	-
(iii) Other participants	29/10/2014	8.40	29/10/2017	28/10/2020	1,160,000	-	-	-	(1,160,000)	-	-
	19/01/2018	1.72	20/01/2019	19/01/2020	2,500,000	-	-	-	(2,500,000)	-	-
	08/01/2019	0.80	09/01/2019	08/01/2020	10,000,000	-	-	-	(10,000,000)	-	-
Total :					18,925,000	-	-	-	(18,925,000)	-	-

Report of the Directors

DIRECTORS

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

Executive Directors

Ms. CHAN Tan Na, Donna
Mr. WU Jingwei
Mr. LI Zi Kui
Ms. ZHU Xinxin

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, Mr. WU Jingwei, Mr. LI Zi Kui and Mr. HUANG Shenglan 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 are set out in Biographies of Directors and Senior Management on pages 14 to 15 of this annual report.

SENIOR MANAGEMENT

Biographical details of the senior management of the Group are set out on pages 16 to 17 of this annual report.

Report of the Directors

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

As at 31 December 2020, 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 Listing Rules (the "Model Code"), were as follows:

(1) Interests in the Shares of the Company

Name of Directors	Number of Shares	Approximate percentage interest in the Company's issued share capital
Ms. CHAN Tan Na, Donna	15,936,000 (L)	1.55% (L)
Mr. WU Jingwei	8,220,000 (L)	0.80% (L)
Mr. LI Zi Kui	2,800,000 (L)	0.27% (L)
Ms. ZHU Xinxin	1,850,000 (L)	0.18% (L)
Mr. HUANG Shenglan	110,000 (L)	0.01% (L)
Mr. CUI Shuming	200,000 (L)	0.02% (L)

Note:

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

(2) Interests in Underlying Shares of the Company

As at 31 December 2020, no Directors of the Company had the interests in respect of options to subscribe for the shares of the Company under the option schemes.

Save as otherwise disclosed above, as at 31 December 2020, 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 Part XV 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.

Report of the Directors

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

As at 31 December 2020, 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 Shareholders	Number of Shares	Approximate percentage interest in the Company's issued share capital
Ms. LAU Ting	497,370,870 (L) (Note 1)	48.31% (L)
Mr. CHAN Shing	89,464,687 (L) (Note 2)	8.69% (L)
BFAM Partners (Cayman) Limited	74,290,000 (L) (Note 3)	7.22% (L)
Fuchs Benjamin Aaron	74,290,000 (L) (Note 3)	7.22% (L)
Tencent Holdings Limited	59,403,451 (L) (Note 4)	5.77% (L)

Notes:

- 91,509,437 shares beneficially owned by Ms. LAU Ting. For the corporate interests, 7,505,287 shares were held by Hang Sing Overseas Limited which was wholly owned by Orient Strength Limited, a company which was wholly-owned by Ms. LAU Ting. 13,773,554 shares were held by Strong Purpose Corporation ("Strong Purpose"), a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 51,249,259 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. 333,333,333 shares were derivative interests which have been reduced after the reporting period.
- 24,248,642 shares beneficially owned by Mr. CHAN Shing. For the corporate interests, 13,773,554 shares were held by Strong Purpose, a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing. 51,249,259 shares were held by Glory Add which was wholly owned by Favor King Limited, a company which was wholly-owned by Ms. LAU Ting and Mr. CHAN Shing.
- These are the same lot of interest. Those are derivative interests.
- Held as corporate interest.
- The letter "L" denotes long position(s).

Save as disclosed above, as at 31 December 2020, 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.

Report of the Directors

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the Share Option Scheme of the Company 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.

SALE OF PROPERTY

At 18 June 2020, Wide Perfect Limited, an indirect wholly-owned subsidiary of the Company entered into a provisional agreement for sale and purchase to sell a property for a consideration of HK\$44,380,000. Completion of the sale of property has taken place on 18 August 2020.

CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION FOR CONVERTIBLE BONDS UNDER SPECIFIC MANDATE, APPLICATION FOR WHITEWASH WAIVER AND THE TERMINATION

On 9 October 2020, the Company entered into a subscription agreement with a subscriber, being a substantial shareholder of the Company, pursuant to which the Company conditionally agreed to issue, and the subscriber conditionally agreed to subscribe for, the convertible bonds in the aggregate principal amount of HK\$50,000,000, which may be converted into 333,333,333 conversion shares based on the initial Conversion Price of HK\$0.15 per conversion share upon full conversion. As such, under The Code on Takeovers and Mergers, the allotment and issuance of the conversion shares to the subscriber would give rise to an obligation on the part of the subscriber to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by the subscriber and parties acting in concert with her unless the whitewash waiver is obtained from the Executive. The subscriber would make an application to the Executive for the whitewash waiver in respect of the allotment and issuance of the conversion shares to the subscriber pursuant to The Code on Takeovers and Mergers.

On 20 January 2021, the Company entered into a termination deed with the subscriber pursuant to which the Company and the subscriber agreed to mutually terminate the subscription agreement without any liability of any party. For the purpose of The Code on Takeovers and Mergers, the abovementioned whitewash waiver is no longer required.

FINANCIAL SUMMARY

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

EMPLOYEE RETIREMENT BENEFIT

Details of the retirement benefit schemes of the Group and the employee retirement benefit costs charged to the consolidated statement of profit or loss for the year are set out in Note 39 to the consolidated financial statements.

Report of the Directors

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.

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 Agreement; (ii) the Equity Pledge Agreement; (iii) the Exclusive Equity Transfer Agreement; (iv) the Consulting and Servicing Agreement; and (v) the Agency Agreement. The principal terms of which are set out below:

Loan Agreement

Pursuant to the Loan Agreement, 北京優昌源科技有限公司 (“WFOE”) (as lender) provided loans to the Nominees (as borrowers) respectively, 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

Report of the Directors

- in the event that the consideration for the transfer of the equity interests in the OPCO (please refer to the Exclusive Equity Transfer Agreement) 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.

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 Agreement (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.

Report of the Directors

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.

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 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 Agreement 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.

Report of the Directors

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, loss and net liabilities attributable to the OPCO are set out in Note 20 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.

Risk Factors

For the year ended 31 December 2020, 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.

Report of the Directors

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 OPCO 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 its 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.

- 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.

Report of the Directors

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, the General Principles of Civil Code and the Foreign Investment Law (with effect from 1 January 2020) of the People's Republic of China). The Company has continually monitored the development of PRC laws and regulations in relation to the Control Contracts. 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.

Independent Non-executive Directors' Confirmation

Independent Non-executive Directors have reviewed the Control Contracts during the year and confirmed 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.

Report of the Directors

AUDITOR

HLB Hodgson Impey Cheng Limited, the auditor of the Company, will retire and a resolution for their reappointment as auditor of the Company will be proposed at the forthcoming Annual General Meeting.

EVENT AFTER REPORTING PERIOD

Proposed Right Issue, Placing of New Shares under Specific Mandate, Connected Transaction in relation to the set-off, Application for Whitewash Waiver and Proposed Increase in Authorised Share Capital

On 16 February 2021, the Board proposed to conduct the rights issue on the basis of two (2) rights shares for every one (1) existing share held on the relevant record date at the subscription price of HK\$0.10 per Rights Share, to raise up to approximately HK\$220.75 million before expenses by way of issuing up to 2,207,541,466 rights shares (assuming there is no change in the total number of issued shares from 16 February 2021 up to and including the record date other than the full exercise of conversion rights under the outstanding New Option 1 Bonds on or before the record date).

On 16 February 2021, the Company and a placing agent entered into a placing agreement, pursuant to which the Company conditionally appointed the placing agent and the placing agent conditionally agreed to act as the placing agent for the Company to procure, on a best effort basis, places to subscribe for the placing shares (i.e. the untaken shares during the rights issue) at the placing price of HK\$0.10 per placing share on the terms and subject to the conditions set out in the placing agreement.

On 20 January 2021, a subsidiary of the Company as a borrower and Ms. Lau Ting as a lender entered into a supplemental loan agreement to extend the maturity date of the shareholder's loan in the principal amount of HK\$50,000,000 to 20 January 2022.

On 29 January 2021, the Company, a subsidiary of the Company and Ms. Lau Ting entered into a set-off deed, pursuant to which the parties have agreed to restructure the shareholder's loan in the principal amount of HK\$50,000,000 by offsetting the outstanding balance of the shareholder's loan as at the rights issue completion date on a dollar-to-dollar basis against an equivalent amount of the aggregated subscription price of (i) all entitlement shares; and (ii) the relevant excess shares allocated to Ms. Lau. The set-off will be conditional upon the rights issue becoming unconditional pursuant to the terms and conditions as set out in the Prospectus.

If the acceptance in full by Ms. Lau of the entitlement shares allotted to her pursuant to the irrevocable undertaking and/or the allotment of excess rights shares to her upon successful excess application when there is an undersubscription of the rights issue would trigger an obligation on Ms. Lau to make a mandatory general offer under The Code on Takeovers and Mergers for all shares not already owned or agreed to be acquired by Ms. Lau and parties acting in concert with her, unless a waiver is granted by the Executive. Ms. Lau would make an application to the Executive for the whitewash waiver pursuant to The Code on Takeovers and Mergers.

On 16 February 2021, the Board proposed that the authorised share capital of the Company be increased from HK\$40,000,000 to HK\$125,000,000 by the creation of 3,400,000,000 additional Shares, all of which will, upon issue and being fully paid, rank pari passu in all respects with the Shares in issue.

The other details of the captioned issues (including the respective conditions) have been listed out in the announcement dated 16 February 2021 of the Company.

Report of the Directors

Change of Company Name and Company Logo

Subsequent to the passing of the special resolution regarding the proposed change of company name at the special general meeting of the Company held on 10 February 2021, the Company has received the relevant certificates' copy on 26 March 2021 which were issued by the Registrar of Companies in Bermuda on 24 March 2021 regarding the change of company name of the Company, and the Company has adopted a new company logo with effect from 26 March 2021.

On behalf of the Board
CHAN Tan Na, Donna
Chairperson

Hong Kong, 31 March 2021

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 will review the corporate governance structure and practices from time to time and will 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 Listing Rules (the “Code”) for the financial year ended 31 December 2020, except for the deviations as disclosed in this report.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct for dealings in securities of the Company by the Directors. 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 2020.

BOARD OF DIRECTORS

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

Executive Directors

Ms. CHAN Tan Na, Donna
Mr. WU Jingwei
Mr. LI Zi Kui
Ms. ZHU Xinxin

Independent Non-Executive Directors

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

As at the date of this report, the Board comprised seven Directors, four of whom are Executive Directors 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. Ms. ZHU Xinxin is a cousin of Ms. CHAN Tan Na, Donna (daughter of Ms. LAU Ting). 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. 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 Independent Non-Executive Directors serve the relevant function of bringing independent judgement on the development, performance and risk management of the Group.

Corporate Governance Report

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.

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. CHAN Tan Na, Donna	4/4	–	–	–	0/1
Mr. WU Jingwei	4/4	–	–	–	0/1
Mr. LI Zi Kui	4/4	–	–	–	0/1
Ms. ZHU Xinxin	4/4	–	–	–	0/1
Independent Non-Executive Directors					
Mr. HUANG Shenglan	4/4	3/3	1/1	1/1	0/1
Mr. CHAN Ming Fai	4/4	3/3	1/1	1/1	1/1
Mr. CUI Shuming	4/4	3/3	–	–	1/1

CHAIRPERSON AND CHIEF EXECUTIVE OFFICER

The Chairperson of the Company, Ms. CHAN Tan Na, Donna, 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.

Corporate Governance Report

NON-EXECUTIVE DIRECTORS

Although 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. Mr. WU Jingwei, Mr. LI Zi Kui and Mr. HUANG Shenglan are subject to retirement by rotation at the forthcoming annual general meeting in accordance with the Company's Bye-laws.

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 auditors; and
- To oversight of the Company's financial reporting system, risk management and internal control system.

The Audit Committee held three 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 2020 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.

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 Chairperson, 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. CHAN Tan Na, Donna, 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. A meeting of the Remuneration Committee were held during the year for abovementioned issue.

Corporate Governance Report

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.

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. CHAN Tan Na, Donna, 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. CHAN Tan Na, Donna.

A meeting of the Nomination Committee was held to review the structure, size, composition and diversity of the Board to complement the Company's corporate strategy during the year, to review the annual confirmation of independence submitted by the independent non-executive directors and assessed their independence, and to review and recommend the re-appointment of the retiring Directors at the annual general meeting of the Company held on 13 August 2020.

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.

NOMINATION POLICY

The Board has adopted a nomination policy (the "Nomination Policy") which establishes written guidelines to nomination committee to identify individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorships with reference to the formulated criteria.

SELECTION CRITERIA

When evaluating and selecting candidates for directorships, the members of the Nomination Committee or the Board will consider the criteria including the highest personal and professional ethics and integrity of candidates; qualifications of candidates including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategies; the Board Diversity Policy and any measurable objectives adopted by the Nomination Committee for achieving diversity on the Board; willingness of candidates to devote adequate time to discharge duties as a Board member and other directorships and significant commitments; in case of nomination of an independent non-executive Directors, assessing the candidate's independence under the Listing Rules; and such other perspectives appropriate to the Company's business.

These criteria are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

Corporate Governance Report

NOMINATION PROCEDURES

The Nomination Committee and/or the Board identifies potential candidates including but not limited to internal promotion, re-designation, referral by other member of the management and external recruitment agencies and/or advisors. The Nomination Committee then develops a short list of candidates and agrees on proposed candidate(s). Proposed candidate(s) will be asked to submit the necessary personal information and biographical details. The Nomination Committee may request candidates to provide additional information and documents, if considered necessary. The Nomination Committee will, upon receipt of the proposal on appointment of new director and the personal information (or relevant details) of the proposed candidate(s), evaluate such candidate(s) based on the criteria as set out above to determine whether such candidate(s) is qualified for directorship. For any person that is nominated by a shareholder for election as a Director at the general meeting of the Company, the Nomination Committee will evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship. The nomination committee retains the discretion to establish the relative weighting of such criteria, which may vary based on the composition, skill sets, age, gender and experiences of the collective Board rather than on the individual candidate for the purpose of diversity perspectives appropriate to the requirement of the Company's business. If the process yields one or more desirable candidates, the Nomination Committee will rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable). The Nomination Committee 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.

MONITOR AND REVIEW

The Nomination Committee will monitor the implementation of the Nomination Policy and report to the Board when necessary. Also, the Nomination Committee will review the Nomination Policy, as appropriate, to ensure the effectiveness of the Nomination Policy and will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

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\$1,500,000	5
From HK\$1,500,001 to above	1

Corporate Governance Report

AUDITOR'S REMUNERATION

For the year ended 31 December 2020, 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:

Types of Services	Fee Charged for the year ended 31 December	
	2020 HK\$	2019 HK\$
Audit for the Group	1,780,000	1,380,000

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 pages 55 to 56 of this annual report.

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 (Note)
Executive Directors	
Ms. CHAN Tan Na, Donna	✓
Mr. WU Jingwei	✓
Mr. LI Zi Kui	✓
Ms. ZHU Xinxin	✓
Independent Non-Executive Directors	
Mr. HUANG Shenglan	✓
Mr. CHAN Ming Fai	✓
Mr. CUI Shuming	✓

Note: 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 is responsible for establishing, maintaining and monitoring effective risk management and internal control systems of the Group. The management is delegated with the responsibility from time to time to implement the Board's policies on risk management and internal control. Detailed procedures are developed by the management. Each department is responsible for the assessment of individual types of risks arising under their areas of responsibilities and is also required to keep the senior management informed of material developments of the department's business and implementation of the policies and strategies set by the Board on a regular basis. The Group's internal control system is designed to provide cost-effectiveness and reasonable protection, which safeguards the Group's assets and maintains the integrity of the accounting and reporting systems. The Board periodically evaluates major controls and risks and where necessary, retain external professional services to evaluate or seek improvements to the internal control system. The Group has not maintained an internal audit department. The Board considers that the existing systems enable to carry out enough analysis and appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems. The Board will continuously (at least annually) review the necessity of setting up an internal audit department. The Group's risk management and internal control systems include a well-established organisational structure with clearly defined lines of responsibility and authority of departments. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board had reviewed once the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2020. The review covered all material control areas including financial, compliance, operational and risk management functions. The Board is satisfied that the Group has maintained effective and adequate internal controls in all major areas.

The Executive Directors assess and decide whether the relevant information of the Group is considered inside information and needs to be disclosed as soon as reasonably practicable pursuant to the Listing Rules and the SFO.

DIVIDEND POLICY

In deciding whether to propose a dividend and in determining the dividend amount, the Board will take into account, among others, the Group's actual and expected financial performance, retained earnings and distributable reserves of the Company as required by laws, working capital requirements, capital expenditure requirements and future expansion plans, liquidity position, Shareholders' interests, general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Group and other factors that the Board deems appropriate.

Depending on the financial conditions of the Group and the conditions and factors as set out above, dividends may be proposed and/or declared by the Board for a financial year or period as interim dividend, final dividend, special dividend and any distribution of net profits that the Board may deem appropriate. Any final dividend for a financial year will be subject to shareholders' approval. The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate. Any dividend unclaimed shall be forfeited and shall revert to the Company in accordance with the Articles of Association. Declaration and payment of dividend shall remain to be determined at the sole discretion of the Board and subject to the Laws of Bermuda, the Bye-Laws of the Company and any other applicable laws, rules and regulations.

The Board will continually review the Dividend Policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time. The Dividend Policy shall in no way constitute a legally binding commitment by the Company that dividends will be paid in any particular amount and/or in no way obligate the Company to declare a dividend at any time or from time to time.

Corporate Governance Report

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. Mr. HUANG Shenglan and Ms. CHAN Tan Na, Donna were absent from the 2019 annual general meeting of the Company as is stipulated in Code provision A.6.7 and E.1.2 respectively due to their other important engagement. 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.

Environmental, Social and Governance Report

The Report covers the Group's overall performance in environmental, social and governance ("ESG") aspects of the head office in Hong Kong, office in Beijing and two offices in Guangzhou for the financial year ended 31 December 2020 (the "Reporting Period"), and demonstrates its commitment to sustainable development.

The Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") as set out in Appendix 27 of the Listing Rules. The environmental key performance indicators ("KPIs") disclosed are referenced to the calculation method adopted in Appendix 2: Reporting guidance on Environmental KPIs issued by HKEx. Information relating to the Group's corporate governance practices are set out in the Corporate Governance Report on pages 35 to 42 of this annual report.

The Group has established the ESG working group, which was formed by the Human Resource and Administrative Department of Hong Kong, Beijing and Guangzhou, and is responsible for collecting data and information for the preparation of the ESG Report. All data and information disclosed in the ESG Report was obtained from the Group's internal records. The Report was reviewed and approved by the Board.

STAKEHOLDER ENGAGEMENT

The Group values its stakeholders and their views relating to its businesses and ESG issues. In order to understand and address stakeholders' concerns, the Group has been maintaining a close communication with its stakeholders. The Group takes stakeholders' expectations into consideration in formulating its businesses and ESG strategies by utilizing diversified engagement methods and communication channels, which are shown as below:

Stakeholders	Expectations	Communication Channels
Shareholders and investors	<ul style="list-style-type: none"> Complying with relevant laws and regulations Disclosing latest information of the corporate in due course Financial results Corporate sustainability 	<ul style="list-style-type: none"> Annual general meeting and other shareholder meetings Financial reports Announcements and circulars
Customers	<ul style="list-style-type: none"> Product and service responsibility Customer information and privacy protection Compliant operation 	<ul style="list-style-type: none"> Customer service hotline and email Meetings Corporate website Financial reports
Employees	<ul style="list-style-type: none"> Health and safety Equal opportunities Remuneration and Benefits Career development 	<ul style="list-style-type: none"> Channels for employees' feedback (forms, suggestion boxes, etc.) Trainings, seminars, and briefing sessions Performance appraisals
Suppliers	<ul style="list-style-type: none"> Fair competition Business ethics and reputation Cooperation with mutual benefits 	<ul style="list-style-type: none"> Supplier management meetings and events Supplier on-site-audit and management system

Environmental, Social and Governance Report

Stakeholders	Expectations	Communication Channels
The Government and regulatory bodies	<ul style="list-style-type: none"> • Business ethics • Complying with relevant laws and regulations 	<ul style="list-style-type: none"> • Regular work meetings • Regular performance reports
Community, Non-governmental organizations and media	<ul style="list-style-type: none"> • Giving back to society • Environmental protection • Compliant operations 	<ul style="list-style-type: none"> • Public or community events • Community Investment Program • ESG reports

The Group aims to collaborate with its stakeholders to improve the ESG performance and create greater value for the wider community on a continuous basis.

MATERIALITY ASSESSMENT

The management and staff of the Group's respective major functions have participated in the preparation of the Report in order to assist the Group in reviewing its operations, identifying relevant ESG issues, and assessing the importance of related matters to its businesses and stakeholders. The Group has compiled a survey in accordance with the identified material ESG issues to collect information from relevant departments, business units and stakeholders of the Group.

The following table is a summary of the Group's material ESG issues:

Environmental	Social
<ul style="list-style-type: none"> • Emissions Control • Waste Management • Energy Management • Water Management • Indoor Air Quality 	<ul style="list-style-type: none"> • Employment Practices • Occupational Health and Safety • Training and Career Development • Prevention of Child and Forced Labour • Environmental and Social Risks of Suppliers • Fair and Open Procurement • Customer Services • Privacy Protection • Anti-corruption • Community Investment

During the Reporting Period, the Group confirmed that it has established appropriate and effective management policies and internal control systems for ESG issues, and confirmed that the disclosed contents are in compliance with the requirements of the ESG Reporting Guide.

Environmental, Social and Governance Report

ENVIRONMENTAL

Being engaged in the lottery industry in the People's Republic of China, the Group attaches great importance to good environmental management and strives to fulfill the social responsibility of the Group. The Group is dedicated to protecting the environment by integrating environmental mitigation measures into the Group's operational strategy, such measures cover pollution prevention, wastes reduction, energy saving, etc. The Group has also set the following environmental objectives to guide the overall direction in operating sustainably:

- Fully comply with applicable environmental regulations and other relevant requirements implemented by the Group;
- Drive the development of technologies and engineering as well as the design of environmentally-friendly products in order to reduce negative environmental impacts;
- Implement energy-saving measures, recycle resources, prohibit the use of harmful substances and promote energy consumption reduction during the stages of product research and project planning;
- Provide environmental training for the employees to enhance their environmental and energy-saving awareness; strive for continuous improvement in environmental management through monitoring and education; and
- Share information in a highly transparent manner with stakeholders who are concerned about the Group's environmental achievements and policies.

During the Reporting Period, the Group was not aware of any material non-compliance with the relevant environmental laws and regulations including but not limited to the Environmental Protection Law of the People's Republic of China, the Energy Conservation Law of the People's Republic of China, the Air Pollution Control Ordinance (Cap. 311 of Laws of Hong Kong) and Motor Vehicle Idling (Fixed Penalty) Ordinance (Cap. 611 of Laws of Hong Kong).

Environmental, Social and Governance Report

EMISSIONS CONTROL

Exhaust Gas Emissions

The Group's major source of exhaust gas emissions was originated from petrol consumed by vehicles. Thus, the Group has developed clear guidelines in relation to daily vehicular operation. The Group periodically records and monitors the fuel consumed, educates employees to turn off engines for idling vehicles, and conducts regular vehicle inspections and maintenance to enhance vehicle efficiency. The Group's exhaust gas emissions performances were as follows:

Type of Exhaust Gas	2020	2019
Nitrogen oxides (NO _x)	145.67 kg	215.08 kg
Sulphur oxides (SO _x)	0.44 kg	0.56 kg
Particulate matters (PM)	13.74 kg	20.50 kg

Greenhouse Gas ("GHG") Emissions

The major sources of the Group's GHG emissions were direct GHG emissions generated from petrol consumed by vehicles (Scope 1), and indirect GHG emissions consumed from purchased electricity (Scope 2). To reduce GHG emissions during operation, the Group has actively adopted energy and water conservation measures which are described in the sections headed "Energy Management" and "Water Management" of the Report. During the Reporting Period, the Group's total GHG emissions intensity has decreased by approximately 28%. The Group's GHG emissions performances were as follows:

Indicator ¹	2020	2019
Scope 1	78.92 tCO ₂ e	101.05 tCO ₂ e
Scope 2	121.71 tCO ₂ e	242.38 tCO ₂ e
Total	200.63 tCO ₂ e	343.43 tCO ₂ e
Total GHG emissions intensity ²	0.93 tCO ₂ e/employee	1.30 tCO ₂ e/employee

Notes:

- GHG emissions data is presented in terms of carbon dioxide equivalent and based on, including but not limited to, The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standards issued by the World Resources Institute and the World Business Council for Sustainable Development, How to prepare an ESG Report — Appendix II: Reporting Guidance on Environmental KPIs issued by HKEx, Global Warming Potential Values from the IPCC Fifth Assessment Report, 2014 (AR5), the latest emission factors of China's regional power grid basis, and 2019 Sustainability Report published by Hong Kong Electric Investments.
- As at 31 December 2020, the Group employed 215 full time employees (2019: 265). These data are also used for calculating other intensity data.

Environmental, Social and Governance Report

WASTE MANAGEMENT

Hazardous Wastes

Due to the Group's business nature, it had not generated significant amount of hazardous wastes during the Reporting Period. Despite the Group has generated an insignificant amount of hazardous wastes, the Group has established guidelines in governing the management and disposal of such wastes. In case if there are any hazardous wastes produced, the Group is required to engage a qualified chemical waste collector to handle such wastes, which complies with relevant environmental rules and regulations.

Non-hazardous Wastes

With the aim of minimizing the environmental impacts of non-hazardous wastes generated from its business operations, the Group has implemented relevant measures to handle such wastes and has launched different reduction initiatives. As an office-based company, the Group consumes a relative significant amount of paper during our business operation. The Group thereby focuses on reducing paper consumption by introducing various paper-saving measures, such as printing paper on both sides, utilizing electronic means for disseminating information and handling documents, and promoting telephone and video conferences for daily communication, etc. During the Reporting Period, the Group's total non-hazardous wastes intensity has remained steady at approximately 0.01 tonnes per employee. The Group's non-hazardous wastes discharge performances were as follows:

Type of non-hazardous wastes	2020	2019
General Wastes	1.26 tonnes	1.25 tonnes
Paper	0.46 tonnes	0.87 tonnes
Total non-hazardous wastes	1.72 tonnes	2.12 tonnes
Total non-hazardous wastes intensity	0.01 tonnes/employee	0.01 tonnes/employee

Use of Resources

The Group actively promotes the effective use of resources, the Group has implemented the Workplace Management Regulation and adopted various energy-saving practices to achieve the goal of maintaining an environmentally friendly workplace.

Environmental, Social and Governance Report

Energy Management

The Group has formulated rules to achieve the goal of electricity saving, such measures include encouraging employees to set air-conditioners at a preferred temperature which reduces the cooling load of the air-conditioning system, turning off lightings and air-conditioners in unoccupied areas, switching off computers and other office equipment after operation hours, and purchasing energy efficient electronic appliances. During the Reporting Period, the electricity consumption intensity has decreased by approximately 33%. The Group's energy consumption performances were as follows:

	2020	2019
Purchased electricity	145.51 MWh	270.52 MWh
Electricity consumption intensity	0.68 MWh/employee	1.02 MWh/employee

Water Management

The water consumption of the Group is limited to basic cleaning and sanitation in the offices, and the water consumed equals to the amount of sewage discharged. The Group has been strengthening its water-saving promotion, posting water saving slogans, and guiding employees to use water reasonably. During the Reporting Period, the Group's water consumption intensity has decreased by approximately 3%. The Group's water consumption performances were as follows:

	2020	2019
Water	583.60 m ³	741.62 m ³
Water consumption intensity	2.71 m ³ /employee	2.80 m ³ /employee

In view of the geographical location of the Group's operation and nature of business, there is no problem in sourcing water.

Use of Packaging Materials

The Group does not consume significant amounts of packaging materials for its products as it does not have any industrial production or factory facilities.

The Environment and Natural Resources

The Group recognizes the responsibility in minimising the negative environmental impacts of its operations in achieving sustainable development, therefore the Group works tirelessly to mitigate the environmental impacts of its activities through adopting various measures. Although the core business of the Group has a small impact on the environment and natural resources, as an ongoing commitment to good corporate social responsibility, the Group realises its responsibility in minimising any negative environmental impacts in its business operations. The Group regularly assesses the environmental risks of its business and adopts preventive measures to reduce the risks and ensures compliance with relevant laws and regulations.

Indoor Air Quality

Good indoor air quality is important as employees spend most of their time working at office. Indoor air quality in its workplace is regularly monitored and measured. Air pollutants, contaminants and dust particles are filtered out by air purifying equipment in the workplace, and regular cleaning of air conditioning system is conducted to ensure office's indoor air quality.

Environmental, Social and Governance Report

EMPLOYMENT AND LABOUR PRACTICES

Employment

Employees are regarded as the valuable asset and core competitive advantage of the Group, while they also serve as the driving force for the continuous innovation of the Group. The Group applies robust and transparent recruitment processes based on merit selection, and recruit individuals based on their suitability for the position and potential to fulfill the Group's current and future needs.

The Group is dedicated to providing equal opportunity in all aspects of employment and maintaining an inclusive and collaborative workplace culture that is free from discrimination, physical or verbal harassment against any individual on the basis of race, religion, colour, gender, physical or mental disability, age, place of origin, marital status and sexual orientation.

The Group has established the Methodology for Performance Evaluation Management and Employment Rules to regulate the performance appraisal system, and staff performance appraisal will be carried out regularly. Results of the performance appraisal are served as the basis for salary adjustment, promotion, transfer and demotion. The Group does not tolerate the dismissal of employees under any unreasonable basis. Any termination of employment contract would be based on reasonable, lawful grounds and internal policies.

The Group's employees are entitled to paid holidays pursuant to statutory requirements or respective employment contracts. The Group has formulated the Attendance Management Regulation to specify employees' working time and rest periods. Overtime working is subjected to approval from supervisors and overtime working expenses will be reimbursed. The Group has also set up an electronic attendance registration system to continuously monitor the working hours of employees.

The Group pays statutory pension fund for employees in accordance with relevant legal requirements, including the Mandatory Provident Fund for employees in Hong Kong and social insurance payments for employees in the People's Republic of China. To boost the overall morale of employees, the Group also organizes various events, such as sports competitions and outreach activities for employees.

During the Reporting Period, the Group was not aware of any material non-compliance with employment-related laws and regulations including but not limited to the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China, the Company Law of the People's Republic of China, the Employment Ordinance (Cap. 57 of Laws of Hong Kong).

Health and Safety

The Group is committed to protecting employees' health and safety. The Group has formulated the Physical Access Control Procedure in accordance with local laws and regulations to maintain office order and ensure internal health and safety at workplace. Relevant regulations on facility management, workplace management and fire management are documented in the Physical Access Control Procedure, and responsible personnel are required to constantly monitor the workplace, identify and correct deficiencies that do not meet the standards. The Group also provides safety trainings to increase the safety awareness of all employees, while encouraging all employees to report health and safety incidents and risks whenever identified.

In response to the outbreak of the COVID-19 pandemic, the Group has taken certain actions to strengthen the health and safety precautionary measures in its workplace so as to ensure the health of its employees. Apart from increasing the frequency of office cleaning and sterilisation, employees are also required to wear surgical face masks in office areas. Epidemic prevention supplies such as thermometer and alcohol-based hand sanitisers are provided in office, and guideline on the disposal of surgical face masks is provided to employees to ensure face masks are properly disposed after use. The Group has strictly followed guidelines and announcements made by local governments and regulators in regards to epidemic prevention, and the Group strives to provide a healthy and safe working environment for employees.

Environmental, Social and Governance Report

During the Reporting Period, the Group was not aware of any material non-compliance with health and safety-related laws and regulations, including but not limited to the Labour Law of the People's Republic of China, and the Occupational Safety and Health Ordinance (Cap. 509 of Laws of Hong Kong).

Development and Training

The Group has developed the Training Management Policy, and has created a variety of learning opportunities for employees to enhance their competence, job skills, knowledge and performance by the multilevel training system. In daily operations, the Group provides on-board trainings for new employees. Experienced employees will act as mentors to guide the new joiners. Such arrangement does not only enhance team communication and spirit, improve employees' technical skills and managerial capability, while it also encourages employees at all levels to pursue continuous learning and development. The Group also provides the latest industrial information and updates on laws and regulations relevant to the Group's operation and employees' work from time to time.

Labour Standards

The Group strictly complies with laws to prohibit the employment of child and forced labour in any of its operations. The Group's recruitment management system has set out requirements for the legal working age of employees. The Group reviews and verifies applicant's identity documents such as proofs of academic qualifications and working experience during the recruitment process. Applicant who is suspected to have false academic qualifications and working experiences will not be employed. The Group enters employment contract with each of its employee in accordance with relevant laws and regulations.

During the Reporting Period, the Group was not aware of any material non-compliance with child and forced labour-related laws and regulations, including but not limited to the Law of the People's Republic of China on the Protection of Minors, Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China, and the Employment Ordinance (Cap. 57 of Laws of Hong Kong).

OPERATING PRACTICES

Supply Chain Management

The Group highly values the importance of maintaining and managing a sustainable supply chain. The Group manages its supply chain by regularly assessing the environmental and social risks of suppliers, and it urges suppliers to take measures in reducing their environmental and social risks. The Group values the importance of communication with suppliers, including continuous communication during routine work, and establishes strategic cooperation relationship with suppliers through technical support and unique competitive advantage, for which it helps to achieve win-win situation and strengthen the cooperation relationship.

The Group has established a stringent and standardized procurement system to effectively monitor the procurement procedures and cost control, while increasing the transparency of procurement management. The Group conducts procurement on an open, fair and impartial basis, and it does not allow any forms of corruption or bribery. Employees and other individuals with interest in the suppliers are not allowed to participate in relevant procurement activities. The Group has established a rigorous supplier selection system. The Group selects suppliers based on a number of factors, such as business ethics, compliance to relevant industrial standards, regulations and laws, etc, and only suppliers with good track record in the past and no serious violations of business ethics will be selected.

Environmental, Social and Governance Report

Product Responsibility

The Group provides quality and warm service experiences to consumers and customers through standardised service quality and management. The Group reviews all complaints from customers, suppliers and partners in accordance with internal procedures and guidelines. The Group will conduct investigations to resolve complaints and make improvements accordingly.

The Group recognizes the importance of protecting customers' privacy, and it has established the Information Security Management Procedure in regulating the collection, process, and use of confidential data in order to prevent the leakage of such data. The Information Security Management Procedure has also documented the immediate corrective actions when incidents of data leakages were identified.

During the Reporting Period, the Group was not aware of any material non-compliance with any laws and regulations concerning advertising, labelling and privacy matters relating to products and services provided and methods of redress, including but not limited to the Law of the People's Republic of China on the Protection of Consumer Rights and Interests, the Patent Law of the People's Republic of China, and the Personal Data (Privacy) Ordinance (Cap. 486 of Laws of Hong Kong).

Anti-corruption

The Group maintains a high standard of business integrity throughout its operations and does not tolerate any forms of corruption or bribery.

The Group has adopted and circulated internally clear guidelines for employees which strictly prohibit bribery, extortion, fraud, money laundering and other acts, and require its personnel to declare any interests in the Group's business partners, suppliers and advisers that may conflict with the Group's business interests.

The Group has adopted a zero-tolerance approach towards all forms of corruption, and disciplinary actions will be taken against any kinds of misconduct or malpractice. The Group has implemented a Whistleblowing Policy to allow employees to report any suspected business irregularities such as breach of duty, abuse of power, receiving bribes, employees to the Board for investigation and verification. Any person who is found to have victimised or retaliated against those who have raised concerns under this policy will be subjected to disciplinary sanctions. In some cases, the Group might refer the case to regulators and/or to law enforcement authorities when necessary.

During the Reporting Period, the Group was not aware of any material non-compliance with related laws and regulations of bribery, extortion, fraud and money laundering, including but not limited to the Criminal Law of the People's Republic of China, the Anti-Unfair Competition Law of the People's Republic of China, the Interim Provisions on Banning Commercial Bribery in the People's Republic of China, the Prevention of Bribery Ordinance (Cap. 201 of Laws of Hong Kong).

COMMUNITY

Community Investment

The Group believes that maintaining an inclusive and welcoming community relies on the co-operation of people, corporations and the government. The Group hopes to foster employees' sense of social responsibility by actively encouraging them to participate in charitable activities. Such activities provide employees the opportunities to make contributions to the community, while reinforcing the Group's corporate values. By working with various community partners, the Group believes that it can bring positive impact towards community sustainable development. During the Reporting Period, the Group had donated face masks to the Chongqing Welfare Lottery Issuance Center in view of the outbreak of COVID-19. Moving forward, the Group will continue to seek opportunities to support charitable organizations where appropriate in order to keep bringing positive progress to society.

Independent Auditors' Report



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

TO THE MEMBERS OF
CHINA ECOTOURISM GROUP LIMITED
(FORMERLY KNOWN AS CHINA LOTSYNERGY HOLDINGS LIMITED)
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of China Ecotourism Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 57 to 152, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 2.1 in the consolidated financial statements, which indicates that the Group incurred a net loss of approximately HK\$623,918,000 during the year ended 31 December 2020 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK\$241,971,000. As stated in Note 2.1, these events or conditions, along with other matters as set forth in Note 2.1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Independent Auditors' Report

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p>Impairment assessment for non-current assets</p> <p><i>Refer to Notes 16, 17 and 19 in the consolidated financial statements.</i></p> <p>The carrying values of the Group's property, plant and equipment, right-of-use assets and intangible assets as at 31 December 2020 was approximately HK\$50 million, HK\$342 million and HK\$63 million, respectively. Impairment charge of approximately HK\$399 million was recognised against goodwill and other non-current assets for the year ended 31 December 2020.</p> <p>Management assessed whether there was any impairment of the carrying values of goodwill and other non-current assets as at 31 December 2020 using value-in-use calculations for each smallest identifiable group of assets that generate independent cash flows (a cash-generating unit) ("CGU"). Preparing the value-in-use calculations requires management to exercise significant judgement, particularly in relation to revenue forecasts, operating margins and discount rates.</p> <p>We identified impairment of non-current assets as a key audit matter because of the significant management judgement and estimation required in assessing potential impairment.</p>	<p>Our procedures in relation to management's impairment assessment for non-current assets included:</p> <ul style="list-style-type: none"> • Assessing management's identification of CGUs and the allocation of assets to each CGU with reference to our understanding of the Group's business and the requirements of the prevailing accounting standards; • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; • Reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets and plans and considered the evidence in support of them, principally in relation to historical trends and actual performance in 2020; • Checking the mathematical accuracy of the value-in-use calculations in the management's impairment assessment; and • Performing sensitivity analysis on the level of cash flows, the discount and growth used in the impairment assessment.

Independent Auditors' Report

KEY AUDIT MATTERS *(Cont'd)*

Key audit matter	How our audit addressed the key audit matter
<p>Impairment assessment for loan receivables</p> <p><i>Refer to Note 27 in the consolidated financial statements.</i></p> <p>The carrying amount of loan receivables as at 31 December 2020 was approximately HK\$65 million, net of expected credit losses ("ECL") on loan receivables of approximately HK\$521 million. During the year, impairment losses of approximately HK\$21 million were recognised in profit or loss in relation to loan receivables.</p> <p>The Group recognises lifetime ECL for loan receivables. The ECL assessment is based on the internal credit rating, adjusted for factors that are specific to the debtors, an assessment of the current conditions and forecasts of future economic conditions at the reporting date. The ECL assessment involves high degree of uncertainties.</p> <p>We identified the impairment assessment of loan receivables as a key audit matter due to the involvement of subjective judgement and management estimates in evaluating the ECL of the Group's loan receivables at the end of the reporting period.</p>	<p>Our procedures in relation to management's impairment assessment for loan receivables included:</p> <ul style="list-style-type: none"> • Obtaining an understanding of management's methodology for determining the ECL on loan receivables and assessing the appropriateness of the methodology used by management; • Assessing the reasonableness of key inputs and assumptions applied, including the Group's past experience of collecting payments, internal credit rating, macroeconomic factors and forward-looking information; and • Testing the data inputs and the mathematical accuracy of the impairment allowance calculation.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditors' Report

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent Auditors' Report

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Cont'd)*

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement director on the audit resulting in the independent auditors' report is Lo Kin Kei.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Lo Kin Kei
Practising Certificate Number: P06413

Hong Kong, 31 March 2021

Consolidated Statement of Profit or Loss

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Revenue	5	118,563	154,354
Costs of sales and services			
— Depreciation of lottery terminals		(33,605)	(33,456)
— Others		(57,443)	(59,406)
		(91,048)	(92,862)
Gross profit		27,515	61,492
Other income	7	13,520	57,459
Other (losses)/gains — net	8	(409,777)	6,068
Net impairment losses on financial assets	3.1(b)	(26,332)	(406,496)
General and administrative expenses		(144,085)	(203,038)
Share option expenses		—	(5,065)
Operating loss	9	(539,159)	(489,580)
Finance costs	10	(86,034)	(53,922)
Share of losses of associates		(2,756)	(663)
Share of loss of a joint venture		(2,496)	(2,180)
Loss before income tax		(630,445)	(546,345)
Income tax credit/(expense)	11	6,527	(3,755)
Loss for the year		(623,918)	(550,100)
Loss attributable to:			
Owners of the Company		(573,971)	(518,793)
Non-controlling interests		(49,947)	(31,307)
		(623,918)	(550,100)
Loss per share attributable to owners of the Company			
— basic	12	(55.75) HK cents	(51.76) HK cents
— diluted	12	(55.75) HK cents	(51.76) HK cents

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	2020 HK\$'000	2019 HK\$'000
Loss for the year	(623,918)	(550,100)
Other comprehensive income/(expense):		
<i>Items that will not be reclassified to profit or loss</i>		
Gain on revaluation of properties held for own use	245,546	–
Deferred tax arising on revaluation of properties held for own use	(7,518)	–
	238,028	–
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	22,495	(12,889)
Share of other comprehensive expense of associates and joint venture	176	(139)
	22,671	(13,028)
Total of other comprehensive income/(expense) for the year	260,699	(13,028)
Total comprehensive expense for the year	(363,219)	(563,128)
Attributable to:		
Owners of the Company	(326,641)	(526,765)
Non-controlling interests	(36,578)	(36,363)
Total comprehensive expense for the year	(363,219)	(563,128)

Consolidated Statement of Financial Position

At 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Non-current assets			
Property, plant and equipment	16	50,138	130,170
Right-of-use assets	17(a)	342,130	180,614
Intangible assets	19	63,292	445,751
Interests in associates	21	189	2,847
Investment in a joint venture	22	–	2,418
Financial assets at fair value through profit or loss	24	6,769	7,583
		462,518	769,383
Current assets			
Inventories	25	9,694	13,660
Accounts receivable	26	70,705	73,620
Prepayments, deposits and other receivables	27	128,123	159,533
Cash and bank balances	28	76,430	64,726
		284,952	311,539
Total assets		747,470	1,080,922
Current liabilities			
Accounts payable	29	4,399	2,918
Accruals and other payables		38,872	41,384
Contract liabilities	5(b)	31,285	18,992
Amount due to a joint venture	22	6,766	7,902
Amount due to a shareholder	30	56,880	–
Amounts due to directors	31	19,703	–
Tax payable		8,100	6,396
Bank borrowings	32	212,793	245,500
Lease liabilities	17(a)	10,920	9,169
Convertible bonds	33	137,205	147,400
		526,923	479,661
Net current liabilities		(241,971)	(168,122)
Total assets less current liabilities		220,547	601,261
Non-current liabilities			
Deferred income tax liabilities	34	39,993	38,233
Lease liabilities	17(a)	12,256	31,511
		52,249	69,744
Net assets		168,298	531,517

Consolidated Statement of Financial Position

At 31 December 2020

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
Equity attributable to owners of the Company			
Share capital	35	25,737	25,737
Reserves	37	1,622,090	1,389,169
Accumulated losses		(1,738,885)	(1,179,323)
		(91,058)	235,583
Non-controlling interests		259,356	295,934
Total equity		168,298	531,517

The consolidated financial statements on pages 57 to 152 were approved by the Board of Directors on 31 March 2021 and were signed on its behalf by:

CHAN TAN NA, DONNA
Director

WU JINGWEI
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to owners of the Company			Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000 (Note 35)	Reserves HK\$'000 (Note 37)	Accumulated losses HK\$'000		
At 1 January 2019	24,399	1,375,614	(667,311)	339,492	1,072,194
Comprehensive expense					
Loss for the year	–	–	(518,793)	(31,307)	(550,100)
Other comprehensive expense:					
Currency translation differences	–	(7,972)	–	(5,056)	(13,028)
Total comprehensive expense	–	(7,972)	(518,793)	(36,363)	(563,128)
Release of revaluation reserve upon depreciation of owned properties and related leasehold land	–	(241)	241	–	–
Share option scheme:					
— value of employees' services	–	212	–	–	212
— value of other participants' services	–	4,853	–	–	4,853
— share options exercised	1,338	23,243	–	–	24,581
— vested share options expired	–	(6,540)	6,540	–	–
Non-controlling interests on acquisition of subsidiaries	–	–	–	(2,690)	(2,690)
Dividends paid to non-controlling interests	–	–	–	(4,505)	(4,505)
At 31 December 2019	25,737	1,389,169	(1,179,323)	295,934	531,517

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to owners of the Company			Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000 (Note 35)	Reserves HK\$'000 (Note 37)	Accumulated losses HK\$'000		
At 1 January 2020	25,737	1,389,169	(1,179,323)	295,934	531,517
Comprehensive expense					
Loss for the year	-	-	(573,971)	(49,947)	(623,918)
Other comprehensive income:					
Gain on revaluation of properties held for own use	-	244,823	-	723	245,546
Deferred tax arising on revaluation of properties held for own use	-	(7,338)	-	(180)	(7,518)
Currency translation differences	-	9,845	-	12,826	22,671
Total of other comprehensive income	-	247,330	-	13,369	260,699
Total comprehensive expense	-	247,330	(573,971)	(36,578)	(363,219)
Release of revaluation reserve upon:					
— depreciation of owned properties and related leasehold land	-	(241)	241	-	-
— disposal of properties	-	(5,682)	5,682	-	-
Share option scheme:					
— vested share options expired	-	(8,486)	8,486	-	-
At 31 December 2020	25,737	1,622,090	(1,738,885)	259,356	168,298

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Cash flows from operating activities			
Operating cash flows before changes in working capital	38(a)	(52,846)	(74,274)
Changes in working capital	38(a)	30,646	73,903
Cash used in operations	38(a)	(22,200)	(371)
Income tax refunded/(paid)		908	(6,856)
Net cash used in operating activities		(21,292)	(7,227)
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,885)	(38,157)
Proceeds from disposal of property, plant and equipment		3,801	140
Proceeds from disposal of investment property		44,380	–
Proceeds from disposal of financial assets at fair value through profit or loss		912	–
Purchase of intangible assets		(2,961)	(5,045)
Acquisition of subsidiaries	40(e)	–	(2,927)
Interest received		846	3,370
Net cash generated from/(used in) investing activities		45,093	(42,619)
Cash flows from financing activities			
Interest paid		(22,929)	(18,572)
Proceeds from issue of shares		–	24,581
Advances from a shareholder		56,500	–
Advances from directors		19,537	–
Repayment of promissory note		(6,000)	–
Redemption of convertible bonds		(26,220)	–
Repayment of lease liabilities		(6,678)	(13,080)
Repayment of bank borrowings		(33,500)	(16,743)
Dividends paid to non-controlling interests		–	(4,505)
Net cash used in financing activities		(19,290)	(28,319)
Net increase/(decrease) in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		56,875	138,000
Effect of foreign exchange rate changes		6,671	(2,960)
Cash and cash equivalents at end of the year (Note)	28	68,057	56,875

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 2020

1. GENERAL INFORMATION

China Ecotourism Group Limited (formerly known as 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 addresses of its registered office and principal place of business are disclosed in the Corporate Information section to this annual report.

The Company and its subsidiaries (collectively referred to as the “Group”) are technology and operation service providers and suppliers 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. In 2019, the Group commenced the business engaging in research and development, processing, production and sales of natural and health food.

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 on the historical cost basis, except for owned properties and related leasehold land and certain financial assets and liabilities (including derivative instruments) that are measured at revalued amount or fair value.

2.1.1 Going concern

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group incurred a net loss of approximately HK\$623,918,000 for the year ended 31 December 2020 and, as of that date, the Group’s current liabilities exceeded its current assets by approximately HK\$241,971,000. These current liabilities included amount due to a shareholder amounting to approximately HK\$56,880,000, amounts due to directors amounting to approximately HK\$19,703,000, bank borrowings amounting to approximately HK\$212,793,000 and convertible bonds that will be due in the coming twelve months amounting to approximately HK\$137,205,000. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group’s ability to continue as going concern.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

2.1 Basis of preparation (Cont'd)

2.1.1 Going concern (Cont'd)

In view of such circumstances, the directors of the Company have taken the following measures to mitigate the liquidity pressure and to improve the financial position of the Group:

- (a) The Group has been actively negotiating with the relevant bank for renewal of the revolving bank borrowings with outstanding principal amount of HK\$212,000,000 that are secured by the Group's property located in Hong Kong. Taking into account the fair value of the pledged property in the amount of HK\$346,000,000 as at 28 February 2021, the directors believe that the Group will be able to renew the banking facilities;
- (b) The Group has also been actively negotiating with various banks and persons or institutions providing finance to obtain additional new credit facilities. Subsequent to the end of the reporting period, the Group successfully obtained new loan facilities in Hong Kong dollars up to HK\$78,000,000 and Renminbi ("RMB") up to RMB90,000,000 (equivalent to approximately HK\$107,015,000) from independent third parties;
- (c) In relation to a loan from a shareholder with principal amount of HK\$50,000,000 that matured on 20 January 2021, the Group entered, on the same date as the maturity date, into a supplemental loan agreement with the shareholder to extend the maturity date from 20 January 2021 to 20 January 2022.
- (d) Subsequent to the end of the reporting period, the Group has obtained written confirmation from the shareholder mentioned in (c) above that she will not demand repayment of another loan with principal amount of HK\$6,500,000 and its accrued interest in the eighteen months from 24 March 2021;
- (e) Subsequent to the end of the reporting period, the Group has obtained written confirmations from the relevant directors that they will not demand repayment of the outstanding principals in the total amount of approximately HK\$19,537,000 and accrued interest in the eighteen months from 24 March 2021;
- (f) As set out in Note 43, on 16 February 2021, the Group proposed to raise gross proceeds up to approximately HK\$220,750,000 by issuing up to 2,207,541,466 rights shares on the basis of two rights shares for every one existing share at the subscription price of HK\$0.10 per rights share;
- (g) The Group has implemented measures to speed up the collection of outstanding accounts receivable. As referred to a civil judgment received from the Supreme People's Court of The People's Republic of China on 25 March 2021, the directors believe that the Group will be able to collect the outstanding accounts receivable of approximately RMB54,836,000 (equivalent to approximately HK\$65,203,000) due from Beijing China Lottery Online Technology Company Limited ("CLO") before 31 December 2021; and

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

2.1 Basis of preparation (Cont'd)

2.1.1 Going concern (Cont'd)

- (h) The Group will continue to take active measures to control administrative costs and maintain containment of capital expenditures.

The directors are of the opinion that, taking into account the above-mentioned measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 31 December 2020. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

2.1.2 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to existing standards for the first time for the financial year beginning on 1 January 2020:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The *Amendments to References to the Conceptual Framework in HKFRS Standards* and the amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New standards, amendments and interpretations not yet adopted

The following are new standards and amendments to existing standards that have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2021 or later periods, but have not been early adopted by the Group.

HKFRS 17	Insurance Contracts and the related Amendments ¹
Amendment to HKFRS 16	Covid-19-Related Rent Concessions ⁴
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2 ⁵
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 ²

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

2.1 Basis of preparation *(Cont'd)*

2.1.2 Changes in accounting policy and disclosures *(Cont'd)*

(b) New standards, amendments and interpretations not yet adopted *(Cont'd)*

- ¹ Effective for annual periods beginning on or after 1 January 2023.
- ² Effective for annual periods beginning on or after 1 January 2022.
- ³ Effective for annual periods beginning on or after a date to be determined.
- ⁴ Effective for annual periods beginning on or after 1 June 2020.
- ⁵ Effective for annual periods beginning on or after 1 January 2021.

These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

(c) Revaluation of owned properties and related leasehold land

The Group reassessed its accounting for property, plant and equipment with respect to measurement of certain class of property, plant and equipment after initial recognition. The Group had previously measured all property, plant and equipment using the cost model whereby, after initial recognition of the asset classified as property, plant and equipment, the asset was carried at cost less accumulated depreciation and accumulated impairment losses.

On 31 December 2020, the Group elected to change the method of accounting for owned properties classified as property, plant and equipment and related leasehold land classified as right-of-use assets, as the Group believes that the revaluation model provides more relevant information to the users of its consolidated financial statements. In addition, available valuation techniques provide reliable estimates of the owned properties and related leasehold land's fair value. The change from the cost model to the revaluation model is a change in accounting policy. The Group has applied this change in accounting policy as a revaluation in accordance with HKAS 16.

After initial recognition, owned properties and related leasehold land are measured at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

2.2 Principles of consolidation and equity accounting

2.2.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity where 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany 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. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

2.2 Principles of consolidation and equity accounting *(Cont'd)*

2.2.1 Subsidiaries *(Cont'd)*

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

2.2.2 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

2.2.3 Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost in the consolidated statement of financial position.

2.2.4 Equity accounting

Under the equity method of accounting, the investments are initially recognised at cost, and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

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

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.10.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

2.2 Principles of consolidation and equity accounting *(Cont'd)*

2.2.5 Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial 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 or transferred to another category of equity as specified or permitted by applicable HKFRSs.

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

2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, liabilities incurred to the former owners of the acquired business, equity interests issued by the Group, fair value of any asset or liability resulting from a contingent consideration arrangement, and fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

2.3 Business combinations (Cont'd)

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

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 remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (which cannot exceed one year from the acquisition date), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

2.4 Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less impairment. Cost includes directly attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

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 of Directors (the "Board") that makes strategic decisions.

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 presentation currency.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

2.6 Foreign currency translation (Cont'd)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss ("FVPL") are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income ("OCI") are recognised in OCI.

(c) Group companies

The results and financial position of foreign operations (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 and statement of comprehensive income are translated at average exchange rates (unless this 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 OCI.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in OCI. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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 that 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

Property, plant and equipment are 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 any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

From 31 December 2020, owned properties are recognised at fair value based on periodic valuations by external valuers, less subsequent depreciation and impairment losses. A revaluation surplus is credited to revaluation reserve in shareholders' equity.

Increase in the carrying amounts arising on revaluation of owned properties are recognised, net of tax, in OCI and accumulated in reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decrease that reverse previous increases of the same asset are first recognised in OCI to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost, net of tax, is reclassified from the revaluation reserve to retained profits.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

2.7 Property, plant and equipment *(Cont'd)*

Depreciation is calculated using the straight-line method to allocate their costs or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements, the shorter lease term as follows:

Owned properties	2.5%
Lottery terminals	20%
Leasehold improvements	20%–50%
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. These are included in profit or loss. When revalued assets are sold, it is group policy to transfer any amounts included in revaluation reserve in respect of those assets to retained profits.

If a property becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item (including the relevant leasehold land classified as right-of-use assets) at the date of transfer is recognised in OCI and accumulated in revaluation reserve. On the subsequent sale or retirement of the property, the relevant revaluation reserve will be transferred directly to retained profits.

2.8 Investment properties

Investment properties are held for long-term rental yields and are not occupied by the Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequently, they are carried at fair value. Changes in fair values are presented in profit or loss.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

2.9 Intangible assets

(a) Goodwill

Goodwill is measured as described in Note 2.10. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

(b) Development costs

Development costs represent all direct costs incurred by the Group in setting up systems and networks, including the cost of equipment and development cost. 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, which does not exceed ten years.

(c) 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. They have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

2.10 Impairment of non-financial assets

Goodwill and 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, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.11.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

2.11 Financial assets (Cont'd)

2.11.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "Other gains/(losses) — net". Impairment losses are presented as separate line item in the statement of profit or loss.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "Other gains/(losses) — net". Interest income from these financial assets is included in "other income" using the effective interest rate method. Foreign exchange gains and losses are presented in "Other gains/(losses) — net" and impairment expenses are presented as separate line item in the statement of profit or loss.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL and presented net within "Other gains/(losses) — net" in the period in which it arises.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

2.11 Financial assets *(Cont'd)*

2.11.3 Measurement *(Cont'd)*

Investments in equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investments. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in "Other gains/(losses) — net" in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at financial assets at FVOCI are not reported separately from other changes in fair value.

2.11.4 Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables and lease receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

2.12 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.

2.13 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 the estimated costs of completion and the estimated costs necessary to make the sale.

2.14 Trade receivables

Trade receivables are amounts due from customers for goods 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 receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

2.15 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks and financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, 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 and other payables

Trade payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade payables are presented as current liabilities unless payment is not due within twelve months after the reporting period.

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

2.18 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in 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 removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

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 reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

2.19 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get 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.

Other borrowing costs are expensed in the period in which they are incurred.

2.20 Hybrid financial instruments

Convertible bond issued by the Company that contains both a liability and embedded derivative is classified separately into these respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or other financial assets for a fixed number of the Company's shares is conversion option derivative. At the date of issue, both the liability component and embedded derivative are recognised at fair value. In subsequent periods, the liability component of the convertible bond is carried at amortised cost using the effective interest method. The embedded derivative is measured at fair value with changes in fair value recognised in profit or loss.

2.21 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(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.

(b) *Deferred income tax*

Deferred income tax is provided in full, 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. Deferred income tax is also 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

2.21 Current and deferred income tax (Cont'd)

(b) *Deferred income tax (Cont'd)*

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in OCI or directly in equity. In this case, the tax is also recognised in OCI or directly in equity, respectively.

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 when 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 present value.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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. Except for equity-settled share-based payment transactions with parties other than employees, 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.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair values of the services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the options granted. The fair values of the services received are recognised as expenses when the counterparties render services.

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 2020

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 can be 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 management's best estimate of the expenditures required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to passage of time is recognised as interest expense.

2.25 Revenue recognition

Revenue from contracts with customers is recognised when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

2.25 Revenue recognition *(Cont'd)*

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised good or service to the customer.

(a) Sale of lottery terminals and related equipment

Revenue from sale of lottery terminals and related equipment is recognised when control of the goods has transferred, being when the products are delivered to the customers, the customer has accepted the products, the collection of the related consideration is probable and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

(b) Sale of natural and health food

Revenue from sales of natural and health food is recognised at point in time when the products are delivered to the customers.

(c) Provision of technical and maintenance services

Revenue from providing technical and maintenance services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided as a proportion of the total service to be provided because the customer receives and uses the benefits simultaneously.

2.26 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

2.27 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments);
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

2.27 Leases (Cont'd)

Except for those that relate to a class of property, plant and equipment to which the Group applies the revaluation model, right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Right-of-use assets relate to a class of property, plant and equipment to which the Group applies the revaluation model, the Group has elected to apply that revaluation model to all of the right-of-use assets that relate to that class of property, plant and equipment.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of twelve months or less.

Lease income from operating leases where the Group is a lessor is recognised in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the statement of financial position based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2.28 Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the statement of profit or loss as part of other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.29 Dividend distribution

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

2.30 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income".

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. Group Treasury identifies, evaluates and hedges financial risks in close cooperation 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 arise from future commercial transactions and recognised assets and liabilities denominated in foreign currencies and are 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. Management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The Group has certain investments in foreign operations, whose net assets expose the Group 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 RMB exchange rate, with all other variables held constant, of the Group's loss after tax and the Group's equity, mainly as a result of foreign exchange gains or losses on translation of the foreign operations' net assets to the Group's HK\$ reporting currency.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

(i) Foreign exchange risk (Cont'd)

	Increase/ (Decrease) in RMB %	Increase/ (Decrease) in loss after income tax HK\$'000	Increase/ (Decrease) in equity HK\$'000
2020			
If HK\$ weakens against RMB	5	11,341	14,249
If HK\$ strengthens against RMB	(5)	(10,272)	(15,177)
2019			
If HK\$ weakens against RMB	5	6,397	26,314
If HK\$ strengthens against RMB	(5)	(5,856)	(22,006)

(ii) Price risk

The Group is exposed to price risk arising from investments classified as financial assets at fair value through profit or loss.

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.

	(Decrease)/ Increase in loss after income tax HK\$'000	Increase/ (Decrease) in equity HK\$'000
2020		
5% increase in price	(338)	338
5% decrease in price	338	(338)
2019		
5% increase in price	(379)	379
5% decrease in price	379	(379)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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, fixed-rate loan receivables 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 bank borrowings at floating rate of interests so as to minimise the fair value interest rate risk. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's bank borrowings denominated in HK\$.

The following table demonstrates the sensitivity to 5% increase/decrease in interest rates, with all other variables held constant, of the Group's loss 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	Increase/ (Decrease) in equity HK\$'000
2020			
HK\$	5	815	(815)
HK\$	(5)	(815)	815
2019			
HK\$	5	1,158	(1,158)
HK\$	(5)	(1,158)	1,158

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(b) Credit risk

The credit risk of the Group's financial assets, which comprise bank balances, trade receivables, lease receivables, and financial assets included in deposits and other receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

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.

The credit risk on bank balances are limited because the counterparties are banks and financial institutions with high credit ratings assigned by international credit-rating agencies.

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 91% (2019: 83%) and 97% (2019: 96%) of the Group's accounts receivable were due from the Group's largest customer and the five largest customers, respectively.

The tables below detail the credit risk exposures of the Group's financial assets and lease receivables, which are subject to expected credit loss assessment. The amounts presented are gross carrying amounts.

2020	12-month expected credit loss HK\$'000	Lifetime expected credit loss (simplified approach) HK\$'000	Lifetime expected credit loss (not credit- impaired) HK\$'000	Lifetime expected credit loss (credit- impaired) HK\$'000	Total HK\$'000
Trade receivables	–	6,162	–	–	6,162
Lease receivables	–	65,846	–	–	65,846
Financial assets included in deposits and other receivables	42,421	–	–	587,756	630,177
Bank balances	75,900	–	–	–	75,900
	118,321	72,008	–	587,756	778,085

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(b) Credit risk (Cont'd)

2019	12-month expected credit loss HK\$'000	Lifetime expected credit loss (simplified approach) HK\$'000	Lifetime expected credit loss (not credit- impaired) HK\$'000	Lifetime expected credit loss (credit- impaired) HK\$'000	Total HK\$'000
Trade receivables	–	4,418	–	–	4,418
Lease receivables	–	69,202	–	–	69,202
Financial assets included in deposits and other receivables	49,493	–	23,403	567,515	640,411
Bank balances	63,640	–	–	–	63,640
	113,133	73,620	23,403	567,515	777,671

Impairment of financial assets

The Group has two main types of financial assets that are subject to HKFRS 9's expected credit loss model:

- Accounts receivable; and
- Loan receivables included in prepayments, deposits and other receivables

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

(i) Accounts receivable

Accounts receivable include trade receivables and lease receivables.

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables and lease receivables.

To measure the expected credit losses, trade receivables and lease receivables have been assessed individually with outstanding significant balances exceeding HK\$10 million, the remaining balances are grouped based on shared credit risk characteristics and the days past due.

Except for trade receivables and lease receivables with significant outstanding balances, the Group determines the expected credit losses on the remaining balances by using a provision matrix. The expected loss rates are based on the payment profiles of sales or leases over a period of 36 months before 31 December 2020 or 1 January 2020 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(b) Credit risk (Cont'd)

Impairment of financial assets (Cont'd)

(i) Accounts receivable (Cont'd)

On that basis, the loss allowance as at 31 December 2020 was determined as follows for trade receivables.

2020	Expected loss rate	Gross carrying amount — trade receivables HK\$'000	Loss allowance HK\$'000
Current (not past due)	0.21%	3,395	7
Less than 3 months past due	3.57%	1,365	49
3 to 12 months past due	3.94%	57	2
More than 1 year past due	92.63%	1,345	1,245
		6,162	1,303

For the year ended 31 December 2019, the Group assessed the expected credit loss on trade receivables was insignificant and thus no loss allowance was recognised.

The loss allowance for trade receivables as at 31 December reconcile to the opening loss allowance as follows:

	Lifetime expected credit loss (simplified approach) HK\$'000
Loss allowance as at 1 January 2019 and 31 December 2019	—
Increase in the allowance recognised in profit or loss	1,303
Closing loss allowance as at 31 December 2020	1,303

In relation to lease receivables, a debtor with significant outstanding balance with gross carrying amount of approximately HK\$65,203,000 as at 31 December 2020 (2019: HK\$61,132,000) was assessed individually. Details are set out in Note 26. The expected credit losses on lease receivables under the individual or collective assessment as at 31 December 2020 and 2019 are assessed to be insignificant. Therefore, no loss allowance for these receivables was recognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(b) Credit risk (Cont'd)

Impairment of financial assets (Cont'd)

(ii) Loan receivables

The Group applies the general approach under HKFRS 9 to measure expected credit losses for loan receivables. In assessing whether there is a significant increase in credit risk, the Group compares risk of a default occurring on the loan receivables at the reporting date with the risk of default at the date of initial recognition. Especially the following indicators are incorporated.

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of the borrower; and
- past due information.

The Group recognises lifetime expected credit losses on loan receivables as there has been a significant increase in credit risk since initial recognition of the loans.

The Group measures the expected credit loss using the risk parameter modelling approach that incorporates key measurement parameters, including probability of default, loss given default and exposure at default, with the consideration of forward-looking information such as macroeconomic factors.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(b) Credit risk (Cont'd)

Impairment of financial assets (Cont'd)

(ii) Loan receivables (Cont'd)

The loss allowance for loan receivables as at 31 December reconciles to the opening loss allowance as follows:

	Lifetime expected credit loss (not credit- impaired) HK\$'000	Lifetime expected credit loss (credit- impaired) HK\$'000	Total HK\$'000
Opening loss allowance as at 1 January 2019	29,399	66,435	95,834
Transfer to credit-impaired	(28,949)	28,949	–
Increase in the allowance recognised in profit or loss	10,064	396,432	406,496
Exchange difference	(111)	(915)	(1,026)
Closing loss allowance as at 31 December 2019	10,403	490,901	501,304
Transfer to credit-impaired	(10,403)	10,403	–
Increase in the allowance recognised in profit or loss	–	20,903	20,903
Write off	–	(7,517)	(7,517)
Exchange difference	–	6,330	6,330
Closing loss allowance as at 31 December 2020	–	521,020	521,020

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(b) Credit risk (Cont'd)

Impairment of financial assets (Cont'd)

(iii) Other financial assets at amortised cost

Other financial assets at amortised cost include deposits and other receivables.

The loss allowance for other receivables as at 31 December reconciles to the opening loss allowance as follows:

	12-month expected credit loss HK\$'000	Lifetime expected credit loss (credit- impaired) HK\$'000	Total HK\$'000
Loss allowance as at 1 January 2019 and 31 December 2019	–	–	–
Increase in the allowance recognised in profit or loss	3,171	955	4,126
Exchange difference	54	32	86
Closing loss allowance as at 31 December 2020	3,225	987	4,212

(iv) Net impairment losses on financial assets recognised in profit or loss

	2020 HK\$'000	2019 HK\$'000
Impairment losses on:		
— trade receivables arising from contracts with customers	1,303	–
— loan receivables (note)	20,903	406,496
— other financial assets at amortised cost	4,126	–
	26,332	406,496

Note: During the year, impairment losses of approximately HK\$20,903,000 (2019: HK\$406,496,000) were recognised in profit or loss in relation to loan receivables, including an amount of approximately HK\$20,903,000 (2019: HK\$396,432,000) recognised in the year ended 31 December 2020 to write down the credit impaired loans in respect of which the borrowers had failed to repay the outstanding loans when the Group called for repayment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(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.

The table includes 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.

2020	Carrying amount as per consolidated statement of financial position	Total contractual undiscounted cash flows	On demand or less than 1 year	Between 1 and 5 years	Over 5 years
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accounts payable	4,399	4,399	4,399	–	–
Accruals and other payables	38,872	38,872	38,872	–	–
Amount due to a joint venture	6,766	6,766	6,766	–	–
Amount due to a shareholder	56,880	57,169	57,169	–	–
Amounts due to directors	19,703	20,034	20,034	–	–
Bank borrowings	212,793	212,793	212,793	–	–
Lease liabilities	23,176	25,469	11,651	9,109	4,709
Convertible bonds	137,205	183,620	183,620	–	–
	499,794	549,122	535,304	9,109	4,709

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. FINANCIAL RISK MANAGEMENT (Cont'd)

3.1 Financial risk factors (Cont'd)

(c) Liquidity risk (Cont'd)

2019	Carrying amount as per consolidated statement of financial position HK\$'000	Total contractual undiscounted cash flows HK\$'000	On demand or less than 1 year HK\$'000	Between 1 and 5 years HK\$'000	Over 5 years HK\$'000
Accounts payable	2,918	2,918	2,918	–	–
Accruals and other payables	41,384	41,384	41,384	–	–
Amount due to a joint venture	7,902	7,902	7,902	–	–
Bank borrowings	245,500	245,500	245,500	–	–
Lease liabilities	40,680	47,149	10,720	21,292	15,137
Convertible bonds	147,400	194,665	194,665	–	–
	485,784	539,518	503,089	21,292	15,137

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 fair value of the Group’s pledged property, the Board does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The Board believes that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

Maturity analysis — Bank loans with a repayment on demand clause based on scheduled repayments

	Less than 1 month HK\$'000	Between 1 and 3 months HK\$'000	Total undiscounted cash outflows HK\$'000	Carrying amount HK\$'000
At 31 December 2020	131,048	83,013	214,061	212,793
At 31 December 2019	131,288	116,967	248,255	245,500

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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 payable, accruals and other payables, amount due to a joint venture, amount due to a shareholder, amounts due to directors, bank borrowings and lease liabilities 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 and non-controlling interests as shown in the consolidated statement of financial position).

The debt-to-adjusted capital ratios at 31 December 2020 and 2019 are as follows:

	2020 HK\$'000	2019 HK\$'000
Total debt	362,589	338,384
Adjusted capital	305,503	678,917
Debt-to-adjusted capital ratio	118.7%	49.8%

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).

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3. FINANCIAL RISK MANAGEMENT (Cont'd)

3.3 Fair value estimation (Cont'd)

The following table presents the Group's financial assets and financial liabilities that are measured at fair value at 31 December 2020:

	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				
— Unlisted fund investment	—	6,769	—	6,769
Liabilities				
Financial liabilities at fair value through profit or loss				
— Derivatives component of convertible bonds	—	—	—	—

The following table presents the Group's financial assets and financial liabilities that are measured at fair value at 31 December 2019:

	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				
— Unlisted fund investment	—	7,583	—	7,583
Liabilities				
Financial liabilities at fair value through profit or loss				
— Derivatives component of convertible bonds	—	—	—	—

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

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For the year ended 31 December 2020

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 are not based on observable market data, the instrument is included in level 3.

Level 2 fair value for fund investment has been determined based on net asset value of the relevant fund investment.

Level 2 fair value for derivatives component of convertible bonds has been determined using Monte Carlo model. The key observable inputs used in the model are stock price, risk free rate, volatility and dividend yield.

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 non-financial assets have suffered any impairment in accordance with the accounting policy stated in Note 2.10. Determining whether non-financial 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.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Cont'd)

- (b) Development costs in setting up and development of systems and networks are recognised as an intangible asset when the technical feasibility and intention of completing the asset has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Significant judgement is required in determining the capitalisation of development costs. Development costs that are recognised as assets are amortised on the straight-line basis to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred.
- (c) The Group makes provision for impairment of receivables based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's historical credit loss as well as current and forward looking estimates at the end of each reporting period.

5. REVENUE

An analysis of the Group's revenue for the year is as follows:

	2020 HK\$'000	2019 HK\$'000
Sales of lottery terminals and related equipment	35,775	53,692
Sales of natural and health food	8,066	2,123
Provision of technical and maintenance services	33,521	22,260
Revenue from contracts with customers (within the scope of HKFRS 15)	77,362	78,075
Lease income from operating leases	41,201	76,279
Total revenue	118,563	154,354

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5. REVENUE (Cont'd)

(a) Disaggregation of revenue from contracts with customers (within the scope of HKFRS 15)

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines:

2020	Lottery systems, terminal equipment and related products HK\$'000	Natural and health food HK\$'000	Total HK\$'000
Types of goods and services			
Sales of lottery terminals and related equipment	35,775	–	35,775
Sales of natural and health food	–	8,066	8,066
Provision of technical and maintenance services	33,521	–	33,521
Total	69,296	8,066	77,362
Geographical markets			
People's Republic of China ("PRC")	66,371	8,066	74,437
Others	2,925	–	2,925
Total	69,296	8,066	77,362
Timing of revenue recognition			
A point in time	42,565	8,066	50,631
Over time	26,731	–	26,731
Total	69,296	8,066	77,362

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5. REVENUE (Cont'd)

(a) Disaggregation of revenue from contracts with customers (within the scope of HKFRS 15) (Cont'd)

2019	Lottery systems, terminal equipment and related products HK\$'000	Natural and health food HK\$'000	Total HK\$'000
Types of goods and services			
Sales of lottery terminals and related equipment	53,692	–	53,692
Sales of natural and health food	–	2,123	2,123
Provision of technical and maintenance services	22,260	–	22,260
Total	75,952	2,123	78,075
Geographical markets			
PRC	67,529	2,123	69,652
Others	8,423	–	8,423
Total	75,952	2,123	78,075
Timing of revenue recognition			
A point in time	57,628	2,123	59,751
Over time	18,324	–	18,324
Total	75,952	2,123	78,075

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

5. REVENUE (Cont'd)

(b) Assets and liabilities related to contracts with customers

The Group has recognised the following liabilities related to contracts with customers:

	31 December 2020 HK\$'000	31 December 2019 HK\$'000	1 January 2019 HK\$'000
Contract liabilities — Sales of lottery terminals and related equipment	106	193	207
Contract liabilities — Provision of technical and maintenance services	31,179	18,799	2,836
Total contract liabilities	31,285	18,992	3,043

(i) Significant changes in contract liabilities

Payments are usually received in advance under the contracts which are mainly from provision of technical and maintenance services.

(ii) Revenue recognised in relation to contract liabilities

Revenue recognised during year ended 31 December 2020 that was included in the contract liability balance at the beginning of the year was approximately HK\$5,445,000 (2019: HK\$2,909,000).

(iii) Transaction price allocated to the remaining performance obligations for contracts with customers

The transaction price allocated to the unsatisfied or partially unsatisfied performance obligations arising from contracts with customers and the expected timing of recognising revenue are as follows:

	2020 HK\$'000	2019 HK\$'000
Within one year	29,458	19,405
More than one year but not more than two years	15,195	6,159
More than two years	34,968	9,259
	79,621	34,823

(c) Leases

Lease income from operating leases included in the Group's revenue of approximately HK\$41,201,000 (2019: HK\$76,279,000) for the year ended 31 December 2020 is the income relating to variable lease payments that do not depend on an index or a rate.

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For the year ended 31 December 2020

6. SEGMENT INFORMATION

Information reported to the Board, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on revenue analysis by products.

Specifically, the Group's reportable segments are as follows:

1. Lottery systems, terminal equipment and related products — Provision of technology and operation service for lottery systems, terminal equipment and gaming products, and sales of lottery terminals and related equipment
2. Natural and health food — Research and development, processing, production and sales of natural and health food

(a) Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segments:

2020	Lottery systems, terminal equipment and related products HK\$'000	Natural and health food HK\$'000	Total HK\$'000
Segment revenue:			
Revenue from contracts with customers (within the scope of HKFRS 15)	69,296	8,066	77,362
Lease income	41,201	–	41,201
Revenue from external customers	110,497	8,066	118,563
Segment loss	(491,828)	(2,411)	(494,239)
Interest income			6,403
Rental income			203
Fair value gain on financial assets at fair value through profit or loss			98
Gain on remeasurement of convertible bonds			44,813
Write-off of loan receivables			(9,839)
Net impairment losses on financial assets			(20,903)
Finance costs			(86,034)
Share of losses of associates			(2,756)
Share of loss of a joint venture			(2,496)
Unallocated expenses			(65,695)
Loss before income tax			(630,445)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

6. SEGMENT INFORMATION (Cont'd)

(a) Segment revenue and results (Cont'd)

2019	Lottery systems, terminal equipment and related products HK\$'000	Natural and health food HK\$'000	Total HK\$'000
Segment revenue:			
Revenue from contracts with customers (within the scope of HKFRS 15)	75,952	2,123	78,075
Lease income	76,279	–	76,279
Revenue from external customers	152,231	2,123	154,354
Segment loss	(26,402)	(20,795)	(47,197)
Interest income			57,459
Fair value loss on financial assets at fair value through profit or loss			(978)
Gain on remeasurement of convertible bonds			58,144
Net impairment losses on financial assets			(406,496)
Impairment loss on interest in an associate			(32,000)
Finance costs			(53,922)
Share of losses of associates			(663)
Share of loss of a joint venture			(2,180)
Unallocated expenses			(118,512)
Loss before income tax			(546,345)

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 2. Segment loss represents the loss from each segment without allocation of central administration costs (including directors' emoluments), share of losses of associates and joint venture, impairment of financial assets and interest in an associate, write-off of loan receivables, fair value gain/loss on financial assets at fair value through profit or loss, gain on remeasurement of convertible bonds, investment income and finance costs. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

There were no sales transactions between the operating segments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

6. SEGMENT INFORMATION (Cont'd)

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

Segment assets

	2020 HK\$'000	2019 HK\$'000
Lottery systems, terminal equipment and related products	247,438	752,123
Natural and health food	2,122	4,627
Total segment assets	249,560	756,750
Interests in associates	189	2,847
Investment in a joint venture	–	2,418
Unallocated	497,721	318,907
Consolidated assets	747,470	1,080,922

Segment liabilities

	2020 HK\$'000	2019 HK\$'000
Lottery systems, terminal equipment and related products	51,891	34,945
Natural and health food	17,731	22,095
Total segment liabilities	69,622	57,040
Unallocated	509,550	492,365
Consolidated liabilities	579,172	549,405

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than interests in associates, investment in a joint venture, financial assets at fair value through profit or loss, cash and bank balances, and other unallocated corporate assets; and
- all liabilities are allocated to operating segments other than amount due to a joint venture, amount due to a shareholder, amounts due to directors, tax payable, bank borrowings, lease liabilities, convertible bonds, deferred income tax liabilities and other unallocated corporate liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

6. SEGMENT INFORMATION (Cont'd)

(c) Other segment information

Amounts included in the measure of segment profit or loss or segment assets:

2020	Lottery systems, terminal equipment and related products HK\$'000	Natural and health food HK\$'000	Unallocated HK\$'000	Total HK\$'000
Additions to non-current assets	7,730	–	–	7,730
Depreciation and amortisation	53,190	71	6,992	60,253
Gain on lease termination	252	1	–	253
Gain on lease modification	475	–	–	475
Loss on disposal of property, plant and equipment	43,406	–	–	43,406
Impairment of goodwill and other intangible assets	381,786	–	–	381,786
Impairment of property, plant and equipment	17,007	–	–	17,007
Net impairment losses on financial assets	5,412	17	20,903	26,332

2019	Lottery systems, terminal equipment and related products HK\$'000	Natural and health food HK\$'000	Unallocated HK\$'000	Total HK\$'000
Additions to non-current assets	53,729	291	–	54,020
Depreciation and amortisation	58,519	17	9,233	67,769
Gain on lease termination	427	–	67	494
Gain/(Loss) on disposal of property, plant and equipment	(218)	–	135	(83)
Impairment of goodwill	–	19,484	–	19,484
Net impairment losses on financial assets	–	–	406,496	406,496

Note: Non-current assets excluded financial instruments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

6. SEGMENT INFORMATION (Cont'd)

(d) Geographical information

Information about the Group's revenue from external customers is presented based on the locations of the customers. Information about the Group's non-current assets is presented based on the geographical locations of assets.

	Revenue from external customers		Total non-current assets	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC	114,877	145,747	95,506	592,451
Hong Kong	–	–	349,126	154,056
Others	3,686	8,607	11,117	15,293
	118,563	154,354	455,749	761,800

Note: Non-current assets excluded financial instruments.

(e) Information about major customers

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

	2020	2019
	HK\$'000	HK\$'000
Customer A ¹	32,062	68,134
Customer B ¹	23,045	22,038
Customer C ¹	20,200	N/A ²

¹ Revenue from lottery systems, terminal equipment and related products.

² The corresponding revenue did not contribute over 10% of the total revenue of the Group for that year.

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7. OTHER INCOME

	2020 HK\$'000	2019 HK\$'000
Interest income from bank deposits and loan receivables	6,403	57,459
Rental income	203	–
Government grants (<i>note</i>)	6,914	–
	13,520	57,459

Note: During the year, the Group recognised government grants of approximately HK\$1,253,000 (2019: Nil) relating to Employment Support Scheme provided by the Hong Kong government and of approximately HK\$5,661,000 (2019: Nil) relating to the subsidies for PRC subsidiaries in High and New Technology industry.

8. OTHER (LOSSES)/GAINS — NET

	2020 HK\$'000	2019 HK\$'000
Fair value gain/(loss) on financial assets at fair value through profit or loss	98	(978)
Gain on remeasurement of convertible bonds	44,813	58,144
Gain on lease modification	475	–
Gain on lease termination	253	494
Loss on disposal of property, plant and equipment	(43,406)	(83)
Write-off of loan receivables	(9,839)	–
Impairment loss on interest in an associate	–	(32,000)
Impairment of goodwill and other intangible assets	(381,786)	(19,484)
Impairment of property, plant and equipment	(17,007)	–
Foreign exchange losses	(3,378)	(25)
	(409,777)	6,068

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9. OPERATING LOSS

The Group's operating loss is arrived at after charging:

	2020 HK\$'000	2019 HK\$'000
Costs of sales and services		
— Depreciation of lottery terminals	33,605	33,456
— Amortisation of intangible assets	10,815	10,690
— Business tax	810	991
— Cost of inventories recognised as expense	31,483	44,113
— Repairs and maintenance	5,302	1,810
— Others	9,033	1,802
	91,048	92,862
Auditors' remuneration	1,780	1,380
Depreciation of other items of property, plant and equipment	3,497	6,250
Depreciation of right-of-use assets	12,068	16,901

10. FINANCE COSTS

	2020 HK\$'000	2019 HK\$'000
Interest expense on bank borrowings	18,802	15,088
Interest expenses on lease liabilities	1,557	2,004
Interest expenses on amount due to a shareholder	4,605	—
Interest expenses on amounts due to directors	232	—
Imputed interest expense on promissory note	—	282
Effective interest expense on convertible bonds	60,838	36,548
	86,034	53,922

11. INCOME TAX (CREDIT)/EXPENSE

Hong Kong Profits Tax is calculated at the rate of 16.5% (2019: 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 2020 and 2019 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 is 25% (2019: 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% (2019: 15%).

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11. INCOME TAX (CREDIT)/EXPENSE (Cont'd)

Under the Laws of the People's Republic of China on Enterprise Income Tax, PRC withholding income tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from a PRC subsidiary to non-PRC tax resident group entity in Hong Kong in respect of profits generated after 1 January 2008 shall be subject to the withholding tax at 10%, unless the Hong Kong company can be approved to enjoy a reduced rate of 5% pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income.

	2020 HK\$'000	2019 HK\$'000
Current tax		
— PRC Enterprise Income Tax	1,694	4,015
— PRC Withholding Tax	—	1,802
— Adjustments in respect of prior years	(1,365)	535
Total current tax	329	6,352
Deferred tax (Note 34)		
— Origination and reversal of temporary differences	(6,856)	(2,597)
Income tax (credit)/expense	(6,527)	3,755

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

	2020 HK\$'000	2019 HK\$'000
Loss before income tax	(630,445)	(546,345)
Tax calculated at 16.5%	(104,023)	(90,147)
Income not subject to tax	(11,460)	(21,289)
Expenses not deductible for tax purposes	94,006	98,480
Tax losses which no deferred income tax asset recognised	30,332	18,214
Utilisation of previously unrecognised tax losses	(2,208)	(2,196)
Adjustments in respect of prior years	(1,365)	535
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	(4,505)	1,802
Effect of different tax rates of subsidiaries operating in other jurisdictions	(7,304)	(1,644)
Tax (credit)/charge	(6,527)	3,755

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12. LOSS PER SHARE

Basic and diluted loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of 1,029,480,733 (2019: 1,002,276,624) ordinary shares in issue during the year.

The weighted average number of ordinary shares for the purpose of basic and diluted loss per share for the year ended 31 December 2019 has been adjusted for the consolidation of shares on 14 June 2019 (the "Share Consolidation").

The computation of diluted loss per share for the years ended 31 December 2020 and 2019 did not assume the conversion of the convertible bonds and the exercise of share options since their assumed conversion and exercise would result in a decrease in loss per share.

13. STAFF COSTS

Staff costs (including directors' emoluments) comprise:

	2020 HK\$'000	2019 HK\$'000
Wages and salaries	79,800	89,384
Employee share option benefits	–	212
Social security costs	2,433	6,068
Pension costs — defined contribution plans	767	814
Other staff welfare	1,691	1,255
	84,691	97,733

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year included two (2019: two) directors of the Company, whose emoluments are set out in Note 14. The emoluments payable to the remaining three (2019: three) non-director and non-chief executive highest paid individual during the year are as follows:

	2020 HK\$'000	2019 HK\$'000
Basic salaries, other allowances and benefits in kind	17,006	14,544
Employer's contributions to pension schemes	351	431
	17,357	14,975

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13. STAFF COSTS (Cont'd)

(a) Five highest paid individuals (Cont'd)

The emoluments fell within the following bands:

	Number of individuals	
	2020	2019
Emolument bands		
HK\$2,000,001–HK\$2,500,000	–	1
HK\$4,500,001–HK\$5,000,000	1	–
HK\$5,000,001–HK\$5,500,000	–	1
HK\$5,500,001–HK\$6,000,000	1	–
HK\$6,500,001–HK\$7,000,000	1	–
HK\$7,500,001–HK\$8,000,000	–	1
	3	3

No emoluments were paid by the Group to 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 (2019: Nil).

14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The remuneration of every director and the chief executive of the Company for the year ended 31 December 2020 is set out below:

Name of director	Fees HK\$'000	Salaries, other allowances and benefits in kind HK\$'000	Employee share option benefits HK\$'000	Employer's contributions to pension schemes HK\$'000	Total HK\$'000
Executive directors					
Ms. Chan Tan Na, Donna	–	5,813	–	18	5,831
Mr. Wu Jingwei	–	4,893	–	18	4,911
Mr. Li Zi Kui	–	1,196	–	50	1,246
Ms. Zhu Xinxin (Note)	–	1,015	–	36	1,051
Independent non-executive directors					
Mr. Huang Shenglan	336	–	–	–	336
Mr. Chan Ming Fai	336	–	–	–	336
Mr. Cui Shuming	336	–	–	–	336
	1,008	12,917	–	122	14,047

Notes to the Consolidated Financial Statements

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14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Cont'd)

The remuneration of every director and the chief executive of the Company for the year ended 31 December 2019 is set out below:

Name of director	Fees HK\$'000	Salaries, other allowances and benefits in kind HK\$'000	Employee share option benefits HK\$'000	Employer's contributions to pension schemes HK\$'000	Total HK\$'000
Executive directors					
Ms. Chan Tan Na, Donna	–	7,366	23	18	7,407
Mr. Wu Jingwei	–	5,079	23	18	5,120
Mr. Li Zi Kui	–	1,459	11	98	1,568
Ms. Zhu Xinxin (Note)	–	630	–	37	667
Independent non-executive directors					
Mr. Huang Shenglan	336	–	5	–	341
Mr. Chan Ming Fai	336	–	5	–	341
Mr. Cui Shuming	336	–	5	–	341
	1,008	14,534	72	171	15,785

Note: Appointed on 18 June 2019

Ms. Chan Tan Na, Donna is 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 2020 and 2019.

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 (2019: Nil).

15. DIVIDENDS

The Board does not recommend the payment of a dividend for the year ended 31 December 2020 (2019: Nil).

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16. PROPERTY, PLANT AND EQUIPMENT

	Owne d prop ert ies HK\$'000	Lottery term inals HK\$'000	Lottery term inals under con struc tion HK\$'000	Leasehold im pro ve ment HK\$'000	Plant and equ ip ment HK\$'000	Computer equ ip ment and soft ware HK\$'000	Office equ ip ment and furn it ure HK\$'000	Motor veh icles HK\$'000	Total HK\$'000
At 1 January 2019									
Cost	13,269	715,943	303	10,907	25,039	22,590	10,546	9,156	807,753
Accumulated depreciation and impairment	(2,880)	(607,293)	–	(10,848)	(17,799)	(19,064)	(8,620)	(7,135)	(673,639)
Net book amount	10,389	108,650	303	59	7,240	3,526	1,926	2,021	134,114
Year ended 31 December 2019									
Opening net book amount	10,389	108,650	303	59	7,240	3,526	1,926	2,021	134,114
Exchange differences	(10)	(1,926)	(7)	–	(132)	(41)	(23)	(33)	(2,172)
Additions	–	–	33,796	709	1,326	1,874	30	894	38,629
Transfers	–	33,765	(33,765)	–	–	–	–	–	–
Disposals	–	–	–	–	–	(209)	(9)	(5)	(223)
Depreciation	(352)	(33,456)	–	(72)	(2,042)	(2,566)	(766)	(924)	(40,178)
Closing net book amount	10,027	107,033	327	696	6,392	2,584	1,158	1,953	130,170
At 31 December 2019									
Cost	13,250	734,727	327	11,485	25,834	18,393	10,061	8,949	823,026
Accumulated depreciation and impairment	(3,223)	(627,694)	–	(10,789)	(19,442)	(15,809)	(8,903)	(6,996)	(692,856)
Net book amount	10,027	107,033	327	696	6,392	2,584	1,158	1,953	130,170
Year ended 31 December 2020									
Opening net book amount	10,027	107,033	327	696	6,392	2,584	1,158	1,953	130,170
Exchange differences	28	3,171	14	40	350	30	50	38	3,721
Revaluation surplus	19,939	–	–	–	–	–	–	–	19,939
Additions	–	–	–	430	–	–	19	1,704	2,153
Transfer to investment properties	(4,261)	–	–	–	–	–	–	–	(4,261)
Disposals	–	(45,299)	–	–	(896)	(1)	(120)	(891)	(47,207)
Impairment charge	–	(16,742)	(265)	–	–	–	–	–	(17,007)
Depreciation	(291)	(33,605)	–	(193)	(1,382)	(905)	(384)	(610)	(37,370)
Closing net book amount	25,442	14,558	76	973	4,464	1,708	723	2,194	50,138
At 31 December 2020									
Cost or fair value	25,442	66,545	350	9,990	18,661	18,920	9,145	7,504	156,557
Accumulated depreciation and impairment	–	(51,987)	(274)	(9,017)	(14,197)	(17,212)	(8,422)	(5,310)	(106,419)
Net book amount	25,442	14,558	76	973	4,464	1,708	723	2,194	50,138

Notes:

- (i) Depreciation of lottery terminals of approximately HK\$33,605,000 (2019: HK\$33,456,000) has been charged in costs of sales and services. Depreciation of other items of property, plant and equipment of approximately HK\$268,000 (2019: HK\$472,000) has been capitalised in lottery terminals under construction and of approximately HK\$3,497,000 (2019: HK\$6,250,000) has been charged in general and administrative expenses.
- (ii) At 31 December 2020, the Group's owned properties and related leasehold land classified as right-of-use assets with an aggregate carrying amount of approximately HK\$346,000,000 (2019: HK\$151,592,000) was pledged to secure bank borrowings granted to the Group.

Notes to the Consolidated Financial Statements

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16. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Notes: (Cont'd)

- (iii) The fair value of the Group's owned properties and related leasehold land as at 31 December 2020 were arrived at on the basis of valuations carried out by Knight Frank Petty Limited and Prudential Surveyors (Hong Kong) Limited, independent qualified valuers not connected with the Group. Management works closely with the external qualified valuers to establish the appropriate valuation techniques and inputs to the model.

The fair value of the owned properties and related leasehold land was determined based on the direct comparison approach that reflects recent transaction prices for similar properties, adjusted for differences in the characteristics such as location, size and condition.

In estimating the fair value of the owned properties and related leasehold land, the highest and best use of the properties is their current use. Details of the Group's owned properties and related leasehold land and information about the fair value hierarchy as at 31 December 2020 are as follows:

Description	Fair value as at 31/12/2020 HK\$'000	Fair value hierarchy	Valuation technique	Significant unobservable input	Relationship of unobservable input to fair value
Owned properties and related leasehold land located in Hong Kong	346,000 (Owned properties: 21,400; Leasehold land: 324,600)	Level 3	Direct comparison approach	Adjusted price of HK\$635,550 per square meter	A significant increase in the adjusted price used would result in a significant increase in fair value, and vice versa.
Owned property located in the PRC	4,042	Level 3	Direct comparison approach	Adjusted price of HK\$54,855 per square meter	A significant increase in the adjusted price used would result in a significant increase in fair value, and vice versa.

There were no transfers into or out of Level 3 during the year.

- (iv) If owned properties and related leasehold land were stated on the historical cost basis as at 31 December 2020, the amounts would be as follows:

	2020 HK\$'000
Owned properties	
Cost	9,051
Accumulated depreciation	(2,667)
Net book amount	6,384
Leasehold land	
Cost	131,900
Accumulated depreciation	(28,106)
Net book amount	103,794

- (v) Certain lottery terminals and lottery terminals under construction that generate cash flows together with the related goodwill and internally generated development costs are included in the respective cash-generating unit ("CGU") "Provision of traditional computer lottery system and equipment" for the purpose of impairment assessment. Based on the result of the assessment, the directors of the Company determined that the recoverable amount of the CGU is lower than the carrying amount as at 31 December 2020. Goodwill related to the CGU amounting to approximately HK\$199,403,000 has been fully impaired and the impairment amounting to approximately HK\$158,802,000 has been allocated pro rata to lottery terminals, lottery terminals under construction and internally generated development costs such that the carrying amount of each category of asset is not reduced below the highest of its fair value less cost of disposal, its value in use and zero. Based on the value in use calculation and the allocation, an impairment of approximately HK\$16,742,000 (2019: Nil) and HK\$265,000 (2019: Nil), respectively, has been recognised against the carrying amount of lottery terminals and lottery terminals under construction in the year ended 31 December 2020.

Notes to the Consolidated Financial Statements

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17. RIGHT-OF-USE ASSETS

This note provides information for leases where the Group is a lessee.

(a) Amount recognised in the consolidated statement of financial position

The consolidated statement of financial position shows the following amounts relating to leases:

	2020 HK\$'000	2019 HK\$'000
Right-of-use assets		
Leasehold land (<i>Note</i>)	324,600	142,009
Leased properties	17,530	38,605
	342,130	180,614
Lease liabilities		
Current	10,920	9,169
Non-current	12,256	31,511
	23,176	40,680

Note: At 31 December 2020, the leasehold land is measured using the revaluation model. Information about the fair value measurement of the Group's leasehold land as at 31 December 2020 are set out in Note 16.

Additions to the right-of-use assets during the year ended 31 December 2020 were approximately HK\$2,616,000 (2019: HK\$10,346,000) and surplus on revaluation of leasehold land during the year ended 31 December 2020 was approximately HK\$225,607,000 (2019: Nil).

(b) Amount recognised in the consolidated statement of profit or loss

The consolidated statement of profit or loss shows the following amounts relating to leases:

	2020 HK\$'000	2019 HK\$'000
Depreciation of right-of-use assets:		
Leasehold land	2,897	3,235
Leased properties	9,171	13,666
	12,068	16,901
Interest expense (included in finance costs)	1,557	2,004
Expense relating to short-term leases (included in general and administrative expenses)	2,486	2,394

The total cash outflow for leases in 2020 was approximately HK\$9,793,000 (2019: HK\$15,474,000).

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For the year ended 31 December 2020

17. RIGHT-OF-USE ASSETS (Cont'd)

(c) The Group's leasing activities and how these are accounted for

The Group leases various offices and warehouses. Rental contracts are typically made for fixed periods, but may have extension and termination options as described in (d) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants. Leased assets may not be used as security for borrowing purposes.

(d) Extension and termination options

Extension and termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options or not to exercise the termination options. Periods covered by extension options or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

18. INVESTMENT PROPERTIES

	2020 HK\$'000	2019 HK\$'000
At 1 January	–	–
Transfer from property, plant and equipment and right-of-use assets	44,380	–
Disposal	(44,380)	–
At 31 December	–	–

The investment properties are leased to tenants under operating leases with rentals payable monthly. There are no variable lease payments that depend on an index or rate. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as the leases are denominated in the respective functional currencies of group entities.

(a) Amount recognised in the consolidated statement of profit or loss

	2020 HK\$'000	2019 HK\$'000
Rental income from operating leases	203	–
Less: Direct operating expenses from property that generated rental income	(28)	–
	175	–

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19. INTANGIBLE ASSETS

	Goodwill HK\$'000	Internally generated development costs HK\$'000	Intellectual properties HK\$'000	Total HK\$'000
At 1 January 2019				
Cost	1,184,202	206,985	51,253	1,442,440
Accumulated amortisation and impairment	(949,831)	(19,295)	(18,097)	(987,223)
Net book amount	234,371	187,690	33,156	455,217
Year ended 31 December 2019				
Opening net book amount	234,371	187,690	33,156	455,217
Exchange difference	(740)	(2,409)	(672)	(3,821)
Additions	–	5,045	–	5,045
Acquisition of subsidiaries (Note 40)	19,484	–	–	19,484
Amortisation charge	–	(7,687)	(3,003)	(10,690)
Impairment charge	(19,484)	–	–	(19,484)
Closing net book amount	233,631	182,639	29,481	445,751
At 31 December 2019				
Cost	1,188,434	209,451	50,167	1,448,052
Accumulated amortisation and impairment	(954,803)	(26,812)	(20,686)	(1,002,301)
Net book amount	233,631	182,639	29,481	445,751
Year ended 31 December 2020				
Opening net book amount	233,631	182,639	29,481	445,751
Exchange difference	1,103	4,393	1,685	7,181
Additions	–	2,961	–	2,961
Amortisation charge	–	(7,746)	(3,069)	(10,815)
Impairment charge	(234,734)	(141,795)	(5,257)	(381,786)
Closing net book amount	–	40,452	22,840	63,292
At 31 December 2020				
Cost	1,190,713	220,439	53,508	1,464,660
Accumulated amortisation and impairment	(1,190,713)	(179,987)	(30,668)	(1,401,368)
Net book amount	–	40,452	22,840	63,292

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19. INTANGIBLE ASSETS (Cont'd)

Notes:

- (i) Internally generated development costs include all direct costs incurred in the setting up and development of systems and networks. During the year ended 31 December 2020, the Group incurred research and development expenses of approximately HK\$10,594,000 (2019: HK\$3,815,000) which are included in general and administrative expenses in the consolidated statement of profit or loss.

(ii) **Impairment tests for goodwill**

The carrying amount of goodwill (net of accumulated impairment losses) is allocated to the CGU as follows:

	2020 HK\$'000	2019 HK\$'000
Provision of traditional computer lottery system and equipment	–	199,403
Development of lottery transaction and management systems	–	34,228
Sales of natural and health food	–	–
	–	233,631

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

(a) *Provision of traditional computer lottery system and equipment*

During the year, the COVID-19 pandemic dragged down the China's lottery sales. The Chinese lottery market experienced the longest market closure in its recent history, with a 49-day suspension of all operation of physical lottery stores from the end of January 2020 and lottery sales in the PRC plummeted by approximately 21% year-on-year in 2020, thereby heavily affecting the CGU's business performance. The CGU's overall revenue decreased by 30% in 2020 due to the adverse impact of the COVID-19 pandemic on the CGU and the expiry of a major lease contract in August 2020. The directors of the Company have consequently determined goodwill directly related to this CGU amounting to approximately HK\$199,403,000 has been fully impaired as at 31 December 2020 and impairment amounting to approximately HK\$158,802,000 has been allocated pro rata to class of assets to the extent the carrying amount of the asset is not reduced below the highest of its fair value less costs of disposal, its value in use and zero. Details are set out in Note 16 and (iii) below. The recoverable amount of this CGU amounted to approximately HK\$45,364,000 as at 31 December 2020.

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The CGU's cash flows beyond the 5-year period (2019: 5-year) are extrapolated using a steady 2% growth rate (2019: 2%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. The key assumptions used for the cash flow projections include the budgeted revenue 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 11.2% (2019: 11.0%), which reflects the specific risks relating to this CGU.

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

In addition to goodwill, intellectual properties have been allocated to this CGU for the purpose of impairment assessment.

The Chinese lottery market was severely hard-hit in 2020 by the outbreak of COVID-19, thereby affecting the business performance of this CGU in the current year. The directors of the Company have consequently determined the goodwill directly related to this CGU amounting to approximately HK\$35,331,000 has been fully impaired as at 31 December 2020 and impairment amounting to approximately HK\$5,257,000 has been allocated to intellectual properties. The recoverable amount of this CGU amounted to approximately HK\$22,840,000 as at 31 December 2020.

Notes to the Consolidated Financial Statements

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19. INTANGIBLE ASSETS (Cont'd)

Notes: (Cont'd)

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

(b) Development of lottery transaction and management systems (Cont'd)

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The CGU's cash flows beyond the 5-year period (2019: 5-year) are extrapolated using a steady 2% growth rate (2019: 2%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. The key assumptions used for the cash flow projections include the budgeted revenue 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 11.2% (2019: 11.0%), which reflects the specific risks relating to this CGU.

(c) Sales of natural and health food

Considering the adverse market conditions and their adverse impacts on the CGU's operations, management estimated that the future net cash flows that could be generated from the operations of this CGU in the future years would unlikely be significant. The directors of the Company have consequently determined the carrying amount of goodwill allocated to this CGU amounting to approximately HK\$19,484,000 has been fully impaired as at 31 December 2019.

The value-in-use calculation used pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The CGU's cash flows beyond the 5-year period were extrapolated using a steady 2% growth rate. This growth rate was based on the relevant industry growth forecasts and did not exceed the average long-term growth rate for the relevant industry. The key assumptions used for the cash flow projections included the budgeted sales and gross margin during each of the forecasting periods, which were determined by management based on past performance and its expectation of market development. All cash flows were discounted at a discount rate of 10.5%, which reflected the specific risks relating to this CGU.

(iii) Impairment test for internally generated development costs

The internally generated development costs with carrying amount of approximately HK\$40,452,000 (2019: HK\$182,639,000) as at 31 December 2020 are intangible assets which do not generate cash inflows that are largely independent of those from other assets or groups of assets. Hence for the purpose of impairment assessment, recoverable amount of these intangible assets is determined for the cash-generating unit to which the assets belong.

The internally generated development costs belong to the CGU "Provision of traditional computer lottery system and equipment". The detailed calculations of its recoverable amount, determined based on its value-in-use as at the reporting date, are set out above. Based on the result of the assessment, the directors of the Company determined that the recoverable amount of the CGU is lower than the carrying amount as at 31 December 2020. Goodwill related to the CGU amounting to approximately HK\$199,403,000 has been fully impaired and the impairment amounting to approximately HK\$158,802,000 has been allocated pro rata to lottery terminals, lottery terminals under construction and internally generated development costs such that the carrying amount of each category of asset is not reduced below the highest of its fair value less cost of disposal, its value in use and zero. Based on the value in use calculation and the allocation, an impairment of approximately HK\$141,795,000 (2019: Nil) has been recognised against the carrying amount of internally generated development costs in the year ended 30 December 2020.

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20. 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 <i>(Note (ii))</i>	Particulars of issued share capital/ registered capital	Interest held		Principal activities
			2020	2019	
Capital Way Development Limited	British Virgin Islands, Limited company	US\$1	100% (direct)	100% (direct)	Investment holding
China LotSynergy Limited	British Virgin Islands, Limited company	US\$100	100% (direct)	100% (direct)	Investment holding
Flynn Technology Limited	British Virgin Islands, Limited company	US\$1,000	100% (direct)	100% (direct)	Investment holding
Capital Way Financial Holdings Limited	Hong Kong, Limited company	HK\$1	100% (indirect)	100% (indirect)	Investment holding
Champ Mark Investments Limited	British Virgin Islands, Limited company	3,600 issued shares of no par value	100% (indirect)	100% (indirect)	Investment holding
Champ Technology Limited	Hong Kong, Limited company	HK\$1	100% (indirect)	100% (indirect)	Investment holding
China LotSynergy Limited	Hong Kong, Limited company	US\$500,000	100% (indirect)	100% (indirect)	Investment holding and provision of management service
China LotSynergy Asset Management Limited	Hong Kong, Limited company	US\$2	100% (indirect)	100% (indirect)	Investment holding and treasury management
China LotSynergy Development Limited	Hong Kong, Limited company	HK\$1	100% (indirect)	100% (indirect)	Investment holding
China LotSynergy Group Limited	Hong Kong, Limited company	HK\$1	100% (indirect)	100% (indirect)	Investment holding
Corich International Limited ("Corich")	British Virgin Islands, Limited company	US\$2,000,000	50% (indirect) <i>(Note (iii))</i>	50% (indirect) <i>(Note (iii))</i>	Investment holding
East Grand Enterprises Limited	Hong Kong, Limited company	HK\$1	50% (indirect) <i>(Note (iii))</i>	50% (indirect) <i>(Note (iii))</i>	Investment holding

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20. SUBSIDIARIES (Cont'd)

Name	Place of incorporation/ establishment, Kind of legal entity (Note (ii))	Particulars of issued share capital/ registered capital	Interest held		Principal activities
			2020	2019	
Goldwide Limited	Hong Kong, Limited company	HK\$1	100% (indirect)	100% (indirect)	Investment holding
Lottnal Holdings Limited	Hong Kong, Limited company	US\$350,000	80% (indirect)	80% (indirect)	Investment holding
Onwealth Holdings Limited	British Virgin Islands, Limited company	US\$100	90% (indirect)	90% (indirect)	Investment holding
Qing Yu International Holding Limited ("Qing Yu")	Republic of Seychelles, Limited company	US\$1,000,000	100% (indirect)	100% (indirect)	Investment holding
Upmax Investments Limited	British Virgin Islands, Limited company	US\$1	100% (indirect)	100% (indirect)	Investment holding
Willstrong Investments Limited	British Virgin Islands, Limited company	US\$1	80% (indirect)	80% (indirect)	Provision of lottery system and equipment
東莞天意電子有限公司	PRC, Wholly foreign owned enterprise	HK\$8,000,000	50% (indirect) (Note (iii))	50% (indirect) (Note (iii))	Provision of video lottery terminals ("VLT")
北京靈彩科技有限公司	PRC, Wholly foreign owned enterprise	HK\$1,200,000	–	50% (indirect) (Note (iii))	Research and development of lottery system and equipment in the PRC
廣州洛圖終端技術有限公司 (Guangzhou Lottnal Terminal Company Limited)	PRC, Wholly foreign owned enterprise	RMB20,274,063	80% (indirect)	80% (indirect)	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)	PRC, Sino-foreign equity joint venture enterprise	RMB10,000,000	80% (indirect)	80% (indirect)	Provision of lottery system and equipment in the PRC

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20. SUBSIDIARIES (Cont'd)

Name	Place of incorporation/ establishment, Kind of legal entity (Note (ii))	Particulars of issued share capital/ registered capital	Interest held		Principal activities
			2020	2019	
北京優昌源科技有限公司	PRC, Wholly foreign owned enterprise	HK\$10,000,000	100% (indirect)	100% (indirect)	Research and development of lottery system and equipment in the PRC
北京中大彩訊科技有限公司	PRC, Wholly foreign owned enterprise	HK\$10,000,000	75% (indirect)	75% (indirect)	Research and development of lottery system and equipment in the PRC
北京華彩贏通科技有限公司 (Note (i))	PRC, Limited liability company	RMB50,000,000	100% (indirect)	100% (indirect)	Research and development of lottery system and equipment in the PRC
北京貝英斯數碼技術有限公司 (Beijing Bestinfo Cyber Technology Co., Ltd)	PRC, Limited liability company	RMB5,000,000	100% (indirect)	100% (indirect)	Development of lottery transaction and management systems
天然林場食品有限公司 (Natural Forestfood Farm Limited Company) ("NFF")	PRC, Limited liability company	RMB5,000,000	80% (indirect)	80% (indirect)	Research and development, processing, production and sales of natural and health food

Notes:

- (i) The Company is a limited liability company established in the PRC. The equity interests are held by individual nominees on behalf of the Group.
- (ii) The subsidiaries operate principally in their respective places of incorporation/establishment.
- (iii) These companies are consolidated by the Group as the Group holds 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.

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20. SUBSIDIARIES (Cont'd)

(a) Material non-controlling interests

The total accumulated non-controlling interest as at the end of the year ended 31 December 2020 was approximately HK\$259,356,000 (2019: HK\$295,934,000) of which approximately HK\$257,157,000 (2019: HK\$280,559,000) related to the non-controlling interests in Corich and its subsidiaries, which are principally engaged in provision of VLT. The remaining non-controlling interests are not material.

Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarised consolidated financial information for Corich and its subsidiaries:

Summarised statement of financial position

	2020 HK\$'000	2019 HK\$'000
Current		
Assets	508,976	509,336
Liabilities	(56,255)	(51,548)
Total current net assets	452,721	457,788
Non-current		
Assets	13,770	75,000
Liabilities	(18,134)	(37,880)
Total non-current net (liabilities)/assets	(4,364)	37,120
Net assets	448,357	494,908

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20. SUBSIDIARIES (Cont'd)

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

Summarised financial information on subsidiaries with material non-controlling interests (Cont'd)

Summarised statement of profit or loss and other comprehensive income

	2020 HK\$'000	2019 HK\$'000
Revenue	–	–
Loss before income tax	(74,331)	(32,633)
Income tax credit	4,317	2,381
Loss for the year	(70,014)	(30,252)
Other comprehensive income/(expense)	23,463	(8,785)
Total comprehensive expense for the year	(46,551)	(39,037)
Loss allocated to non-controlling interests	(35,007)	(17,302)
Dividends to non-controlling interests	–	–

Summarised cash flows

	2020 HK\$'000	2019 HK\$'000
Net cash used in operating activities	(3,069)	(3,506)
Net cash generated from/(used in) investing activities	2,840	(31)
Net cash used in financing activities	(58)	(3,141)
Net decrease in cash and cash equivalents	(287)	(6,678)
Cash and cash equivalents at beginning of year	582	7,349
Effect of foreign exchange rate changes	29	(89)
Cash and cash equivalents at end of year	324	582

The information above is the amount before intercompany eliminations.

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20. SUBSIDIARIES (Cont'd)

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

	2020 HK\$'000	2019 HK\$'000
Revenue	6,353	328
Loss for the year	(10,868)	(4,679)
Net liabilities	(27,760)	(14,834)

The information above is the amount before intercompany eliminations.

21. INTERESTS IN ASSOCIATES

	2020 HK\$'000	2019 HK\$'000
Share of net assets	189	2,847
Loan to an associate	32,000	32,000
	32,189	34,847
Less: Impairment loss	(32,000)	(32,000)
	189	2,847

The loan to an associate is unsecured, interest-free and has no fixed terms of repayment. The loan is accounted for as an extension of the Group's investment in the associate as the settlement is neither planned nor likely to occur in the foreseeable future.

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

Name	Particular of issued share capital/ registered capital	Place of business/ incorporation/ establishment	Interest held 2020	2019	Principal activities	Measurement method
Pan Asia Blockchain Lottery Limited ("Pan Asia")	HK\$16,000	Hong Kong	37.5%	37.5%	Blockchain lottery	Equity
深圳市前海華彩金控科技有限公司 ("前海華彩")	RMB50,000,000	PRC	40%	40%	Securities investment	Equity

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21. INTERESTS IN ASSOCIATES (Cont'd)

The associates listed above are private companies and there are no quoted market prices available for the investments.

Sinmax Limited (“Sinmax”, a wholly owned subsidiary of the Company), Pan Asia Blockchain Holding Limited (“PABH”) and Pan Asia entered into a shareholders’ agreement in relation to the capital injection of funds into Pan Asia and to govern the affairs of Pan Asia and set certain principles regarding the operations of Pan Asia’s business and certain obligations of the parties. However, during the financial year ended 31 December 2019, PABH breached certain clauses of the shareholders’ agreement and as a result, Pan Asia did not commence operations and its future developments were adversely affected. The Group has commenced legal proceedings to seek to recover the sum of HK\$35,000,000 that has been paid by the Group pursuant to the shareholders’ agreement. As the other parties involved in the shareholders’ agreement could not be contactable, the Group considers the likelihood of recovery of the investment sums to be low and full provision for impairment loss of approximately HK\$32,000,000 was recognised to fully write down the investment in the year ended 31 December 2019.

Commitments in respect of the associates

The Group has the following commitment relating to its associates:

	2020 HK\$'000	2019 HK\$'000
Commitment to provide funding	19,027	17,840

Summarised financial information for the associates

Set out below are the summarised financial information for the associates which are accounted for using the equity method:

Summarised statement of financial position

	Pan Asia		前海華彩	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Current assets	–	29,133	472	7,118
Non-current assets	–	2,867	–	–
Current liabilities	32,000	32,000	–	–
Non-current liabilities	–	–	–	–
Net (liabilities)/assets	(32,000)	–	472	7,118

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21. INTERESTS IN ASSOCIATES (Cont'd)

Summarised financial information for the associates (Cont'd)

Summarised statement of profit or loss and other comprehensive income

	Pan Asia		前海華彩	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Revenue	-	-	-	-
Loss from continuing operations	(32,000)	(1,768)	(6,891)	-
Income tax	-	-	-	-
Post-tax loss from continuing operations	(32,000)	(1,768)	(6,891)	-
Post-tax profit from discontinued operations	-	-	-	-
Other comprehensive expense	-	-	245	(154)
Total comprehensive expense	(32,000)	(1,768)	(6,646)	(154)
Dividends received from associate	-	-	-	-
Unrecognised share of loss of the associate for the year	(12,000)	-	-	-

The summarised financial information above represents amounts shown in the associates' 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 associates.

	Pan Asia		前海華彩	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Net (liabilities)/assets	(32,000)	-	472	7,118
Proportion of the Group's ownership	37.5%	37.5%	40%	40%
Group's share of net (liabilities)/assets of the associate	(12,000)	-	189	2,847
Cumulative unrecognised share of loss of the associate	12,000	-	-	-
Loan to associate	32,000	32,000	-	-
Impairment loss	(32,000)	(32,000)	-	-
Carrying amount of the investment	-	-	189	2,847

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21. INTERESTS IN ASSOCIATES (Cont'd)

Summarised financial information for the associates (Cont'd)

Significant restrictions

Cash and short-term deposits of approximately HK\$472,000 (2019: HK\$442,000) 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.

22. INVESTMENT IN AND AMOUNT DUE TO A JOINT VENTURE

	2020 HK\$'000	2019 HK\$'000
Share of net assets	–	2,418

The amount due to joint venture is unsecured, interest-free and repayable on demand.

Particulars of the joint venture 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 2020	2019	Principal activity	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

The joint venture listed above is a private company and there is no quoted market price available for its shares.

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22. INVESTMENT IN AND AMOUNT DUE TO A JOINT VENTURE (Cont'd)

Summarised financial information for the joint venture

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

Summarised statement of financial position

	2020 HK\$'000	2019 HK\$'000
Current		
Cash and cash equivalents	232	235
Other current assets (excluding cash and cash equivalents)	753	7,923
Total current assets	985	8,158
Financial liabilities (excluding trade payables and provisions)	7,007	3,322
Other current liabilities (including trade payables and provisions)	–	–
Total current liabilities	7,007	3,322
Non-current		
Non-current assets	–	–
Financial liabilities	–	–
Other non-current liabilities	–	–
Total non-current liabilities	–	–
Net (liabilities)/assets	(6,022)	4,836

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22. INVESTMENT IN AND AMOUNT DUE TO A JOINT VENTURE (Cont'd)

Summarised financial information for the joint venture (Cont'd)

Summarised statement of profit or loss and other comprehensive income

	2020 HK\$'000	2019 HK\$'000
Revenue	–	–
Depreciation and amortisation	–	–
Interest income	1	1
Interest expense	–	–
Loss from continuing operations	(11,014)	(4,360)
Income tax	–	–
Post-tax loss from continuing operations	(11,014)	(4,360)
Post-tax profit from discontinued operations	–	–
Other comprehensive income	156	(154)
Total comprehensive expense	(10,858)	4,514
Dividends received from joint venture	–	–
Unrecognised share of loss of joint venture for the year	(3,011)	–

The summarised financial information above represents amounts shown in the joint venture'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 investment in joint venture.

	2020 HK\$'000	2019 HK\$'000
Net (liabilities)/assets	(6,022)	4,836
Proportion of the Group's ownership	50%	50%
Group's share of net (liabilities)/assets of the joint venture	(3,011)	2,418
Cumulative unrecognised share of loss of the joint venture	3,011	–
Carrying amount of the investment	–	2,418

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22. INVESTMENT IN AND AMOUNT DUE TO A JOINT VENTURE (Cont'd)

Summarised financial information for the joint venture (Cont'd)

Significant restrictions

Cash and short-term deposits of approximately HK\$145,000 (2019: HK\$148,000) 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.

23. FINANCIAL INSTRUMENTS BY CATEGORY

2020	Financial assets at amortised cost HK\$'000	Financial assets at fair value through profit or loss HK\$'000	Total HK\$'000
Financial assets as per consolidated statement of financial position:			
Financial assets at fair value through profit or loss	–	6,769	6,769
Accounts receivable	70,705	–	70,705
Deposits and other receivables (including loan receivables)	104,945	–	104,945
Cash and bank balances	76,430	–	76,430
	252,080	6,769	258,849

2020	Financial liabilities at amortised cost HK\$'000	Financial liabilities at fair value through profit or loss HK\$'000	Total HK\$'000
Financial liabilities as per consolidated statement of financial position:			
Accounts payable	4,399	–	4,399
Accruals and other payables	38,872	–	38,872
Amount due to a joint venture	6,766	–	6,766
Amount due to a shareholder	56,880	–	56,880
Amounts due to directors	19,703	–	19,703
Bank borrowings	212,793	–	212,793
Lease liabilities	23,176	–	23,176
Liability component of convertible bonds	137,205	–	137,205
Derivatives component of convertible bonds	–	–	–
	499,794	–	499,794

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23. FINANCIAL INSTRUMENTS BY CATEGORY (Cont'd)

2019	Financial assets at amortised cost HK\$'000	Financial assets at fair value through profit or loss HK\$'000	Total HK\$'000
Financial assets as per consolidated statement of financial position:			
Financial assets at fair value through profit or loss	–	7,583	7,583
Accounts receivable	73,620	–	73,620
Deposits and other receivables (including loan receivables)	139,107	–	139,107
Cash and bank balances	64,726	–	64,726
	277,453	7,583	285,036

2019	Financial liabilities at amortised cost HK\$'000	Financial liabilities at fair value through profit or loss HK\$'000	Total HK\$'000
Financial liabilities as per consolidated statement of financial position:			
Accounts payable	2,918	–	2,918
Accruals and other payables	41,384	–	41,384
Amount due to a joint venture	7,902	–	7,902
Bank borrowings	245,500	–	245,500
Lease liabilities	40,680	–	40,680
Liability component of convertible bonds	147,400	–	147,400
Derivatives component of convertible bonds	–	–	–
	485,784	–	485,784

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss including the following:

	2020 HK\$'000	2019 HK\$'000
Unlisted fund investment	6,769	7,583

Financial assets at fair value through profit or loss are denominated in US\$.

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25. INVENTORIES

	2020 HK\$'000	2019 HK\$'000
Raw materials	5,267	5,900
Work in progress	1,089	1,976
Finished goods	3,338	5,784
	9,694	13,660

26. ACCOUNTS RECEIVABLE

	2020 HK\$'000	2019 HK\$'000
Lease receivables	65,846	69,202
Trade receivables — goods and services	6,162	4,418
	72,008	73,620
Less: Loss allowance	(1,303)	–
	70,705	73,620

Lease income from lottery terminals and systems is billed on a monthly basis and is due 15 to 30 days after month-end. Revenue from sales of goods is billed upon the delivery of products and with credit periods ranging from 30 to 180 days. Revenue from provision of technical and maintenance services is billed on a half-yearly or yearly basis and is due 30 days after the invoice date. The ageing analysis of the accounts receivable net of loss allowance at the end of the reporting period, based on invoice date, is as follows:

	2020 HK\$'000	2019 HK\$'000
Less than three months	2,709	9,932
Over three months but less than one year	441	249
Over one year	67,555	63,439
	70,705	73,620

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26. ACCOUNTS RECEIVABLE (Cont'd)

Included in the Group's accounts receivable which were past due over one year at 31 December 2020 is lease receivables of approximately HK\$65,203,000 (equivalent to approximately RMB54,836,000) (2019: HK\$61,132,000 (equivalent to approximately RMB54,836,000)) due from CLO and that were in dispute. The Group has filed a civil action with the People's High Court of Beijing. On 10 August 2018, the People's High Court of Beijing ruled that CLO is required to pay the lease payments. However, CLO appealed against the decision of the Court. On 25 March 2021, the Group received a civil judgment from the Supreme People's Court of the PRC which ordered that CLO is required to pay the outstanding lease receivables of approximately HK\$65,203,000 (equivalent to approximately RMB54,836,000) with interest, at a rate for the identical kind of loans published by the People's Bank of China accrued from 15 July 2015 to the date of payment. The Group assessed the expected credit loss for these lease receivables individually with reference to the financial background of CLO. The directors consider the probability of default to be low as CLO has a strong capacity to meet its contractual obligations in the near term.

Details of impairment assessment of trade receivables and lease receivables are set out in Note 3.1(b).

The carrying amounts of the Group's accounts receivable are denominated in the following currencies:

	2020 HK\$'000	2019 HK\$'000
RMB	68,655	72,293
US\$	2,050	1,327
	70,705	73,620

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
Prepayments	23,178	20,426
Loan receivables (Note)	65,247	89,614
Deposits and other receivables	39,698	49,493
	128,123	159,533

Note: The Group's loan receivables are repayable within one year or on demand, of which approximately HK\$65,247,000 (2019: HK\$89,614,000) bear interest ranging from 4.35% to 16% (2019: 4.35% to 16%) per annum. At 31 December 2020, the loan receivables with an aggregate amount of approximately HK\$35,697,000 (2019: HK\$44,564,000) are secured by the personal guarantees executed by certain third parties.

Included in the carrying amount of loan receivables as at 31 December 2020 are accumulated impairment losses of approximately HK\$521,020,000 (2019: HK\$501,304,000). Details of impairment assessment for the years ended 31 December 2020 and 2019 are set out in Note 3.1(b).

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28. CASH AND BANK BALANCES

	2020 HK\$'000	2019 HK\$'000
Cash and bank balances	65,036	56,875
Time deposits	11,394	7,851
	76,430	64,726
Less: Time deposits with maturity of more than three months	(8,373)	(7,851)
Cash and cash equivalents	68,057	56,875

At 31 December 2020, the Group had cash and bank balances of approximately HK\$67,800,000 (2019: HK\$61,544,000) which are denominated in RMB. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

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

29. ACCOUNTS PAYABLE

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

	2020 HK\$'000	2019 HK\$'000
Less than three months	849	1,113
Over three months but less than one year	748	942
Over one year	2,802	863
	4,399	2,918

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

30. AMOUNT DUE TO A SHAREHOLDER

The amount due to a shareholder as at 31 December 2020 comprises an unsecured loan in a principal amount of HK\$50,000,000 at interest rate of 9.5% per annum due 20 January 2021 and an unsecured loan in a principal amount of HK\$6,500,000 at interest rate of 8% per annum due on demand after 20 January 2021.

31. AMOUNTS DUE TO DIRECTORS

The amounts due to directors are unsecured, interest bearing at rates ranging from 3.85% to 8% per annum and repayable within one year or on demand.

Notes to the Consolidated Financial Statements

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32. BANK BORROWINGS

	2020 HK\$'000	2019 HK\$'000
Secured bank loans	212,793	245,500

The carrying amounts of the Group's bank borrowings are denominated in HK\$.

At 31 December 2020, the Group's bank borrowings were due for repayment as follows:

	2020 HK\$'000	2019 HK\$'000
Bank loans due for repayment within one year	212,793	245,500

The bank borrowings carry interest at rates ranging from 5.31% to 9.19% (2019: 4.88% to 11.66%) per annum.

At 31 December 2020, the Group's bank borrowings were secured by: (i) the Group's owned properties and related leasehold land with an aggregate carrying amount of approximately HK\$346,000,000 (2019: HK\$151,592,000); and (ii) a personal guarantee executed by a director of the Company.

33. CONVERTIBLE BONDS

	2020 HK\$'000	2019 HK\$'000
Liability component:		
New Option 1 Bonds	137,205	147,400
Derivatives component:		
New Option 1 Bonds	–	–
	137,205	147,400

On 7 April 2017, the Company issued 7.5% convertible bonds due 2019 in the aggregate principal amount of HK\$175,950,000 (the "New Option 1 Bonds").

The New Option 1 Bonds entitle the holders to convert them into ordinary shares of the Company at any time on or after 18 May 2017 up to the close of business on the 7th day prior to 7 April 2019 (the "Maturity Date"). The terms and conditions of the New Option 1 Bonds contain a cash settlement option pursuant to which the Company has the option to pay to the relevant holder of the New Option 1 Bonds an amount of cash as determined under the terms and conditions of the New Option 1 Bonds in order to satisfy such conversion right in whole or in part.

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33. CONVERTIBLE BONDS (Cont'd)

The New Option 1 Bonds conversion price was reset on a one-time basis on 7 November 2017 from the initial conversion price at HK\$0.288 to HK\$0.24. Pursuant to the terms and conditions of New Option 1 Bonds, the conversion price will be subject to adjustment upon the occurrence of the specified events. The New Option 1 Bonds conversion price was adjusted to HK\$0.23 with effect from 26 April 2018 following the placing of new shares.

If the New Option 1 Bonds have not been converted or redeemed, they will be redeemed on Maturity Date at principal amount together with any accrued but unpaid interest. Interest of 7.5% will be payable quarterly in arrears.

The Company, at the option of the holders of New Option 1 Bonds, redeemed some of New Option 1 Bonds on 7 April 2018, at the principal amount of HK\$1,150,000 together with interest accrued.

On 28 March 2019, the Company and the holders of New Option 1 Bonds entered into the supplemental trust deed to extend the maturity date from 7 April 2019 to 7 November 2019 and amend the conversion price from HK\$0.23 to HK\$0.20 with effect from 29 March 2019. Pursuant to the supplemental trust deed dated 28 March 2019, the interest for the extended period from 7 April 2019 to 7 November 2019 was charged at 8.5% per annum and payable in arrear on 7 November 2019.

On 14 June 2019, the New Option 1 Bonds conversion price was adjusted to HK\$2 after the Share Consolidation.

On 4 November 2019, the Company and the holders of New Option 1 Bonds entered into the second supplemental trust deed to further extend the maturity date from 7 November 2019 to 7 November 2020. The Company will redeem the New Option 1 Bonds in an amount equal to 50% of the principal amount outstanding on 7 May 2020 and in an amount equal to 50% of the principal amount outstanding on 7 November 2020. The interest for the extended period from 8 November 2019 to 7 November 2020 will be charged at 8.5% per annum and payable in arrear on 7 November 2020. Pursuant to the second supplemental trust deed dated 4 November 2019, at any time the Company may, having given not less than 30 no more than 60 days' notice to the holders of New Option 1 Bonds, redeem the New Option 1 Bonds in whole at their principal amount together with any interest accrued but unpaid to the date fixed for redemption.

On 28 April 2020, the Company and the holders of New Option 1 Bonds entered into the third supplemental trust deed to further extend the maturity date from 7 November 2020 to 7 November 2021. On 7 November 2020, the Company redeemed part of the New Option 1 Bonds in the principal amount of HK\$26,220,000 pursuant to the third supplemental trust deed. Under the terms of the third supplemental trust deed, part of the New Option 1 Bonds in the principal amount of HK\$26,220,000 will be payable on 7 May 2021 and the remaining outstanding principal amount of HK\$122,360,000 will be payable on the New Option 1 Bonds maturity date on 7 November 2021. The interest for the extended period from 8 November 2020 to 7 November 2021 will be charged at 8.5% per annum and payable in arrear on 7 November 2021.

The New Option 1 Bonds contain two components, liability component and derivatives (including conversion option) component. The effective interest rate of the liability component is 44.02% (2019: 52.16%) per annum. The derivatives component is measured at fair value with changes in fair value recognised in profit or loss. Monte Carlo Model is used for valuation of the derivatives component.

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33. CONVERTIBLE BONDS (Cont'd)

The movement of liability component and derivatives component of the New Option 1 Bonds for the current and prior years is set out below:

	Liability component HK\$'000	Derivatives component HK\$'000	Total HK\$'000
At 1 January 2019	172,480	–	172,480
Interest charge	36,548	–	36,548
Interest paid	(3,484)	–	(3,484)
Remeasurement	(58,144)	–	(58,144)
At 31 December 2019	147,400	–	147,400
Interest charge	60,838	–	60,838
Remeasurement	(44,813)	–	(44,813)
Redemption	(26,220)	–	(26,220)
At 31 December 2020	137,205	–	137,205

34. DEFERRED INCOME TAX

For the purpose of presentation in the consolidated statement of financial position, certain deferred income tax assets and liabilities have been offset. The following is the analysis of the deferred income tax balances for financial reporting purposes:

	2020 HK\$'000	2019 HK\$'000
Deferred income tax assets	–	–
Deferred income tax liabilities	(39,993)	(38,233)
	(39,993)	(38,233)

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34. DEFERRED INCOME TAX (Cont'd)

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

	Intangible assets acquired in business combination HK\$'000	Convertible bonds of properties HK\$'000	Revaluation of properties HK\$'000	Accelerated tax depreciation HK\$'000	Withholding tax on dividend income HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 January 2019	8,289	383	–	1,957	36,225	(5,607)	41,247
(Credited)/Charged to profit or loss	(751)	5,938	–	(48)	(5,067)	(2,669)	(2,597)
Exchange difference	(168)	–	–	–	(295)	46	(417)
At 31 December 2019	7,370	6,321	–	1,909	30,863	(8,230)	38,233
Charged to equity	–	–	7,518	–	–	–	7,518
(Credited)/Charged to profit or loss	(2,262)	(250)	–	(557)	(4,505)	718	(6,856)
Exchange difference	417	–	–	–	681	–	1,098
At 31 December 2020	5,525	6,071	7,518	1,352	27,039	(7,512)	39,993

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 2020, the Group did not recognise deferred income tax asset in respect of tax losses amounting to approximately HK\$818,758,000 (2019: HK\$584,412,000) that can be carried forward to offset against future taxable profits. Tax losses amounting to approximately HK\$550,355,000 (2019: HK\$406,544,000) will expire from 2021 to 2025 (2019: 2020 to 2024).

At 31 December 2020, deferred tax liabilities have not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of certain PRC subsidiaries amounting to approximately HK\$14,000 (2019: HK\$323,000) 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.

35. SHARE CAPITAL

	Authorised ordinary shares of HK\$0.025 each (after Share Consolidation) Number of shares	HK\$'000
At 1 January 2019	16,000,000,000	40,000
Share Consolidation (Note (i))	(14,400,000,000)	–
At 31 December 2019 and 31 December 2020	1,600,000,000	40,000

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35. SHARE CAPITAL (Cont'd)

	Issued and fully paid ordinary shares of HK\$0.025 each (after Share Consolidation) Number of shares	HK\$'000
At 1 January 2019	9,759,807,333	24,399
Share options exercised (Note (ii))	170,000,000	425
Share Consolidation (Note (i))	(8,936,826,600)	–
Share options exercised (Note (iii))	36,500,000	913
At 31 December 2019 and 31 December 2020	1,029,480,733	25,737

Notes:

- (i) Pursuant to the ordinary resolution passed by the Company's shareholders at the annual general meeting held on 13 June 2019, issued and unissued 10 ordinary shares of HK\$0.0025 each were consolidated into 1 consolidated ordinary share of HK\$0.025. The Share Consolidation was completed on 14 June 2019.
- (ii) During the period from 1 January 2019 to 13 June 2019, share options were exercised by option holders to subscribe for a total of 170,000,000 shares of HK\$0.0025 each (before Share Consolidation) by payment of subscription monies of approximately HK\$13,600,000, of which approximately HK\$425,000 was credited to share capital and the balance of approximately HK\$13,175,000 was credited to the share premium account.
- (iii) During the period from 14 June 2019 to 31 December 2019, share options were exercised by option holders to subscribe for a total of 36,500,000 shares of HK\$0.025 each (after Share Consolidation) by payment of subscription monies of approximately HK\$10,981,000, of which approximately HK\$913,000 was credited to share capital and the balance of approximately HK\$10,068,000 was credited to the share premium account.

36. SHARE OPTION SCHEME

At the annual general meeting of the Company held on 18 May 2012, the shareholders of the Company approved the adoption of a share option scheme (the "2012 Option Scheme").

The purpose of the 2012 Option Scheme 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.

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.

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36. SHARE OPTION SCHEME (Cont'd)

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.

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

	Average exercise price (HK\$ per share) <i>(Note)</i>	Options (thousands) <i>(Note)</i>
At 1 January 2019	2.04	26,190
Granted	0.46	94,200
Exercised	0.46	(53,500)
Lapsed	0.85	(47,965)
	1.64	18,925
At 31 December 2019	1.64	18,925
Exercisable at 31 December 2019	1.64	18,925
At 1 January 2020	1.64	18,925
Lapsed	1.64	(18,925)
At 31 December 2020	–	–
Exercisable at 31 December 2020	–	–

Note: The exercise prices and number of the share options have been adjusted to reflect the effect of the Share Consolidation.

Options exercised in 2019 resulted in 53,500,000 shares being issued at a weighted average price of HK\$0.46 each. The related weighted average share price at the time of exercise was HK\$0.43 per share.

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36. SHARE OPTION SCHEME (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) (Note)	Options (thousands) (Note)	
		2020	2019
9 January 2020	0.80	–	10,000
20 January 2020	1.72	–	7,765
29 October 2020	8.40	–	1,160
		–	18,925

Note: The exercise prices and number of the share options have been adjusted to reflect the effect of the Share Consolidation.

The fair value of the options granted to employees during the year ended 31 December 2019 was approximately HK\$15,000, of which the Group recognised the share option expenses of approximately HK\$15,000 during the year ended 31 December 2019.

The fair value of the options granted to employees during the year ended 31 December 2019 was estimated as at the date of grant using the Binomial 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	31 May 2019
Exercisable period	1 June 2019 to 30 November 2019
Risk-free interest rate (%)	1.88
Expected volatility (%)	58
Expected life of options (year)	0.5
Dividend yield (%)	–
Share price (HK\$ per share) (before Share Consolidation)	0.034

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 31 December 2019, the Company had a total of 18,925,000 share options outstanding under the share option scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 18,925,000 additional ordinary shares of the Company and additional share capital of approximately HK\$473,000 and share premium of approximately HK\$30,627,000 (before issue expenses).

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37. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000 <i>(Note)</i>	Other reserve HK\$'000	Currency translation reserve HK\$'000	Share-based compensation reserve HK\$'000	Revaluation reserve HK\$'000	Total HK\$'000
At 1 January 2019	1,445,383	15,158	(42,657)	(64,759)	12,584	9,905	1,375,614
Share option scheme:							
— value of employees' services	—	—	—	—	212	—	212
— value of other participants' services	—	—	—	—	4,853	—	4,853
— share options exercised	25,866	—	—	—	(2,623)	—	23,243
— vested share options expired	—	—	—	—	(6,540)	—	(6,540)
Release of revaluation reserve upon depreciation of owned properties and related leasehold land	—	—	—	—	—	(241)	(241)
Currency translation differences							
— overseas subsidiaries	—	—	—	(7,833)	—	—	(7,833)
— overseas joint venture	—	—	—	(77)	—	—	(77)
— overseas associates	—	—	—	(62)	—	—	(62)
At 31 December 2019	1,471,249	15,158	(42,657)	(72,731)	8,486	9,664	1,389,169
Share option scheme:							
— vested share options expired	—	—	—	—	(8,486)	—	(8,486)
Gain on revaluation of properties held for own use	—	—	—	—	—	244,823	244,823
Deferred tax arising on revaluation of properties held for own use	—	—	—	—	—	(7,338)	(7,338)
Release of revaluation reserve upon:							
— depreciation of owned properties and related leasehold land	—	—	—	—	—	(241)	(241)
— disposal of properties	—	—	—	—	—	(5,682)	(5,682)
Currency translation differences							
— overseas subsidiaries	—	—	—	9,669	—	—	9,669
— overseas associates	—	—	—	98	—	—	98
— overseas joint venture	—	—	—	78	—	—	78
At 31 December 2020	1,471,249	15,158	(42,657)	(62,886)	—	241,226	1,622,090

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.

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38. CASH FLOW INFORMATION

(a) Cash used in operation

	2020 HK\$'000	2019 HK\$'000
Loss before income tax	(630,445)	(546,345)
Adjustments for:		
Depreciation of property, plant and equipment	37,102	39,706
Depreciation of right-of-use assets	12,068	16,901
Amortisation of intangible assets	10,815	10,690
Loss on disposal of property, plant and equipment	43,406	83
Gain on lease termination	(253)	(494)
Share option expenses	–	5,065
Fair value (gain)/loss on financial assets at fair value through profit or loss	(98)	978
Gain on remeasurement of convertible bonds	(44,813)	(58,144)
Gain on lease modification	(475)	–
Impairment loss on interest in an associate	–	32,000
Impairment of goodwill and other intangible assets	381,786	19,484
Impairment of property, plant and equipment	17,007	–
Net impairment loss on financial assets	26,332	406,496
Write-off of loan receivables	9,839	–
Interest income	(6,403)	(57,459)
Finance costs	86,034	53,922
Share of losses of associates	2,756	663
Share of loss of a joint venture	2,496	2,180
Operating cash flows before changes in working capital	(52,846)	(74,274)
Changes in working capital:		
— Inventories	4,705	6,020
— Accounts receivable	6,153	8,616
— Prepayments, deposits and other receivables	7,368	69,274
— Accounts payable	1,245	2,355
— Accruals and other payables	2,457	(28,890)
— Contract liabilities	10,673	16,176
— Amount due to a joint venture	(1,955)	352
	30,646	73,903
Cash used in operation	(22,200)	(371)

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38. CASH FLOW INFORMATION (Cont'd)

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank borrowings HK\$'000	Lease liabilities HK\$'000	Amount due to a shareholder HK\$'000	Amounts due to directors HK\$'000	Promissory note HK\$'000	Convertible bonds HK\$'000	Total HK\$'000
At 1 January 2019	262,274	52,758	-	-	-	172,480	487,512
Financing cash flows	(31,831)	(13,080)	-	-	-	(3,484)	(48,395)
Interest expenses	15,088	2,004	-	-	282	36,548	53,922
New leases entered	-	10,346	-	-	-	-	10,346
Lease termination	-	(10,534)	-	-	-	-	(10,534)
Issue of promissory note	-	-	-	-	5,718	-	5,718
Remeasurement	-	-	-	-	-	(58,144)	(58,144)
Exchange difference	(31)	(814)	-	-	-	-	(845)
At 31 December 2019	245,500	40,680	-	-	6,000	147,400	439,580
Financing cash flows	(51,509)	(7,307)	52,275	19,471	(6,000)	(26,220)	(19,290)
Interest expenses	18,802	1,557	4,605	232	-	60,838	86,034
New leases entered	-	3,260	-	-	-	-	3,260
Lease termination	-	(4,068)	-	-	-	-	(4,068)
Remeasurement	-	(12,755)	-	-	-	(44,813)	(57,568)
Exchange difference	-	1,809	-	-	-	-	1,809
At 31 December 2020	212,793	23,176	56,880	19,703	-	137,205	449,757

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39. 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 of HK\$1,500 per month per employee.

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\$3,200,000 (2019: HK\$6,882,000), with no (2019: Nil) deduction of forfeited contributions. At 31 December 2020, there was no material forfeited contribution available to reduce the Group's employer contribution payable in future periods (2019: Nil).

The Group's contribution payable at 31 December 2020 amounted to approximately HK\$96,000 (2019: Nil).

40. BUSINESS COMBINATION

On 9 September 2019, the Group acquired 100% of the issued share capital of Qing Yu for consideration of HK\$9,000,000. The consideration comprised of (i) initial purchase price of HK\$3,000,000; and (ii) a non-interest bearing promissory note with principal amount of HK\$6,000,000 and a term of 3 months. Qing Yu through its subsidiary, NFF is principally engaged in research and development, processing, production and sales of natural and health food.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

40. BUSINESS COMBINATION (Cont'd)

Details of purchase consideration, the net asset acquired and goodwill are as follows:

	HK\$'000
Purchase consideration:	
Cash	3,000
Fair value of promissory note	5,718
	<hr/>
Total purchase consideration	8,718
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Assets and liabilities recognised at the date of acquisition:	
Inventories	1,169
Accounts receivables	278
Prepayments, deposits and other receivables	450
Cash and bank balances	73
Accounts payable	(140)
Accruals and other payables	(11,577)
Shareholder's loan	(3,709)
	<hr/>
Net identifiable assets acquired	(13,456)
Add: Non-controlling interest	2,690
Goodwill	19,484
	<hr/>
Net assets acquired	8,718
	<hr/>

(a) Acquisition-related costs

Acquisition-related costs of approximately HK\$4,000 have been recognised as an expense in the prior year within "general and administrative expenses" in the consolidated statement of profit or loss.

(b) Acquired receivables

The fair value and gross contractual amounts of accounts receivable and other receivables as at the date of acquisition amounted to approximately HK\$278,000 and HK\$255,000, respectively.

(c) Accounting policy choice for non-controlling interests

The Group recognises non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. For the non-controlling interest in Qing Yu, the Group elected to recognise the non-controlling interests at its proportionate share of the acquired net identifiable assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

40. BUSINESS COMBINATION (Cont'd)

(d) Revenue and profit contribution

The acquired business contributed revenue of approximately HK\$2,123,000 and net loss of approximately HK\$1,311,000 to the Group for the period from 9 September 2019 to 31 December 2019.

If the acquisition had occurred on 1 January 2019, consolidated pro-forma revenue and loss for the year ended 31 December 2019 would have been approximately HK\$157,519,000 and approximately HK\$551,806,000 respectively.

(e) Net cash outflow on acquisition

	HK\$'000
Cash consideration paid	3,000
Less: Cash and cash equivalents acquired	(73)
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Net cash outflow on acquisition	2,927
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41. RELATED PARTY TRANSACTIONS

Apart from those disclosed in Notes 10, 21, 22, 30, 31 and 32, the Group had the following significant related party transactions during the year:

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:

	2020 HK\$'000	2019 HK\$'000
Short-term employee benefits	30,931	30,086
Post-employment benefits	473	602
Employee share option benefits	–	72
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	31,404	30,760
	<hr/>	<hr/>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

Statement of Financial Position

At 31 December 2020

	2020 HK\$'000	2019 HK\$'000
Non-current assets		
Investments in subsidiaries	9	9
Current assets		
Prepayments	39	39
Amounts due from subsidiaries	194,805	393,668
Cash and bank balances	101	120
	194,945	393,827
Total assets	194,954	393,836
Current liabilities		
Accruals and other payables	1,091	891
Amounts due to subsidiaries	9,993	9,993
Convertible bonds	137,205	147,400
	148,289	158,284
Net current assets	46,656	235,543
Net assets	46,665	235,552
Equity attributable to owners of the Company		
Share capital	25,737	25,737
Reserves (Note)	20,928	209,815
	46,665	235,552

The statement of financial position of the Company was approved by the Board of Directors on 31 March 2021 and was signed on its behalf by:

CHAN TAN NA, DONNA
Director

WU JINGWEI
Director

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

Statement of Financial Position (Cont'd)

Note: Reserve movement of the Company

	Share premium HK\$'000	Contributed surplus HK\$'000 (Note (i))	Share-based compensation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2019	1,445,383	16,209	12,584	(742,153)	732,023
Share option scheme:					
— value of employees' services	-	-	212	-	212
— value of other participants' services	-	-	4,853	-	4,853
— share options exercised	25,866	-	(2,623)	-	23,243
— vested share options expired	-	-	(6,540)	6,540	-
Loss for the year	-	-	-	(550,516)	(550,516)
At 31 December 2019	1,471,249	16,209	8,486	(1,286,129)	209,815
Share option scheme:					
— vested share options expired	-	-	(8,486)	-	(8,486)
Loss for the year	-	-	-	(180,401)	(180,401)
At 31 December 2020	1,471,249	16,209	-	(1,466,530)	20,928

Note:

- (i) 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.

43. EVENTS AFTER THE REPORTING PERIOD

- (a) The Company has entered into a "Strategic Cooperation Agreement on Development of Ecotourism Spots in China" with China Eco Development Association on 4 January 2021, pursuant to which the two parties intend to establish a comprehensive strategic partnership to develop the ecotourism business in the PRC.
- (b) On 20 January 2021, the Group as a borrower entered into a supplemental loan agreement with the substantial shareholder of the Company as a lender to extend the maturity date of the shareholder's loan in the principal amount of HK\$50,000,000 to 20 January 2022.
- (c) On 16 February 2021, the Group proposed to raise gross proceeds up to approximately HK\$220,750,000 by issuing up to 2,207,541,466 rights shares on the basis of two rights shares for every one existing share at the subscription price of HK\$0.10 per rights share (the "Proposed Rights Issue").
- (d) On 16 February 2021, the Company and a placing agent entered into the placing agreement, pursuant to which the Company conditionally appointed the placing agent and the placing agent conditionally agreed to act as the placing agent for the Company to procure, on a best effort basis, places to subscribe for the untaken shares during the Proposed Rights Issue at the placing price of HK\$0.10 per placing share.