2019 Annual Report

China LotSynergy Holdings Limited
華彩控股有限公司*
(Incorporated in Bermuda with limited liability)
Stock code: 1371

* For identification purpose only

Contents

Corporate Information

DIRECTORS

Executive Directors

Ms. 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

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

COMPANY WEBSITE

www.chinalotsynergy.com

PRINCIPAL SHARE REGISTRARS

MUFG Fund Services (Bermuda) Limited
4th Floor North, Cedar House
41 Cedar Avenue
Hamilton HM 12, Bermuda

BRANCH SHARE REGISTRARS IN HONG KONG

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

LEGAL ADVISERS

Appleby
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 LotSynergy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") are as follows:

RESULTS

	Year ended 31 December				
	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
Revenue	**154,354**	183,927	237,852	200,319	643,748
Gross profit/(gross loss)	**61,492**	95,941	117,498	(6,931)	359,472
Share option expenses	**(5,065)**	(13,237)	(10,174)	(18,998)	(92,230)
Finance costs	**(53,922)**	(33,396)	(40,367)	(56,904)	(61,412)
Loss before income tax	**(546,345)**	(153,860)	(179,358)	(441,700)	(370,124)
Income tax expense	**(3,755)**	(8,861)	(15,741)	(37,901)	(46,006)
Loss for the year	**(550,100)**	(162,721)	(195,099)	(479,601)	(416,130)
(Loss)/Profit attributable to:					
Owners of the Company	**(518,793)**	(169,468)	(192,568)	(297,967)	(497,654)
Non-controlling interests	**(31,307)**	6,747	(2,531)	(181,634)	81,524
	(550,100)	(162,721)	(195,099)	(479,601)	(416,130)

ASSETS AND LIABILITIES

	As at 31 December				
	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
Total current assets	**311,539**	832,814	866,304	1,382,954	1,988,385
Total assets	**1,080,922**	1,621,804	1,686,761	2,225,288	3,161,389
Total liabilities	**(549,405)**	(549,610)	(547,679)	(952,368)	(1,344,021)
Net assets	**531,517**	1,072,194	1,139,082	1,272,920	1,817,368

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 the 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 & health food business and 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 17.5% decline in total sales to RMB422.053 billion in 2019, pursuant to the sales data released by the Ministry of Finance ("MOF"). Welfare Lottery sales fell by 14.8% YOY to RMB191.238 billion, while Sports Lottery sales down 19.6% YOY to RMB230.815 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 rise in sales compared with last year. Lotto, which is the industry's main source of revenue, posted a 17.6% YOY drop to RMB227.337 billion in its sales, accounting for 53.8% of total lottery sales. SMG sales dipped 26.3% YOY to RMB121.943 billion, accounting for 28.9% of total lottery sales. VLT sales dropped 7.1% YOY to RMB44.085 billion, accounting for 10.4% of total lottery sales. Sales of Paper-based Scratch Card and KENO advanced 26.6% YOY and 28.6% YOY to RMB28.522 billion and RMB0.167 billion, accounting for 6.8% and 0.1% of total lottery sales respectively.

The China's lottery market has shown a trend of sustainable healthy development in recent years. In order to strictly control the lottery market risks, further highlight the public welfare and social responsibility of the state's lottery and foster the healthy development of the lottery industry, the MOF, the Ministry of Civil Affairs ("MOCA") and the General Administration of Sport of China jointly issued "Notice on Strengthening the Management of Payout 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 payout and promotions. Those new rules, which reinforcing the market regulations of the high frequency games and SMG, would have impact on the sales in the short run. The figures reveal monthly lottery sales has gone down for 11 months in a row since February 2019. The national lottery revenue fell 17.5% YOY in 2019, primarily due to the requirement at political level in terms of strengthening industry regulation, underscoring lottery social responsibility, enhancing lottery system credibility, ensuring safe and smooth operation of lottery market, in a bid to contribute to the long-term, healthy and orderly development of lottery industry. As it can be observed that the sales decline of high frequency games and SMG was merely a direct reason.

In 2019, China's Welfare Lottery generated RMB55.728 billion lottery funds, with Sports Lottery generated RMB58.318 billion. From the initial issuance to the end of 2019, China's Welfare Lottery has raised RMB656.865 billion lottery funds, whereas Sports Lottery has raised nearly RMB490 billion. The lottery has made outstanding contributions to the development of various public works projects undertaken in China.

Management Discussion and Analysis

BUSINESS REVIEW AND OUTLOOK

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"). Welfare VLT was one of the driving forces of nationwide Welfare Lottery, with its sales decreased by 7.1% YOY to RMB44.085 billion, accounted for 21.3% of Welfare Lottery sales and 10.4% of the nation's total lottery sales respectively in 2019.

Dongguan Tianyi Electronic Company Limited ("DGTY"), a subsidiary of the Group, has been the supplier of Welfare VLT terminal for 16 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 16 years, supplying a total number of over 70,000 units of terminals. For the year ended 31 December 2019, 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.

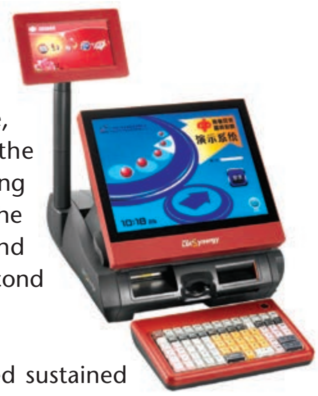
DGTY's Welfare VLT supply contract expired in June 2015. According to the supply contract agreed by both parties, DGTY has the full ownership of the approximately 41,500 units of terminals generating all the sales of Welfare VLT. Estimably, sales of Welfare VLT has continued its upward climb and achieved satisfactory performance on the back of the superb quality of DGTY's third generation terminals, notwithstanding the absence of new terminal over the last four years. DGTY was well recognized by authorities and players thanks to its strong technological prowess and integrated service capabilities.

Management Discussion and Analysis

According to legally binding documents that the Group sent to China Welfare Lottery Issuance and Administration Centre and Beijing China Lottery Online Technology Company Limited ("CLO") along with unanimous accreditation reached by domestic civil law experts, DGTY shall be paid for the provision of these terminals for Welfare VLT's continued use after the expiry of the supply contract. 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 the compensation from CLO for the continued use of terminals after the expiry of the supply contract. "The Civil Judgement" No. 65 (2016) 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. CLO appealed to the Supreme People's Court. The Supreme People's Court held two hearings, and that an outcome is awaited.

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.

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 RMB12.2 billion in 2019. Shanghai Welfare Lottery CTG, which is also served by the Group, recorded sales of RMB3.93 billion. Meanwhile, Guangzhou San Huan Yong Xin Technology Company Limited, a subsidiary of the Group, won a bid for the procurement of Welfare Lottery computer ticket game betting terminals and technical service for Chongqing Welfare Lottery Issuance Centre. In the next five years, the Group will provide 3,000 units of lottery betting terminals and related services to Chongqing Welfare Lottery Issuance Centre. This is the Group's second time winning the bid in Chongqing Welfare Lottery since our first winning in 2013.

In 2019, the Group's Sports Lottery CTG terminal business recorded sustained growth with successively won bids for the Sports Lottery CTG terminal procurement programmes of Guangxi, Inner Mongolia and other provinces, in spite of restricted rules of high frequency games and SMG, and sinking demand on CTG terminal. At the same time, the Group won bids for the Sports Lottery after-sales service procurement programmes in the provinces of Guizhou, Liaoning and others, achieving breakthrough in terminal after-sales service leveraged on its superb service capacities.

Management Discussion and Analysis

The Group continued to focus on overseas lottery business in 2019. The CTG system, developed by the Group for Khmer Pool Welfare Lottery Co., Ltd and Cambodian Sports Lottery, is running smoothly. The Group brought the advanced lottery products and technologies to African market, and marketed in Ghana on 9 August 2019. It is expected to roll out more games and value-added channels one after another in the first quarter of this year. Furthermore, the Group is developing handheld lottery terminal business for Philippine Charity Sweepstakes Office, and it is expected to be launched in this year.

New Lottery Business (New Retail, AI)

In 2019, the Group continued to maintain good relations with lottery authorities and actively explore new products and new models in 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. China's lottery industry is undergoing developmental revolution in terms of channel realignment and innovation. Under new circumstances, 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 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,

Management Discussion and Analysis

offers player with new experience, allows a better regulated and healthier operation environment, and provides the authorities with anew intelligent management tools. At present, the Group has entered into 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 the China's Sound Valley — the national-level industrial base of artificial intelligence and garnered the award dedicated leading enterprises which settled there. Riding on the robust foundation provided by the 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. In 2019, the group's proprietary R&D project, "mobile ticket bots", which is gearing towards the retail industry, received funding support from "2019 China's Sound Valley Establishment" specify for industrialization of technological innovation products.

New forms of economies spurred by 5G, big data, block chain, 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.

New Lottery Business (Video Lottery & Digital Scratch Card)

During the year under review, the group continued to increase its strategic layout and in-depth cooperation at the domestic and international levels, and actively studied and developed new growth points in businesses of video lottery and digital scratch card.

Gamification and electronic sales are the key features of VLT and digital scratch card, not only enabling betting on mobile phone, tablet device and fixed terminal, and also allowing converged development, mutually enhancement with other consumer entertainment industries with a promising future.

VLT and digital scratch card business, one of the core competencies we are proud of, in which the Group has overall strengths in terms of system, games, terminals and business development and others.

Management Discussion and Analysis

Natural & Health Food Business

In 2019, Tian Ran Lin Chang Food Limited ("TRLC"), a subsidiary of the Group, opened up three product lines, namely nuts, honey and mushrooms, and a consigned product line for fresh fruits.

TRLC formed long-term strategic cooperation with e-commerce sites, regarding its mushrooms business, and signed purchase contracts with a number of enterprises. TRLC launched its nuts products on several major e-commerce platforms and earned a good reputation. In terms of its robust product, honey, TRLC has been trying new packaging and joint marketing approach, incorporating with prevailing key opinion leaders and webcasts in 2019. TRLC also tried with a wider range of fresh fruits and selected seasonal fresh fruits selling via its own channels and other e-commerce channels.

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. In 2019, the Group deployed to launch 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.

Conclusion

In the past two years, Chinese lottery has been changing from simply pursuing sales volume and speed to quality and social benefits, with special emphasis on building up and carrying out responsible lottery, so as to foster a healthy industry ecosystem. Chinese lottery industry has entered the "era of quality", which means great challenges and opportunities to the industry, especially for professional lottery companies.

The Group noted that lottery issuance and sales authorities proactively reformed every related aspect of lottery issuance and sales in 2019, while professional lottery companies actively engaged in the tides of reform. Lottery sales declined in 2019 against the backdrop of policy adjustments, but the market remained dynamic. There is no doubt that China's lottery market could be worth trillions.

Management Discussion and Analysis

China's lottery was back in business in middle of March following a record long shut down caused by the pandemic. A good number of major league games have been postponed or suspended as a result of global outbreak of the pandemic, putting a pause on distribution of SMG, within the sector of Sports Lottery, football match schedule nationwide on 25 March 2020. In 2009, MOF issued a statement to support mobile and online lottery. However, lottery sales fell to zero during the pandemic, while illegal lottery and online gambling were everywhere as well as mobile games went viral. That leaves Chinese lottery issuers and regulators with a lot to think about, but there should also be action.

After all, it had been seen that there are always tide turning on business model, with the in-depth development of internet. Lottery is born best for paperless, electronic, dispersed and mobile consumption. Inevitably, there will be a new round of explosive growth and innovative changes upon the end of this adjustment, which is the trend of the times.

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 wide range of cooperation in terms of sales channels, core systems, gaming products, lottery security, among others, making contribution to the development of a responsible, reliable, healthy and sustainable China's lottery ecosystem. The Group will foster the internationalization of 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$154.4 million (2018: HK$183.9 million) for the year ended 31 December 2019, representing a decrease of approximately 16% over 2018. Loss attributable to owners of the Company for the year ended 31 December 2019 amounted to approximately HK$518.8 million (2018: HK$169.5 million), and is mainly due to net impairment losses on financial assets of approximately HK$406.5 million (2018: HK$66 million), and staff costs (excluding employee share option benefits) of approximately HK$97.5 million (2018: HK$117.8 million).

Liquidity, Financial Resources, Gearing Ratio and Capital Structure

As at 31 December 2019, the Group had net current liabilities of approximately HK$168.1 million (2018: net current assets of HK$330.1 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 as the Group maintains a healthy financial position as of 31 December 2019 with cash and cash equivalents and net assets value of approximately HK$64.7 million and HK$531.5 million respectively. The management of the Group has given consideration to the following steps taken which expected to strengthen the Group's financial position:

(1) The Group has been actively negotiating with banks to secure the renewals of the banking facilities granted to the Group;

(2) The Group has been negotiating with the investors for the extension of convertible bonds and considering further financing when necessary including but not limited to equity financing to improve the liquidity of the Group;

(3) The Group has taken measures to tighten its cost control over general and administrative expenses; and

(4) The Group is awaiting the outcome of the final judgement of a civil action against CLO claiming the compensation from CLO for the continued use of terminals after the expiry of the supply contract with DGTY. The first judgement delivered by the People's High Court of Beijing ruled that CLO is required to pay DGTY cooperation remuneration for 1 June 2015 to 26 March 2017 which amounted to RMB1,360,211,853 and with relevant interest.

Management Discussion and Analysis

The Group believes that it has adequate financial resources to fund its capital and operating requirements. As at 31 December 2019, the Company had an outstanding corporate guarantee limited to approximately HK$240 million (2018: HK$240 million) for a banking facility of an uncommitted revolving loan of approximately HK$240 million (2018: HK$240 million); and an outstanding corporate guarantee limited to approximately HK$23 million (2018: HK$23 million) for a banking facility of a short term secured loan of approximately HK$23 million (2018: HK$23 million).

The Group had outstanding bank borrowings as at 31 December 2019 of approximately HK$245.5 million (2018: HK$262.3 million). As at 31 December 2019, 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$151.6 million (2018: HK$155.6 million); and (ii) a personal guarantee executed by a director of the Company (2018: a personal guarantee executed by a director of the Company).

By an ordinary resolution passed at the Company's annual general meeting on 13 June 2019, every ten (10) issued and unissued ordinary shares of HK$0.0025 each in the share capital of the Company has been consolidated into one (1) ordinary share of HK$0.025 each in the share capital of the Company (the "Share Consolidation") with effective on 14 June 2019. Following the Share Consolidation, the authorised share capital of the Company are HK$40 million divided into 1,600,000,000 shares of the Company with par value of HK$0.025 each. The board lot size has also been changed from 20,000 to 10,000 shares of the Company upon the effective of the Share Consolidation. Details of the Share Consolidation are set out in the Company's announcements dated 18 April 2019 and 13 June 2019 and the Company's circular dated 30 April 2019.

At 1 January 2019, 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"). The New Option 1 Bonds shall be convertible into the shares of the Company at conversion price of HK$0.23 each. 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, the interest for the extended period from 7 April 2019 to 7 November will be charged at 8.5% per annum and payable in arrear on 7 November 2019. With effect from 14 June 2019, due to the Share Consolidation, the conversion price of the New Option 1 Bonds had been adjusted from HK$0.20 to HK$2 per shares of the Company. 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. Repayments will be in two instalments: (i) 50% of the principal amount outstanding on 7 May 2020 and (ii) remaining of the principal amount outstanding on the maturity date on 7 November 2020. 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 instalments: (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.

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 2019, the total outstanding principal amount of the New Option 1 Bonds was HK$174.8 million. The maximum number of shares of the Company that will be issued upon conversion of all the outstanding New Option 1 Bonds was 87,400,000 shares of the Company.

The Group's total equity amounted to approximately HK$531.5 million at 31 December 2019 (2018: HK$1,072.2 million). At 31 December 2019, net current liabilities of the Group amounted to approximately HK$168.1 million (2018: net current assets of HK$330.1 million), including approximately HK$64.7 million in cash and deposits with banks and financial institution (2018: HK$146 million).

Management Discussion and Analysis

The gearing ratio (defined as total liabilities over total assets) of the Group at 31 December 2019 was approximately 50.8% (2018: 33.9%).

Exposure to Exchange Rates Fluctuations

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

Pledge of Assets

As at 31 December 2019, the Group's owned properties and related leasehold land at net book value of approximately HK$151.6 million (2018: HK$155.6 million) were pledged to banks to secure the bank borrowings granted to the Group.

Contingent Liabilities

As at 31 December 2019, the Group did not have any material contingent liabilities (2018: Nil).

Staff

As at 31 December 2019, the Group employed 265 full time employees (2018: 282). The management believes that the competence of employees is a major contributing factor to the Group's sustained growth and advancement in profitability. Staff remuneration is based on performance and experience. In addition to basic salary, benefits for employees include a performance-related bonus, contributory provident fund, medical insurance and regulated employees' social security program in China. The Group also adopted a share option scheme under which options may be granted to eligible staff based on individual performance. Training programs for staff are provided as and when required. The Group will further strengthen its team buildup, in order to offer enhanced services for lottery market.

Biographies of Directors and Senior Management

DIRECTORS

CHAN Tan Na, Donna

Board's Chairperson, Executive Director and Chief Executive Officer

Ms. Chan, aged 39, 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 48, 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 56, 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 40, 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 68, 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 58, 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 is currently a non-executive director of Windmill Group Limited, a listed company in Hong Kong. Mr. Chan was an independent non-executive director of Burwill Holdings Limited and a non-executive director of Alita Resources Limited in the previous three years.

CUI Shuming

Independent Non-executive Director

Mr. Cui, aged 82, 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 48, 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 50, 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 52, 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 47, 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 48, joined the Group in 2000. He is currently the Chief Financial Officer, 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

Mr. Wong, aged 36, joined the Group in 2009. He is currently the Company Secretary, taking part in the corporate exercise and business operation of the Group with respect to ensuring compliance and risk management, leading a professional team overseeing the Group's corporate governance, and is responsible for group policies formation and corporate structure planning. He is a senior management member of the Group. Mr. Wong is a member of The Hong Kong Institute of Directors and an associate member of both The Institute of Chartered Secretaries and Administrators 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" or the "Directors") presents to the shareholders their report together with the audited financial statements of the Group for the year ended 31 December 2019.

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 VLT, CTG 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 2019 are set out in note 19 to the Consolidated Financial Statements of this annual report.

Analysis of the Group's turnover and segment information for the year ended 31 December 2019 are set out in notes 5 and 6 to the Consolidated Financial Statements of this annual report.

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 2019, 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 12 of this annual report and in Corporate Governance Report on pages 32 to 39 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 40 to 48 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 12 of this annual report and in Control Contracts on pages 26 to 31 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 Stock Exchange of Hong Kong Limited (the "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 2019 are set out in the Consolidated Statement of Profit or Loss on page 54 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 2019 (2018: Nil).

MAJOR SUPPLIERS AND CUSTOMERS

The Group's five largest customers accounted for about 77% of its turnover for the year. In addition, the largest customer of the Group accounted for about 44% of the Group's turnover.

The percentage of the Group's purchases attributable to the Group's five largest suppliers was about 48%. In addition, the largest supplier of the Group accounted for about 19% 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 of this annual report.

SHARE CAPITAL

Details of movements in share capital during the year are set out in note 32 to the Consolidated Financial Statements of this annual report.

RESERVES

Details of movements in reserves during the year are set out in note 34 to the Consolidated Financial Statements of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the distributable reserves to the Shareholders in accordance with the Company's Bye-laws was Nil (As at 31 December 2018: 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.

Report of the Directors

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

Save as the new shares of the Company issued upon the exercise of share options granted under the share option scheme of the Company and the amendments to the terms and conditions of convertible bonds of the Company 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 2019.

SHARE OPTION SCHEME

At the annual general meeting of the Company held on 18 May 2012, an ordinary resolution has be 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 respectively by the Shareholders to refresh the limit of granting option under the 2012 Option Scheme. More information can be referred in the Company's circulars dated 28 April 2015 and 30 April 2019 respectively.

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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). As at 31 December 2019, there were options for 18,925,000 shares of HK$0.025 each in the share capital of the Company granted by the Company were valid and outstanding. As at 31 December 2019, 91,223,073 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 8.86% 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 or marketing representative of, or supplier or provider of goods or services to, the Group or its holding company or subsidiary, including any executive or non-executive director of the Group or its holding company or subsidiary, or any person who, the Board may determine in its discretion, has made valuable contribution the business of the Group.

(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.

Report of the Directors

(iv) Maximum entitlement of each Participant

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

(v) Option period

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

(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 2019:

		Date of grant	Exercise price per Share HK$	Exercise period from	Exercise period until	No. of Shares under the options: outstanding at the beginning of the year	granted during the year	exercised during the year	cancelled during the year	lapsed during the year	outstanding at the end of the year	Closing price per Share immediately before the date of grant of the options during the year HK$
(i)	**Name of Director**											
	Ms. CHAN Tan Na,	19/01/2018	1.72	20/01/2018	19/01/2019	600,000	–	–	–	(600,000)	–	–
	Donna	19/01/2018	1.72	20/01/2019	19/01/2020	600,000	–	–	–	–	600,000	–
	Mr. WU Jingwei	19/01/2018	1.72	20/01/2018	19/01/2019	600,000	–	–	–	(600,000)	–	–
		19/01/2018	1.72	20/01/2019	19/01/2020	600,000	–	–	–	–	600,000	–
	Mr. LI Zi Kui	19/01/2018	1.72	20/01/2018	19/01/2019	300,000	–	–	–	(300,000)	–	–
		19/01/2018	1.72	20/01/2019	19/01/2020	300,000	–	–	–	–	300,000	–
	Ms. ZHU Xinxin	19/01/2018	1.72	20/01/2018	19/01/2019	300,000	–	–	–	(300,000)	–	–
		19/01/2018	1.72	20/01/2019	19/01/2020	300,000	–	–	–	–	300,000	–
	Mr. HUANG	19/01/2018	1.72	20/01/2018	19/01/2019	5,000	–	–	–	(5,000)	–	–
	Shenglan	19/01/2018	1.72	20/01/2019	19/01/2020	5,000	–	–	–	–	5,000	–
		31/05/2019	0.36	01/06/2019	30/11/2019	–	100,000	–	–	(100,000)	–	0.34
	Mr. CHAN Ming Fai	19/01/2018	1.72	20/01/2018	19/01/2019	5,000	–	–	–	(5,000)	–	–
		19/01/2018	1.72	20/01/2019	19/01/2020	5,000	–	–	–	–	5,000	–
		31/05/2019	0.36	01/06/2019	30/11/2019	–	100,000	–	–	(100,000)	–	0.34
	Mr. CUI Shuming	19/01/2018	1.72	20/01/2018	19/01/2019	5,000	–	–	–	(5,000)	–	–
		19/01/2018	1.72	20/01/2019	19/01/2020	5,000	–	–	–	–	5,000	–
		31/05/2019	0.36	01/06/2019	30/11/2019	–	100,000	–	–	(100,000)	–	0.34
(ii)	**Continuous**	19/01/2018	1.72	20/01/2018	19/01/2019	3,450,000	–	–	–	(3,450,000)	–	–
	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	20/01/2018	19/01/2019	3,500,000	–	–	–	(3,500,000)	–	–
		19/01/2018	1.72	20/01/2019	19/01/2020	2,500,000	–	–	–	–	2,500,000	–
		29/01/2018	1.80	30/01/2018	29/01/2019	8,500,000	–	–	–	(8,500,000)	–	–
		08/01/2019	0.80	09/01/2019	08/01/2020	–	27,000,000	(17,000,000)	–	–	10,000,000	0.78
		31/05/2019	0.36	01/06/2019	30/11/2019	–	32,900,000	(9,500,000)	–	(23,400,000)	–	0.34
		20/09/2019	0.28	20/09/2019	19/10/2019	–	17,000,000	(17,000,000)	–	–	–	0.30
		20/09/2019	0.28	20/09/2019	19/11/2019	–	17,000,000	(10,000,000)	–	(7,000,000)	–	0.30
	Total:					26,190,000	94,200,000	(53,500,000)	–	(47,965,000)	18,925,000	

Notes:

1. The options are recognised as expenses in the accounts in accordance with Hong Kong Financial Reporting Standard 2. Other details of share options granted by the Company are set out in note 33 to the Consolidated Financial Statements of this annual report.

2. The exercise price and number of the outstanding share option has been adjusted to reflect the Share Consolidation. The exercise price and number of the share option which was exercised or lapsed before the effective date of the Share Consolidation has also been adjusted for purpose of comparison.

3. The weighted average closing price of Share immediately before the dates on which the options for 53,500,000 shares were exercised was approximately HK$0.429 (number and price of the shares has been adjusted to reflect the Share Consolidation).

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 (appointed on 18 June 2019)

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. LI Zi Kui, Mr. CHAN Ming Fai and Mr. CUI Shuming shall retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

In accordance with bye-law 102(B) of the Bye-laws of the Company, Ms. ZHU Xinxin shall retire from office by rotation at the forthcoming annual general meeting of the Company and being eligible, offer herself for re-election.

Biographical details of the Directors are set out in Biographies of Directors and Senior Management on pages 13 to 14 of this annual report.

Mr. CHAN Ming Fai resigned as an independent non-executive director of Burwill Holdings Limited (a company listed in Hong Kong and, pursuant to an order of the High Court of Hong Kong, provisional liquidators were appointed in respect of this company on 21 November 2019 and their appointment remains valid as at the date of this report) on 10 December 2018. Mr. Chan also resigned as a non-executive director of Alita Resources Limited (a company listed in Australia and Singapore and was placed into administration on 28 August 2019 and remains in administration as at the date of this report) on 11 July 2019.

Mr. CUI Shuming resigned as an independent non-executive director of Burwill Holdings Limited (a company listed in Hong Kong and pursuant to an order of the High Court of Hong Kong, provisional liquidators were appointed in respect of this company on 21 November 2019 and their appointment remains valid as at the date of this report) on 18 October 2019.

SENIOR MANAGEMENT

Biographical details of the senior management of the Group are set out in Biographies of Directors and Senior Management on pages 15 to 16 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 2019, 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 Director	Number of Shares	Approximate percentage of the Company's issued share capital
Ms. CHAN Tan Na, Donna	4,620,000 (L)	0.45% (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:

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

(2) Interests in Underlying Shares of the Company

As at 31 December 2019, certain Directors of the Company had the interests in respect of options to subscribe for the shares of the Company under the option schemes. Details of their interests in the share options of the Company are separately disclosed in Share Option Scheme on pages 19 to 21 of this annual report.

Save as otherwise disclosed above, as at 31 December 2019, 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 2019, according to the register required to be kept by the Company under Section 336 of the SFO, the following persons (other than the Directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company:

Interests in the Shares and Underlying Shares of the Company

Name of Shareholder	Number of Shares	Approximate percentage interest in the Company's issued share capital
Ms. LAU Ting	188,479,410 (L) *(Note 1)*	18.31% (L)
Mr. CHAN Shing	188,479,410 (L) *(Note 1)*	18.31% (L)
BFAM Partners (Cayman) Limited	73,250,000 (L) *(Note 2)*	7.12% (L)
Fuchs Benjamin Aaron	73,250,000 (L) *(Note 2)*	7.12% (L)
Tencent Holdings Limited	59,403,451 (L) *(Note 3)*	5.77% (L)
Favor King Limited	51,249,259 (L) *(Note 1)*	4.98% (L)

Notes:

1. 91,509,437 shares were held by Ms. LAU Ting as beneficial interests. 24,248,642 shares were held by Mr. CHAN Shing as beneficial interests. For the corporate interests, 7,505,287 shares were held by Hang Sing Overseas Limited ("Hang Sing") which was wholly owned by Orient Strength Limited ("Orient Strength"), a company which was wholly-owned by Ms. LAU Ting. 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. 193,231 shares were held by Burwill Holdings Limited of which Ms. LAU Ting and Mr. CHAN Shing were the controlling shareholders. The interest of each of Ms. LAU Ting and Mr. CHAN Shing were deemed to be the interest of each.

2. These are the same lot of interest. Those are derivative interests.

3. Held as corporate interest.

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

Report of the Directors

Save as disclosed above, as at 31 December 2019, there was no person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the option holdings disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors 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 of the Company 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.

DISCLOSEABLE TRANSACTION

The Board announced that on 12 August 2019, Capital Way Financial Holdings Limited, an indirect wholly-owned subsidiary of the Company, has entered into an agreement in relation to the acquisition of the entire issued shares of Qing Yu International Holding Limited ("Qing Yu") at an aggregate consideration of HK$9,000,000, which is settled as to (i) HK$3,000,000 in cash; and (ii) the issue of a promissory note. Upon completion, Qing Yu become an indirect wholly-owned subsidiary of the Company. Qing Yu together with its subsidiaries, are principally engaged in R&D, processing, production and sales of natural and health food. The Group believes that this acquisition can strengthen its financial position by developing the business of production and sales of natural and health food at a lower cost and higher efficiency.

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. A formal agreement for sale and purchase of that property will be entered into on or before 3 July 2020 and its completion is scheduled to take place on or before 18 August 2020.

CHANGES OF ADDRESSES OF REGISTERED OFFICE AND BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The registered office of the Company has been relocated to Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda with effect from 15 July 2019.

The Bermuda principal share registrar and transfer office of the Company has also been relocated to 4th Floor North, Cedar House, 41 Cedar Avenue, Hamilton HM 12, Bermuda with effect from 19 July 2019.

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 income statement for the year are set out in note 37 to the Consolidated Financial Statements of this annual report.

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

— 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.

Report of the Directors

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.

Consulting and Servicing Agreement

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

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

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

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

— OPCO shall not distribute any dividend to its shareholders.

Report of the Directors

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.

Succession

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

Financial Information of OPCO

The revenue, profit/loss and net assets attributable to the OPCO are set out in note 19(b) to the Consolidated Financial Statements of this annual report.

The Control Contracts in place during the Year

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

Report of the Directors

Risk Factors

For the year ended 31 December 2019, there is no unwinding of the Control Contract as the restrictions that led to the adoption of the Control Contracts are not removed. As disclosed in the Company's announcement dated 4 October 2013, risk factors in connection with the Control Contracts are listed below (terms used in this section shall have the same meanings as defined in the Company's announcement dated 4 October 2013 unless otherwise stated):

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

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

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

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

The Group relies on the Control Contracts with the 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.

Report of the Directors

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

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

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

As disclosed in the Company's announcement dated 4 October 2013, the PRC Legal Adviser of the Company is of the opinion that each of the Control Contracts complies with, and is not in breach of, the PRC laws and regulations (including the Contract Law and the General Principles of Civil Code). The Company has continually monitored the development of PRC laws and regulations in relation to the Control Contracts (including the Foreign Investment Law (with effect from 1 January 2020) of PRC) and there is no substantive and material influence to the Group and its control contracts currently. Once there is substantive change on the relevant law and regulation, the Group will use its reasonable endeavors to fulfill the relevant requirement including but not limited to the restructuring of the OPCO's corporate structure and Control Contracts or unwinding the Control Contracts.

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

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

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

Report of the Directors

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.

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 of the Company.

On behalf of the Board
CHAN Tan Na, Donna
Chairperson

Hong Kong, 29 June 2020

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 ("Code") for the financial year ended 31 December 2019, 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 2019.

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 (appointed on 18 June 2019)

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

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

The Board considers that each Independent Non-Executive Director of the Company is independent in character and judgement. The Company has received from each Independent Non-executive Director a written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules.

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	2/2	–	2/2	2/2	1/1
Mr. WU Jingwei	2/2	–	–	–	0/1
Mr. LI Zi Kui	2/2	–	–	–	0/1
Ms. ZHU Xinxin (appointed on 18 June 2019)	1/1	–	–	–	–
Independent Non-Executive Directors					
Mr. HUANG Shenglan	2/2	2/2	2/2	2/2	0/1
Mr. CHAN Ming Fai	2/2	2/2	2/2	2/2	1/1
Mr. CUI Shuming	2/2	2/2	–	–	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. LI Zi Kui, Ms. ZHU Xinxin, Mr. CHAN Ming Fai and Mr. CUI Shuming are subject to retirement by rotation at the forthcoming annual general meeting of the Company 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 two meetings during the year under review and the external auditor, HLB Hodgson Impey Cheng Limited, has attended those two meetings.

The Audit Committee has reviewed and discussed with the management the accounting principles and practices adopted by the Group and auditing, internal controls and financial reporting matters. The audited financial results of the Group for the financial year ended 31 December 2019 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. Two meetings of the Remuneration Committee were held during the year for the above purpose and to determine the remuneration package of the new Director. 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.

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.

Two meetings of the Nomination Committee were 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, to review and recommend the re-appointment of the retiring Directors at the annual general meeting of the Company held on 13 June 2019 and to review and recommend the appointment of the new Director.

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 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	2
From HK$1,500,001 to above	4

Corporate Governance Report

AUDITOR'S REMUNERATION

For the year ended 31 December 2019, the Group had engaged the Company's external auditor, HLB Hodgson Impey Cheng Limited, to provide the following services and the respective fees charged are set out as below:

	Fee Charged for the year ended 31 December	
	2019	2018
	HK$	HK$
Types of Services		
Audit for the Group	**1,380,000**	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 52 to 53 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 (appointed on 18 June 2019)	✓
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 responsibility 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 2019. 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 was absent from the 2019 annual general meeting of the Company as is stipulated in Code provision A.6.7 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, Wan Chai, 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 2019 (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 as set out in Appendix 27 of the Listing Rules (the "ESG Reporting Guide"). During the Reporting Period, there is a change in the adoption of calculation methodologies, for which 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 32 to 39 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	• Complying with relevant laws and regulations • Disclosing latest information of the corporate in due course • Financial results • Corporate sustainability	• Annual general meeting and other shareholder meetings • Financial reports • Announcements and circulars
Customers	• Product and service responsibility • Customer information and privacy protection • Compliant operation	• Customer service hotline and email • Meetings • Corporate website • Financial reports
Employees	• Health and safety • Equal opportunities • Remuneration and Benefits • Career development	• Channels for employees' feedback (forms, suggestion boxes, etc.) • Trainings, seminars, and briefing sessions • Performance appraisals
Suppliers	• Fair competition • Business ethics and reputation • Cooperation with mutual benefits	• Supplier management meetings and events • ESG reports

Environmental, Social and Governance Report

Stakeholders	Expectations	Communication Channels
The Government and regulatory bodies	• Business ethics • Complying with relevant laws and regulations	• Work meetings • Regular performance reports
Community, NGOs and media	• Giving back to society • Environmental protection • Compliant operations	• 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
• Emissions Control • Waste Management • Energy Management • Water Management • Indoor Air Quality	• 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

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 fulfil 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:

- 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 trainings 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 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	2019	2018[1]
Nitrogen oxides (NOx)	**215.08 kg**	219.14 kg
Sulphur oxides (SOx)	**0.56 kg**	0.55 kg
Particulate matters (PM)	**20.50 kg**	20.89 kg

Note:

1. Figures restated.

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. The Group's GHG emissions performances were as follows:

Indicator[2]	2019	2018
Scope 1	**101.05 tCO_2e**	113.38 tCO_2e
Scope 2	**242.38 tCO_2e**	290.77 tCO_2e
Total	**343.43 tCO_2e**	404.15 tCO_2e
Total GHG emissions intensity[3]	**1.30 tCO_2e/employee**	1.43 tCO_2e/employee

Notes:

2. 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 2018 Sustainability Report published by Hong Kong Electric Investments.

3. As at 31 December 2019, the Group employed 265 full time employees (2018: 282). 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. The Group's non-hazardous wastes discharge performances were as follows:

Type of non-hazardous wastes	2019	2018[4]
General Wastes	**1.25 tonnes**	1.46 tonnes
Paper	**0.87 tonnes**	0.63 tonnes
Total non-hazardous wastes	**2.12 tonnes**	2.09 tonnes
Total non-hazardous wastes intensity	**0.01 tonnes/employee**	0.01 tonnes/employee

Note:

4. Figures restated.

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. Through the implementation of the above measures, employees' awareness on energy conservation has been raised. The Group's energy consumption performances were as follows:

	2019	2018
Purchased electricity	270.52 MWh	360.96 MWh
Total energy consumption intensity	1.02 MWh/employee	1.28 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. The Group's water consumption performances were as follows:

	2019	2018
Water	741.62 m^3	492.00 m^3
Water consumption intensity	2.80 m^3/employee	1.74 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 due to the nature of its product and customer.

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.

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 guidelines to specify employees' working time and rest periods. Overtime working is subjected to approval from supervisors. 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. 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 risks whenever identified.

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).

Environmental, Social and Governance Report

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 service experiences to 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.

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 and suppliers 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 guideline 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 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. The Group will consider from time to time to donate to charitable organizations where appropriate in order to keep bringing positive progress to society.

Independent Auditors' Report

國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

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

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

OPINION

We have audited the consolidated financial statements of China LotSynergy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 54 to 144, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 ("HKSAs") 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$550,100,000 during the year ended 31 December 2019 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK$168,122,000. 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
Impairment assessment for non-current assets *Refer to Notes 16, 17 and 18 in the consolidated financial statements.* The carrying values of the Group's property, plant and equipment, right-of-use assets, goodwill and other intangible assets as at 31 December 2019 was approximately HK$130 million, HK$181 million, HK$234 million and HK$212 million, respectively. Impairment charge of approximately HK$19 million was recognised against goodwill for the year ended 31 December 2019. Management assessed whether there was any impairment of the carrying values of goodwill and other non-current assets as at 31 December 2019 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. 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.	Our procedures in relation to management's impairment assessment for non-current assets included: • 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 2019; • 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
Impairment assessment for loan receivables *Refer to Note 26 in the consolidated financial statements.* The carrying amount of loan receivables as at 31 December 2019 was approximately HK$90 million, net of expected credit losses ("ECL") on loan receivables of approximately HK$501 million. During the year, impairment losses of approximately HK$406 million were recognised in profit or loss in relation to loan receivables. 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. 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.	Our procedures in relation to management's impairment assessment for loan receivables included: • 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 HKSAs 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 HKSAs, 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, related safeguards.

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, 29 June 2020

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	5	154,354	183,927
Costs of sales and services			
— Depreciation of lottery terminals		(33,456)	(35,661)
— Others		(59,406)	(52,325)
		(92,862)	(87,986)
Gross profit		61,492	95,941
Other income	7	57,459	39,840
Other gains — net	8	6,068	13,819
Net impairment losses on financial assets	3.1(b)	(406,496)	(66,062)
General and administrative expenses		(203,038)	(185,083)
Share option expenses		(5,065)	(13,237)
Operating loss	9	(489,580)	(114,782)
Finance costs	10	(53,922)	(33,396)
Share of losses of associates	20	(663)	(4,022)
Share of loss of a joint venture	21	(2,180)	(1,660)
Loss before income tax		(546,345)	(153,860)
Income tax expense	11	(3,755)	(8,861)
Loss for the year		(550,100)	(162,721)
(Loss)/Profit attributable to:			
Owners of the Company		(518,793)	(169,468)
Non-controlling interests		(31,307)	6,747
		(550,100)	(162,721)
Loss per share attributable to owners of the Company during the year			
			Restated
— basic	12	(51.76) HK cents	(18.02) HK cents
— diluted	12	(51.76) HK cents	(18.02) HK cents

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
Loss for the year	(550,100)	(162,721)
Other comprehensive expense:		
Items that may be reclassified to profit or loss		
Release of currency translation reserve upon disposal of subsidiaries	–	(54)
Currency translation differences	(12,889)	(36,254)
Share of other comprehensive expense of associates and joint venture	(139)	(502)
Other comprehensive expense for the year	(13,028)	(36,810)
Total comprehensive expense for the year	(563,128)	(199,531)
Attributable to:		
Owners of the Company	(526,765)	(191,095)
Non-controlling interests	(36,363)	(8,436)
Total comprehensive expense for the year	(563,128)	(199,531)

Consolidated Statement of Financial Position

At 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment	*16*	130,170	279,358
Right-of-use assets	*17(a)*	180,614	–
Intangible assets	*18*	445,751	455,217
Interests in associates	*20*	2,847	35,572
Investment in a joint venture	*21*	2,418	4,675
Financial assets at fair value through profit or loss	*23*	7,583	8,561
Deferred income tax assets	*31*	–	5,607
		769,383	788,990
Current assets			
Inventories	*24*	13,660	18,850
Accounts receivable	*25*	73,620	83,574
Prepayments, deposits and other receivables	*26*	159,533	584,369
Cash and bank balances	*27*	64,726	146,021
		311,539	832,814
Total assets		1,080,922	1,621,804
Current liabilities			
Accounts payable	*28*	2,918	456
Accruals and other payables		41,384	49,910
Contract liabilities	*5(b)*	18,992	3,043
Amount due to a joint venture	*21*	7,902	7,550
Tax payable		6,396	7,043
Bank borrowings	*29*	245,500	262,274
Lease liabilities	*17(a)*	9,169	–
Convertible bonds	*30*	147,400	172,480
		479,661	502,756
Net current (liabilities)/assets		(168,122)	330,058
Total assets less current liabilities		601,261	1,119,048
Non-current liabilities			
Deferred income tax liabilities	*31*	38,233	46,854
Lease liabilities	*17(a)*	31,511	–
		69,744	46,854
Net assets		531,517	1,072,194

Consolidated Statement of Financial Position

At 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Equity attributable to owners of the Company			
Share capital	*32*	25,737	24,399
Reserves	*34*	1,389,169	1,375,614
Accumulated losses		(1,179,323)	(667,311)
		235,583	732,702
Non-controlling interests		295,934	339,492
Total equity		531,517	1,072,194

The consolidated financial statements on pages 54 to 144 were approved by the Board of Directors on 29 June 2020 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 2019

	Attributable to owners of the Company				
	Share capital HK$'000 *(Note 32)*	Reserves HK$'000 *(Note 34)*	Accumulated losses HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2018	21,388	1,307,614	(567,880)	347,928	1,109,050
Comprehensive expense					
(Loss)/Profit for the year	–	–	(169,468)	6,747	(162,721)
Other comprehensive expense:					
Release of currency translation reserve upon disposal of subsidiaries	–	(54)	–	–	(54)
Currency translation differences	–	(21,573)	–	(15,183)	(36,756)
Total of other comprehensive expense	–	(21,627)	–	(15,183)	(36,810)
Total comprehensive expense	–	(21,627)	(169,468)	(8,436)	(199,531)
Placing of new shares	2,586	117,416	–	–	120,002
Expense incurred in connection with placing of new shares	–	(915)	–	–	(915)
Release of revaluation reserve upon depreciation of leasehold land and building	–	(241)	241	–	–
Share option scheme:					
— value of employees' services	–	3,831	–	–	3,831
— value of other participants' services	–	9,406	–	–	9,406
— share options exercised	425	28,815	–	–	29,240
— vested share options expired	–	(66,704)	66,704	–	–
Redemption of convertible bonds	–	(3,092)	3,092	–	–
Reversal of deferred tax previously recognised on equity component of convertible bonds	–	1,111	–	–	1,111
Total transactions with owners in their capacity as owners	3,011	89,627	70,037	–	162,675
At 31 December 2018	24,399	1,375,614	(667,311)	339,492	1,072,194

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to owners of the Company				
	Share capital HK$'000 *(Note 32)*	Reserves HK$'000 *(Note 34)*	Accumulated losses HK$'000	Non-controlling interests HK$'000	Total 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 leasehold land and building	–	(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)
Total transactions with owners in their capacity as owners	1,338	21,527	6,781	(7,195)	22,451
At 31 December 2019	25,737	1,389,169	(1,179,323)	295,934	531,517

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Cash flows from operating activities			
Operating cash flows before changes in working capital	35(a)	(74,274)	(30,155)
Changes in working capital	35(a)	73,903	4,567
Cash used in operations	35(a)	(371)	(25,588)
Income tax paid		(6,856)	(8,456)
Net cash used in operating activities		(7,227)	(34,044)
Cash flows from investing activities			
Purchase of property, plant and equipment		(38,157)	(4,723)
Proceeds from disposal of property, plant and equipment		140	1,667
Purchase of intangible assets		(5,045)	(9,366)
Capital contribution to an associate		–	(3,000)
Loan to an associate		–	(32,000)
Acquisition of subsidiaries	38	(2,927)	–
Disposal of subsidiaries		–	(75)
Increase in loan receivables		–	(81,214)
Interest received		3,370	2,943
Decrease in pledged bank deposits		–	7,537
Net cash used in investing activities		(42,619)	(118,231)
Cash flows from financing activities			
Interest paid		(18,572)	(23,562)
Proceeds from issue of shares		24,581	149,242
Expense incurred in connection with placing of new shares		–	(915)
Repayment of convertible bonds		–	(103,230)
Repayment of lease liabilities		(13,080)	–
Repayment of bank borrowings		(16,743)	(167,199)
Proceeds from bank borrowings		–	265,845
Dividends paid to non-controlling interests		(4,505)	–
Net cash (used in)/generated from financing activities		(28,319)	120,181
Net decrease in cash and cash equivalents		(78,165)	(32,094)
Cash and cash equivalents at beginning of the year		138,000	177,487
Effect of foreign exchange rate changes		(2,960)	(7,393)
Cash and cash equivalents at end of the year *(Note)*	27	56,875	138,000

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 2019

1. GENERAL INFORMATION

China LotSynergy Holdings Limited (the "Company") was incorporated in Bermuda on 13 September 2000 as an exempted company with limited liability under the Companies Act of Bermuda. The 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. During the year, 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 certain financial assets and liabilities (including derivative instruments) that are measured at 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$550,100,000 for the year ended 31 December 2019 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK$168,122,000. These current liabilities included bank borrowings amounting to approximately HK$245,500,000 and convertible bonds that will be due in the coming twelve months amounting to approximately HK$147,400,000. 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 2019

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) As set out in Note 30, convertible bonds with principal amount of HK$174,800,000 issued by the Company (the "New Option 1 Bonds") would mature on 7 November 2020. Subsequent to the end of the reporting period, the Group has entered into the third supplementary trust deed with the bondholder of the New Option 1 Bonds to further extend the maturity date from 7 November 2020 to 7 November 2021.

(b) As set out in Note 41, subsequent to the end of the reporting period, the Group has entered into a legally binding provisional sale and purchase agreement dated 18 June 2020 with an independent third party to dispose of a property situated in Hong Kong at a consideration of approximately HK$44,380,000. The net proceeds arising from the disposal would amount to approximately HK$20,680,000, after deducting an amount of HK$23,000,000 for repayment of the outstanding bank mortgage loan for discharging the charge over the property and the related expenses, and will be used for general working capital purposes by the Group.

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

The directors have evaluated the Group's revolving bank borrowings amounting to approximately HK$222,500,000 as at 31 December 2019 that are secured by the Group's property located in Hong Kong. Taking into account the market value of the pledged property, the directors believe that the Group will be able to renew the banking facilitates upon maturity dates.

The directors are of the opinion that, taking into account the above-mentioned measures and the expected renewals of the revolving bank borrowings, 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 2019. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

2.1 Basis of preparation *(Cont'd)*

2.1.2 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for the financial year beginning on 1 January 2019:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

The Group had to change its accounting policies as a result of adoption of HKFRS 16 *Leases* ("HKFRS 16"). The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. Most of the other amendments listed above did not have any impact on the amounts recognised in prior period and are not expected to significantly affect the current or future periods. Set out below is the impact of adoption of HKFRS 16 on the Group's consolidated financial statements.

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the simplified transition approach in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on 1 January 2019. The new accounting policies are disclosed in Note 2.27.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 *Leases* ("HKAS 17"). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.72%.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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)

(a) New and amended standards adopted by the Group *(Cont'd)*

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HK (IFRIC) Interpretation 4 *Determining whether an Arrangement contains a Lease*.

(ii) Measurement of lease liabilities

	HK$'000
Operating lease commitments disclosed as at 31 December 2018	61,188
Discounted using the lessee's incremental borrowing rate at the date of initial application	54,253
Less: short-term leases not recognised as a liability	(1,495)
Lease liabilities recognised as at 1 January 2019	52,758
Of which are:	
Current lease liabilities	14,786
Non-current lease liabilities	37,972
	52,758

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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)

(a) New and amended standards adopted by the Group *(Cont'd)*

(iii) Measurement of right-of-use assets

The associated right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018.

(iv) Adjustments recognised in the consolidated statement of financial position on 1 January 2019

The change in accounting policy affected the following items in the consolidated statement of financial position on 1 January 2019:

- Property, plant and equipment — decrease by approximately HK$145,244,000
- Right-of-use assets — increase by approximately HK$198,002,000
- Lease liabilities — increase by approximately HK$52,758,000

(b) New and amended standards 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 2020 or later periods, but have not been early adopted by the Group.

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 16	Covid-19 Related Rent Concessions[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 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021.
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2020.
5 Effective for annual periods beginning on or after 1 June 2020.

In addition to the above new and amendments to HKFRSs, a revised *Conceptual Framework for Financial Reporting* was issued in 2018. Its consequential amendments, the *Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

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.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of profit or loss and other 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

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

2.2.4 Equity accounting (Cont'd)

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 2.9.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

2.3 Business combinations *(Cont'd)*

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.

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 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 2019

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 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 are recognised in other comprehensive income.

(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 profit or loss and other 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 other comprehensive income.

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 other comprehensive income. 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 2019

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.

Depreciation is calculated using the straight-line method to allocate their costs, 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

2.8 Intangible assets

(a) Goodwill

Goodwill is measured as described in Note 2.9. 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 2019

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

2.9 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.

2.10 Financial assets

2.10.1 Classification

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

- those to be measured subsequently at fair value (either through other comprehensive income ("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.

2.10.2 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.

2.10.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

2.10 Financial assets *(Cont'd)*

2.10.3 Measurement (Cont'd)

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

2.10 Financial assets *(Cont'd)*

2.10.4 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.

2.11 Offsetting financial instruments

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

2.12 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.

2.13 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.

2.14 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).

2.15 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

2.16 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.

2.17 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.

The fair value of the liability portion of a convertible bond which is a compound financial instrument is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

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.

2.18 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

2.19 Compound financial instruments

Compound financial instruments issued by the Company comprise convertible bonds that can be converted to share capital at the option of the holder, and the conversion option is settled by the exchange of a fixed amount of cash for a fixed number of the entity's own equity instrument.

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

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

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

2.20 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

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

(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.

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 other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

2.22 Employee benefits *(Cont'd)*

(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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

2.23 Share-based payments *(Cont'd)*

(a) Equity-settled share-based payment transactions (Cont'd)

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

2.25 Revenue recognition *(Cont'd)*

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

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.

2.27 Leases

Until 31 December 2018, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

2.27 Leases *(Cont'd)*

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.

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

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.

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 Renminbi ("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 2019

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
2019			
If HK$ weakens against RMB	5	6,397	26,314
If HK$ strengthens against RMB	(5)	(5,856)	(22,006)
2018			
If HK$ weakens against RMB	5	(3,165)	35,812
If HK$ strengthens against RMB	(5)	2,862	(31,707)

(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
2019		
5% increase in price	(379)	379
5% decrease in price	379	(379)
2018		
5% increase in price	(428)	428
5% decrease in price	428	(428)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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 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
2019			
HK$	5	1,158	(1,158)
HK$	(5)	(1,158)	1,158
2018			
HK$	5	808	(808)
HK$	(5)	(808)	808

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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 83% (2018: 75%) and 96% (2018: 97%) 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.

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

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For the year ended 31 December 2019

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

3.1 Financial risk factors *(Cont'd)*

(b) Credit risk (Cont'd)

2018	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	–	2,108	–	–	2,108
Lease receivables	–	81,466	–	–	81,466
Financial assets included in deposits and other receivables	89,268	–	459,384	105,392	654,044
Bank balances	144,626	–	–	–	144,626
	233,894	83,574	459,384	105,392	882,244

Impairment of financial assets

(i) 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 2019 or 1 January 2019 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.

The expected credit losses for the trade receivables and lease receivables under the individual or collective assessment as at 31 December 2019 and 2018 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 2019

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 behavior 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 2019

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 2018	30,032	–	30,032
Transfer to credit-impaired	(8,717)	8,717	–
Increase in the allowance recognised in profit or loss	8,344	57,718	66,062
Exchange difference	(260)	–	(260)
Closing loss allowance as at 31 December 2018	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

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

During the year, impairment losses of approximately HK$406,496,000 (2018: HK$66,062,000) were recognised in profit or loss in relation to loan receivables, including an amount of approximately HK$396,432,000 recognised in the year ended 31 December 2019 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 during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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.

	Carrying amount as per consolidated statement of financial position HK$'000	Total contractual undiscounted cash flows HK$'000	On demand or less than 1 month HK$'000	Between 1 month and 1 year HK$'000	Between 1 and 5 years HK$'000	Over 5 years HK$'000
2019						
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	770	9,950	21,292	15,137
Convertible bonds	147,400	194,665	–	194,665	–	–
	485,784	539,518	298,474	204,615	21,292	15,137
2018						
Accounts payable	456	456	456	–	–	–
Accruals and other payables	49,910	49,910	49,910	–	–	–
Amount due to a joint venture	7,550	7,550	7,550	–	–	–
Bank borrowings	262,274	262,274	262,274	–	–	–
Convertible bonds	172,480	181,337	3,304	178,033	–	–
	492,670	501,527	323,494	178,033	–	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

3.1 Financial risk factors *(Cont'd)*

(c) Liquidity risk (Cont'd)

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 market 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	Between 3 and 6 months HK$'000	Between 6 and 12 months HK$'000	Total undiscounted cash outflows HK$'000	Carrying amount HK$'000
At 31 December 2019	**131,288**	**116,967**	**–**	**–**	**248,255**	**245,500**
At 31 December 2018	153,320	107,491	2,819	–	263,630	262,274

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, 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 2019 and 2018 are as follows:

	2019 HK$'000	2018 HK$'000
Total debt	**338,384**	320,190
Adjusted capital	**678,917**	1,244,674
Debt-to-adjusted capital ratio	**49.8%**	25.7%

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

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).

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	–	–	–	–

The following table presents the Group's financial assets and financial liabilities that are measured at fair value at 31 December 2018:

	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	–	8,561	–	8,561
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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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 2.9. 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.

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

(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.

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

5. REVENUE

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

	2019 HK$'000	2018 HK$'000
Sales of lottery terminals and related equipment	**53,692**	52,347
Sales of natural and health food	**2,123**	–
Provision of technical and maintenance services	**22,260**	7,687
Revenue from contracts with customers (within the scope of HKFRS 15)	**78,075**	60,034
Lease income from operating leases	**76,279**	123,893
Total revenue	**154,354**	183,927

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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:

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			
People's Republic of China ("PRC")	67,529	2,123	69,652
Others	8,423	–	8,423
	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

2018	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	52,347	–	52,347
Provision of technical and maintenance services	7,687	–	7,687
Total	60,034	–	60,034
Geographical markets			
PRC	60,034	–	60,034
Timing of revenue recognition			
A point in time	52,347	–	52,347
Over time	7,687	–	7,687
Total	60,034	–	60,034

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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 2019 HK$'000	31 December 2018 HK$'000	1 January 2018 HK$'000
Contract liabilities — Sales of lottery terminals and related equipment	193	207	351
Contract liabilities — Provision of technical and maintenance services	18,799	2,836	–
Total contract liabilities	18,992	3,043	351

(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 2019 that was included in the contract liability balance at the beginning of the period was approximately HK$2,909,000 (2018: HK$129,000).

(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:

	2019 HK$'000	2018 HK$'000
Within one year	19,405	5,488
More than one year but not more than two years	6,159	5,488
More than two years	9,259	2,744
	34,823	13,720

(c) Leases

Lease income from operating leases of approximately HK$76,279,000 for the year ended 31 December 2019 is the income relating to variable lease payments that do not depend on an index or a rate.

Included in the operating lease income for the year ended 31 December 2018 is contingent rental of approximately HK$123,893,000.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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.

During the year, the Group commenced the business engaging in research and development, processing, production and sales of natural and health food along with the acquisition of Qing Yu International Holding Limited ("Qing Yu") (as detailed in Note 38), and it is considered as a new operating and reportable segment by the chief operating decision maker.

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

Prior year segment disclosures have been represented to conform with the current year's presentation.

(a) Segment revenue and results

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

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)

Notes to the Consolidated Financial Statements

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6. SEGMENT INFORMATION *(Cont'd)*

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

2018	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)	60,034	–	60,034
Lease income	123,893	–	123,893
Revenue from external customers	183,927	–	183,927
Segment profit	19,079	–	19,079
Interest income			39,840
Fair value gain on financial assets at fair value through profit or loss			1,245
Fair value gain on embedded derivatives of convertible bonds			2,404
Gain on remeasurement of convertible bonds			8,350
Loss on disposal of subsidiaries			(94)
Net impairment losses on financial assets			(66,062)
Finance costs			(33,396)
Share of losses of associates			(4,022)
Share of loss of a joint venture			(1,660)
Unallocated expenses			(119,544)
Loss before income tax			(153,860)

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 2. Segment profit/loss represents the profit earned by/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, loss on disposal of subsidiaries, fair value gains/losses on financial assets at fair value through profit or loss and embedded derivatives of convertible bonds, 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.

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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

	2019 HK$'000	2018 HK$'000
Lottery systems, terminal equipment and related products	752,123	774,624
Natural and health food	4,627	–
Total segment assets	756,750	774,624
Interests in associates	2,847	35,572
Investment in a joint venture	2,418	4,675
Unallocated	318,907	806,933
Consolidated assets	1,080,922	1,621,804

Segment liabilities

	2019 HK$'000	2018 HK$'000
Lottery systems, terminal equipment and related products	34,945	43,574
Natural and health food	22,095	–
Total segment liabilities	57,040	43,574
Unallocated	492,365	506,036
Consolidated liabilities	549,405	549,610

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

- all assets are allocated to operating segments other than interest in associates, investment in a joint venture, financial assets at fair value through profit or loss, deferred income tax assets, 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, 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 2019

6. SEGMENT INFORMATION *(Cont'd)*

(c) Other segment information

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

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 disposal of right-of-use assets	427	–	67	494
Gain/(Loss) on disposal of property, plant and equipment	(218)	–	135	(83)
Impairment of goodwill	–	19,484	–	19,484

2018	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	14,578	–	35,316	49,894
Depreciation and amortisation	52,843	–	5,003	57,846
Loss on disposal of property, plant and equipment	–	–	32	32

Note: Non-current assets exclude financial instruments and deferred income tax assets.

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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	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
PRC	**145,747**	176,494	**592,451**	582,521
Hong Kong	**–**	–	**154,056**	188,739
Others	**8,607**	7,433	**15,293**	3,562
	154,354	183,927	**761,800**	774,822

Note: Non-current assets exclude financial instruments and deferred income tax assets.

(e) Information about major customers

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

	2019	2018
	HK$'000	HK$'000
Customer A[1]	**68,134**	92,490
Customer B[1]	**22,038**	22,003

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

7. OTHER INCOME

	2019	2018
	HK$'000	HK$'000
Interest income from bank deposits and loan receivables	**57,459**	39,840

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8. OTHER GAINS — NET

	2019 HK$'000	2018 HK$'000
Fair value (loss)/gain on financial assets at fair value through profit or loss	(978)	1,245
Fair value gain on embedded derivatives of convertible bonds	-	2,404
Gain on remeasurement of convertible bonds	58,144	8,350
Gain on disposal of right-of-use assets	494	–
Loss on disposal of property, plant and equipment	(83)	(32)
Loss on disposal of subsidiaries	–	(94)
Impairment loss on interest in an associate	(32,000)	–
Impairment of goodwill	(19,484)	–
Foreign exchange (losses)/gains	(25)	1,946
	6,068	13,819

9. OPERATING LOSS

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

	2019 HK$'000	2018 HK$'000
Costs of sales and services		
— Depreciation of lottery terminals	33,456	35,661
— Amortisation of intangible assets	10,690	10,903
— Business tax	991	1,865
— Cost of inventories recognised as expense	44,113	31,673
— Repairs and maintenance	1,810	2,576
— Others	1,802	5,308
	92,862	87,986
Operating lease rentals in respect of land and buildings	–	15,319
Auditors' remuneration	1,380	1,380
Depreciation of other items of property, plant and equipment	6,250	10,477
Depreciation of right-of-use assets	16,901	–

10. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest expense on bank borrowings	15,088	7,687
Interest expense on lease liabilities	2,004	–
Imputed interest expense on promissory note	282	–
Effective interest expense on convertible bonds	36,548	25,709
	53,922	33,396

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11. INCOME TAX EXPENSE

Hong Kong Profits Tax is calculated at the rate of 16.5% (2018: 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 2019 and 2018 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% (2018: 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% (2018: 15%).

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.

	2019 **HK$'000**	2018 HK$'000
Current tax		
— PRC Enterprise Income Tax	**4,015**	9,721
— PRC Withholding Tax	**1,802**	–
— Adjustments in respect of prior years	**535**	(1,585)
Total current tax	**6,352**	8,136
Deferred tax *(Note 31)*		
— Origination and reversal of temporary differences	**(2,597)**	725
Income tax expense	**3,755**	8,861

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11. INCOME TAX EXPENSE *(Cont'd)*

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:

	2019 HK$'000	2018 HK$'000
Loss before income tax	(546,345)	(153,860)
Tax calculated at 16.5%	(90,147)	(25,387)
Income not subject to tax	(21,289)	(10,221)
Expenses not deductible for tax purposes	98,480	36,136
Tax losses which no deferred income tax asset recognised	18,214	14,418
Utilisation of previously unrecognised tax losses	(2,196)	–
Adjustments in respect of prior years	535	(1,585)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	1,802	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,644)	(4,500)
Tax charge	3,755	8,861

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 1,002,276,624 (2018 Restated: 940,592,377) 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 years ended 31 December 2019 and 2018 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 2019 and 2018 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:

	2019 HK$'000	2018 HK$'000
Wages and salaries	89,384	108,010
Employee share option benefits	212	3,831
Social security costs	6,068	7,182
Pension costs — defined contribution plans	814	818
Other staff welfare	1,255	1,792
	97,733	121,633

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13. STAFF COSTS *(Cont'd)*

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year included two (2018: three) directors of the Company, whose emoluments are set out in Note 14. The emoluments payable to the remaining three (2018: two) non-director and non-chief executive highest paid individual during the year are as follows:

	2019 HK$'000	2018 HK$'000
Basic salaries, other allowances and benefits in kind	14,544	11,801
Discretionary bonuses	–	1,891
Employer's contributions to pension schemes	431	327
	14,975	14,019

The emoluments fell within the following bands:

	Number of individuals 2019	2018
Emolument bands		
HK$2,000,001–HK$2,500,000	1	–
HK$5,000,001–HK$5,500,000	1	–
HK$5,500,001–HK$6,000,000	–	1
HK$7,500,001–HK$8,000,000	1	–
HK$8,000,001–HK$8,500,000	–	1
	3	2

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 (2018: 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 2019 is set out below:

Name of director	Fees HK$'000	Salaries, other allowances and benefits in kind HK$'000	Discretionary bonuses 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

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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 2018 is set out below:

Name of director	Fees HK$'000	Salaries, other allowances and benefits in kind HK$'000	Discretionary bonuses 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	–	7,278	1,792	416	18	9,504
Mr. Wu Jingwei	–	4,821	835	416	18	6,090
Mr. Li Zi Kui	–	2,363	254	208	18	2,843
Independent non-executive directors						
Mr. Huang Shenglan	336	–	28	3	–	367
Mr. Chan Ming Fai	336	–	28	3	–	367
Mr. Cui Shuming	336	–	28	3	–	367
	1,008	14,462	2,965	1,049	54	19,538

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 2019 and 2018.

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 (2018: Nil).

15. DIVIDENDS

The Board does not recommend the payment of a dividend for the year ended 31 December 2019 (2018: Nil).

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16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land HK$'000	Owned properties HK$'000	Lottery terminals HK$'000	Lottery terminals under construction HK$'000	Leasehold improvement HK$'000	Plant and equipment HK$'000	Computer equipment and software HK$'000	Office equipment and furniture HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2018										
Cost	171,995	13,318	770,872	747	11,230	25,405	24,394	10,696	9,881	1,038,538
Accumulated depreciation and impairment	(23,517)	(2,548)	(622,937)	–	(11,129)	(16,411)	(17,687)	(7,825)	(6,645)	(708,699)
Net book amount	148,478	10,770	147,935	747	101	8,994	6,707	2,871	3,236	329,839
Year ended 31 December 2018										
Opening net book amount	148,478	10,770	147,935	747	101	8,994	6,707	2,871	3,236	329,839
Exchange differences	–	(28)	(6,446)	(38)	(2)	(404)	(251)	(74)	(124)	(7,367)
Additions	–	–	134	3,764	11	936	257	245	181	5,528
Transfers	–	–	4,170	(4,170)	–	–	–	–	–	–
Disposals	–	–	(1,482)	–	–	–	–	–	(217)	(1,699)
Depreciation	(3,234)	(353)	(35,661)	–	(51)	(2,286)	(3,187)	(1,116)	(1,055)	(46,943)
Closing net book amount	145,244	10,389	108,650	303	59	7,240	3,526	1,926	2,021	279,358
At 31 December 2018										
Cost	171,995	13,269	715,943	303	10,907	25,039	22,590	10,546	9,156	979,748
Accumulated depreciation and impairment	(26,751)	(2,880)	(607,293)	–	(10,848)	(17,799)	(19,064)	(8,620)	(7,135)	(700,390)
Net book amount	145,244	10,389	108,650	303	59	7,240	3,526	1,926	2,021	279,358
Year ended 31 December 2019										
Opening net book amount	145,244	10,389	108,650	303	59	7,240	3,526	1,926	2,021	279,358
Adjustment upon application of HKFRS 16	(145,244)	–	–	–	–	–	–	–	–	(145,244)
Restated 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

Notes:

(i) Depreciation of lottery terminals of approximately HK$33,456,000 (2018: HK$35,661,000) has been charged in costs of sales and services. Depreciation of other items of property, plant and equipment of approximately HK$472,000 (2018: HK$805,000) has been capitalised in lottery terminals under construction and of approximately HK$6,250,000 (2018: HK$10,477,000) has been charged in general and administrative expenses.

(ii) At 31 December 2019, the Group's owned properties and related leasehold land with a carrying amount of approximately HK$151,592,000 (2018: HK$155,633,000) was pledged to secure bank borrowings granted to the Group.

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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:

	31 December 2019 HK$'000	1 January 2019 HK$'000
Right-of-use assets		
Leasehold land	142,009	145,244
Leased properties	38,605	52,758
	180,614	198,002
Lease liabilities		
Current	9,169	14,786
Non-current	31,511	37,972
	40,680	52,758

Additions to the right-of-use assets during the year ended 31 December 2019 were approximately HK$10,346,000.

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

(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:

	2019 HK$'000	2018 HK$'000
Depreciation of right-of-use assets:		
Leasehold land	3,235	–
Leased properties	13,666	–
	16,901	–
Interest expense (included in finance cost)	2,004	–
Expense relating to short-term leases (included in general and administrative expenses)	2,394	–

The total cash outflow for leases in 2019 was approximately HK$15,474,000.

(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 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.

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18. INTANGIBLE ASSETS

	Goodwill HK$'000	Internally generated development costs HK$'000	Intellectual properties HK$'000	Total HK$'000
At 1 January 2018				
Cost	1,186,876	203,962	54,021	1,444,859
Accumulated amortisation and impairment	(950,615)	(11,798)	(15,873)	(978,286)
Net book amount	236,261	192,164	38,148	466,573
Year ended 31 December 2018				
Opening net book amount	236,261	192,164	38,148	466,573
Exchange difference	(1,890)	(6,052)	(1,877)	(9,819)
Additions	–	9,366	–	9,366
Amortisation charge	–	(7,788)	(3,115)	(10,903)
Closing net book amount	234,371	187,690	33,156	455,217
At 31 December 2018				
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 38)*	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

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18. 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 2019, the Group incurred research and development expenses of approximately HK$3,815,000 (2018: HK$4,421,000) 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 is allocated to the CGU as follows:

	2019 HK$'000	2018 HK$'000
Provision of traditional computer lottery systems and equipment	199,403	199,403
Development of lottery transaction and management systems	34,228	34,968
Sales of natural and health food	–	–
	233,631	234,371

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

(a) *Provision of traditional computer lottery systems and equipment*
The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The CGU's cash flows beyond the 5-year period (2018: 5-year) are extrapolated using a steady 2% growth rate (2018: 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 11.0% (2018: 10.1%), which reflects the specific risks relating to this CGU. No impairment loss was recognised in respect of goodwill allocated to this CGU for the year ended 31 December 2019 as the recoverable amount of this CGU exceeded its carrying amount (2018: Nil).

(b) *Development of lottery transaction and management systems*
The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The CGU's cash flows beyond the 5-year period (2018: 5-year) are extrapolated using a steady 2% growth rate (2018: 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 11.0% (2018: 10.1%), which reflects the specific risks relating to this CGU. No impairment loss was recognised in respect of goodwill allocated to this CGU for the year ended 31 December 2019 as the recoverable amount of this CGU exceeded its carrying amount (2018: Nil).

(c) *Sales of natural and health food*
This CGU 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 (the completion date of acquisition of Qing Yu, see Note 38) to 31 December 2019. Considering the current 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 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 are extrapolated using a steady 2% growth rate (2018: Nil). 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 sales and gross margin 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 10.5% (2018: Nil), which reflects 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$$182,639,000 (2018: HK$187,690,000) as at 31 December 2019 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.

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19. SUBSIDIARIES

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

Name	Place of incorporation/ establishment, Kind of legal entity *(Note (ii))*	Particulars of issued share capital/ registered capital	Interest held 2019	2018	Principal activities
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)	–	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) *(Note (iii))*	50% (indirect) *(Note (iii))*	Investment holding
East Grand Enterprises Limited	Hong Kong, Limited company	HK$1	50% (indirect) *(Note (iii))*	50% (indirect) *(Note (iii))*	Investment holding

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19. SUBSIDIARIES *(Cont'd)*

Name	Place of incorporation/ establishment, Kind of legal entity *(Note (ii))*	Particulars of issued share capital/ registered capital	Interest held 2019	2018	Principal activities
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)	–	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 systems 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))*	50% (indirect) *(Note (iii))*	Research and development of lottery systems and equipment in the PRC
廣州洛圖終瑞技術有限公司 (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 systems and equipment in the PRC

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19. SUBSIDIARIES *(Cont'd)*

Name	Place of incorporation/ establishment, Kind of legal entity *(Note (ii))*	Particulars of issued share capital/ registered capital	Interest held 2019	2018	Principal activities
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 systems 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 systems 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 systems 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)	–	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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19. SUBSIDIARIES *(Cont'd)*

(a) Material non-controlling interests

The total accumulated non-controlling interest as at the end of the year ended 31 December 2019 was approximately HK$295,934,000 (2018: HK$339,492,000) of which approximately HK$280,559,000 (2018: HK$302,098,000) 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

	2019 HK$'000	2018 HK$'000
Current		
Assets	509,336	546,854
Liabilities	(51,548)	(47,290)
Total current net assets	457,788	499,564
Non-current		
Assets	75,000	49,443
Liabilities	(37,880)	(15,063)
Total non-current net assets	37,120	34,380
Net assets	494,908	533,944

Summarised statement of profit or loss and other comprehensive income

	2019 HK$'000	2018 HK$'000
Revenue	–	–
Loss before income tax	(32,633)	(5,942)
Income tax credit	2,381	2,416
Loss for the year	(30,252)	(3,526)
Other comprehensive expense	(8,785)	(22,792)
Total comprehensive expense for the year	(39,037)	(26,318)
Loss allocated to non-controlling interests	(17,302)	(1,763)
Dividends to non-controlling interests	–	–

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19. SUBSIDIARIES *(Cont'd)*

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

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

Summarised cash flows

	2019 HK$'000	2018 HK$'000
Cash flows from operating activities		
Cash used in operations	(3,506)	(13,283)
Income tax paid	–	–
Net cash used in operating activities	(3,506)	(13,283)
Net cash (used in)/generated from investing activities	(31)	165
Net cash used in financing activities	(3,141)	–
Net decrease in cash and cash equivalents	(6,678)	(13,118)
Cash and cash equivalents at beginning of year	7,349	21,226
Effect of foreign exchange rate changes	(89)	(759)
Cash and cash equivalents at end of year	582	7,349

The information above is the amount before intercompany eliminations.

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

	2019 HK$'000	2018 HK$'000
Revenue	328	–
(Loss)/Profit for the year	(4,679)	1,703
Net (liabilities)/assets	(14,834)	17,317

20. INTERESTS IN ASSOCIATES

	2019 HK$'000	2018 HK$'000
Share of net assets	2,847	3,572
Loan to an associate	32,000	32,000
	34,847	35,572
Less: Impairment loss	(32,000)	–
	2,847	35,572

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.

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20. INTERESTS IN ASSOCIATES *(Cont'd)*

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/ establishment	Interest held 2019	2018	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

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 current 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:

	2019 HK$'000	2018 HK$'000
Commitment to provide funding	17,840	18,226

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20. INTERESTS IN ASSOCIATES *(Cont'd)*

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	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current assets	**29,133**	29,133	**7,118**	7,272
Non-current assets	**2,867**	4,635	**–**	–
Current liabilities	**32,000**	32,000	**–**	–
Non-current liabilities	**–**	–	**–**	–
Net assets	**–**	1,768	**7,118**	7,272

Summarised statement of profit or loss and other comprehensive income

	Pan Asia		前海華彩	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
Revenue	**–**	–	**–**	–
Loss from continuing operations	**(1,768)**	(6,231)	**–**	(4,212)
Income tax	**–**	–	**–**	–
Post-tax loss from continuing operations	**(1,768)**	(6,231)	**–**	(4,212)
Post-tax profit from discontinued operations	**–**	–	**–**	–
Other comprehensive expense	**–**	–	**(154)**	(509)
Total comprehensive expense	**(1,768)**	(6,231)	**(154)**	(4,721)
Dividends received from associate	**–**	–	**–**	–

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

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20. INTERESTS IN ASSOCIATES *(Cont'd)*

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	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
Net assets	–	1,768	7,118	7,272
Proportion of the Group's ownership	37.5%	37.5%	40%	40%
Group's share of net assets of the associate	–	663	2,847	2,909
Loan to an associate	32,000	32,000	–	–
Impairment loss	(32,000)	–	–	–
Carrying amount of the investment	–	32,663	2,847	2,909

Significant restrictions

Cash and short-term deposits of approximately HK$442,000 (2018: HK$452,000) 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.

21. INVESTMENT IN AND AMOUNT DUE TO A JOINT VENTURE

	2019	2018
	HK$'000	HK$'000
Share of net assets	2,418	4,675

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 2019	Interest held 2018	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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21. 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

	2019 HK$'000	2018 HK$'000
Current		
Cash and cash equivalents	235	276
Other current assets (excluding cash and cash equivalents)	7,923	12,038
Total current assets	8,158	12,314
Financial liabilities (excluding trade payables and provisions)	3,322	2,964
Other current liabilities (including trade payables and provisions)	–	–
Total current liabilities	3,322	2,964
Non-current		
Non-current assets	–	–
Financial liabilities	–	–
Other non-current liabilities	–	–
Total non-current liabilities	–	–
Net assets	4,836	9,350

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21. 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

	2019 HK$'000	2018 HK$'000
Revenue	–	–
Depreciation and amortisation	–	–
Interest income	1	1
Interest expense	–	–
Loss from continuing operations	(4,360)	(3,321)
Income tax	–	–
Post-tax loss from continuing operations	(4,360)	(3,321)
Post-tax profit from discontinued operations	–	–
Other comprehensive expense	(154)	(597)
Total comprehensive expense	(4,514)	(3,918)
Dividends received from joint venture	–	–

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.

	2019 HK$'000	2018 HK$'000
Net assets	4,836	9,350
Proportion of the Group's ownership	50%	50%
Group's share of net assets of the joint venture and the carrying amount of the investment	2,418	4,675

Significant restrictions

Cash and short-term deposits of approximately HK$148,000 (2018: HK$188,000) 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.

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22. FINANCIAL INSTRUMENTS BY CATEGORY

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

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

2018	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	–	8,561	8,561
Accounts receivable	83,574	–	83,574
Deposits and other receivables (including loan receivables)	558,210	–	558,210
Cash and bank balances	146,021	–	146,021
	787,805	8,561	796,366

2018	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	456	–	456
Accruals and other payables	49,910	–	49,910
Amount due to a joint venture	7,550	–	7,550
Bank borrowings	262,274	–	262,274
Liability component of convertible bonds	172,480	–	172,480
Derivatives component of convertible bonds	–	–	–
	492,670	–	492,670

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23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	2019 HK$'000	2018 HK$'000
Unlisted fund investments	7,583	8,561

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

24. INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials	5,900	4,849
Work in progress	1,976	908
Finished goods	5,784	13,093
	13,660	18,850

25. ACCOUNTS RECEIVABLE

	2019 HK$'000	2018 HK$'000
Lease receivables	69,202	81,466
Trade receivables — goods and services	4,418	2,108
	73,620	83,574

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 at the end of the reporting period, based on invoice date, is as follows:

	2019 HK$'000	2018 HK$'000
Less than three months	9,932	13,542
Over three months but less than one year	249	5,782
Over one year	63,439	64,250
	73,620	83,574

Notes to the Consolidated Financial Statements

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25. ACCOUNTS RECEIVABLE *(Cont'd)*

At 31 December 2019, accounts receivables of approximately HK$64,889,000 (2018: HK$71,947,000) were past due but not impaired. The ageing analysis of these accounts receivables based on past due date is as follows:

	2019 HK$'000	2018 HK$'000
Past due for:		
Less than three months	1,215	2,420
Over three months but less than one year	235	5,277
Over one year	63,439	64,250
	64,889	71,947

Included in the Group's accounts receivable which were past due over one year at 31 December 2019 is lease receivables of approximately HK$61,132,000 (equivalent to approximately RMB54,836,000) (2018: HK$62,455,000 (equivalent to approximately RMB54,836,000)) due from Beijing China Lottery Online Technology Company Limited ("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. At present, the legal proceeding is still ongoing. Taking into account the legal opinion of the Company's lawyer, the directors are of the view that the CLO's appeal is unlikely to succeed. 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 team.

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:

	2019 HK$'000	2018 HK$'000
RMB	72,293	78,793
US$	1,327	4,781
	73,620	83,574

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26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Prepayments	20,426	26,159
Loan receivables *(Note)*	89,614	468,942
Deposits and other receivables	49,493	89,268
	159,533	584,369

Note: The Group's loan receivables are repayable within one year or on demand, of which approximately HK$89,614,000 (2018: HK$468,942,000) bear interest ranging from 4.35% to 16% (2018: 4.35% to 16%) per annum. At 31 December 2019, the loan receivables with an aggregate amount of approximately HK$44,564,000 (2018: HK$229,017,000) are secured by the personal guarantees executed by certain third parties.

Included in the carrying amount of loan receivables as at 31 December 2019 are accumulated impairment losses of approximately HK$501,304,000 (2018: HK$95,834,000). Details of impairment assessment for the years ended 31 December 2019 and 2018 are set out in Note 3.1(b).

27. CASH AND BANK BALANCES

	2019 HK$'000	2018 HK$'000
Cash and bank balances	56,875	91,304
Time deposits	7,851	54,717
	64,726	146,021
Less: Time deposits with maturity of more than three months	(7,851)	(8,021)
Cash and cash equivalents	56,875	138,000

At 31 December 2019, the Group had cash and bank balances of approximately HK$61,544,000 (2018: HK$103,590,000) 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.

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28. ACCOUNTS PAYABLE

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

	2019 HK$'000	2018 HK$'000
Less than three months	1,113	174
Over three months but less than one year	942	15
Over one year	863	267
	2,918	456

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

29. BANK BORROWINGS

	2019 HK$'000	2018 HK$'000
Secured bank loans	245,500	262,274

At 31 December 2019, the Group's bank borrowings were due for repayment as follows:

	2019 HK$'000	2018 HK$'000
Bank loans due for repayment within one year	245,500	262,274

The bank borrowings carry interest at rates ranging from 4.88% to 11.66% (2018: 4.85% to 7.19%) per annum.

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

	2019 HK$'000	2018 HK$'000
HK$	245,500	259,500
RMB	–	2,774
	245,500	262,274

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

At 31 December 2018, the Group's bank borrowings were secured by: (i) the Group's owned properties and related leasehold land with a carrying amount of approximately HK$155,633,000; and (ii) a personal guarantee executed by a director of the Company.

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30. CONVERTIBLE BONDS

	2019 HK$'000	2018 HK$'000
Liability component:		
New Option 1 Bonds	147,400	172,480
Derivatives component:		
New Option 1 Bonds	–	–
	147,400	172,480

New Option 1 Bonds

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 1"). 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.

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 1 at principal amount together with any accrued but unpaid interest. Interest of 7.5% will be payable quarterly in arrear.

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.

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30. CONVERTIBLE BONDS *(Cont'd)*

New Option 1 Bonds *(Cont'd)*

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.

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 52.16% (2018: 12.56%) 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.

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 2018	173,385	2,404	175,789
Interest charge	21,729	–	21,729
Interest paid	(13,134)	–	(13,134)
Remeasurement	(8,350)	–	(8,350)
Fair value change	–	(2,404)	(2,404)
Redemption	(1,150)	–	(1,150)
At 31 December 2018	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**

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30. CONVERTIBLE BONDS *(Cont'd)*

New Option 2 Bonds

On 7 April 2017, the Company issued 8% convertible bonds due 2019 in the aggregate principal amount of HK$100,000,000 (the "New Option 2 Bonds").

The New Option 2 Bonds entitled 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 2") at an initial conversion price of HK$0.92 per ordinary share (subject to adjustment).

If the New Option 2 Bonds had not been converted or redeemed, they would be redeemed on Maturity Date 2 at 104.37%. Interest of 8% would be payable quarterly in arrear.

The Company may at any time after 7 April 2018 up to the close of business on the 7th day prior to the Maturity Date redeem the New Option 2 Bonds, in whole or in part, at their early redemption amount together with any interest accrued but unpaid to the date fixed for redemption.

The Company, at the option of the holders of the New Option 2 Bonds, redeemed all New Option 2 Bonds on 7 April 2018, at 102.08% of the principal amount of the New Option 2 Bonds together with interest accrued.

The New Option 2 Bonds contained two components, liability and equity components. The equity component was presented in equity heading "convertible bond equity reserve". The effective interest rate of the liability component was 12.56% per annum.

The movement of liability component of the New Option 2 Bonds for the prior year is set out below:

	HK$'000
At 1 January 2018	100,841
Interest charge	3,980
Interest paid	(2,741)
Redemption	(102,080)
At 31 December 2018	–

31. 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:

	2019 **HK$'000**	2018 HK$'000
Deferred income tax assets	–	5,607
Deferred income tax liabilities	(38,233)	(46,854)
	(38,233)	(41,247)

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31. 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$'000	Convertible bonds HK$'000	Accelerated tax depreciation HK$'000	Withholding tax on dividend income HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2018	9,537	489	2,005	36,039	(5,298)	42,772
Credited to equity	–	(1,111)	–	–	–	(1,111)
(Credited)/Charged to profit or loss	(778)	1,005	(48)	1,066	(520)	725
Exchange difference	(470)	–	–	(880)	211	(1,139)
At 31 December 2018	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

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 2019, the Group did not recognise deferred income tax asset in respect of tax losses amounting to approximately HK$584,412,000 (2018: HK$582,857,000) that can be carried forward to offset against future taxable profits. Tax losses amounting to approximately HK$406,544,000 (2018: HK$415,731,000) will expire from 2020 to 2024 (2018: 2019 to 2023).

At 31 December 2019, 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$323,000 (2018: HK$49,135,000) 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.

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For the year ended 31 December 2019

32. SHARE CAPITAL

	Authorised ordinary shares of HK$0.025 each (after Share Consolidation) Number of shares	HK$'000
At 1 January 2018 and 31 December 2018	16,000,000,000	40,000
Share Consolidation *(Note (i))*	(14,400,000,000)	–
At 31 December 2019	1,600,000,000	40,000

	Issued and fully paid ordinary shares of HK$0.025 each (after Share Consolidation) Number of shares	HK$'000
At 1 January 2018	8,555,307,333	21,388
Share options exercised *(Note (ii))*	170,000,000	425
Placing of new shares *(Note (iii))*	1,034,500,000	2,586
At 31 December 2018	9,759,807,333	24,399
Share options exercised *(Note (iv))*	170,000,000	425
Share Consolidation *(Note (i))*	(8,936,826,600)	–
Share options exercised *(Note (v))*	36,500,000	913
At 31 December 2019	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) Share options were exercised by option holders during the year ended 31 December 2018 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$29,240,000, of which approximately HK$425,000 was credited to share capital and the balance of approximately HK$28,815,000 was credited to the share premium account.

(iii) Pursuant to the placing agreement dated 13 April 2018, the Company allotted and issued 1,034,500,000 new shares of nominal value HK$0.0025 each (before Share Consolidation) in the share capital of the Company at a price of HK$0.116 per share. The new shares rank pari passu with existing shares in all respects.

(iv) 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.

(v) 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

33. 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.

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) *(Note)*	Options (thousands) *(Note)*
At 1 January 2018	7.26	23,803
Granted	1.74	43,350
Exercised	1.72	(17,000)
Lapsed	6.90	(23,963)
At 31 December 2018	2.04	26,190
Exercisable at 31 December 2018	2.18	18,425
At 1 January 2019	**2.04**	**26,190**
Granted	**0.46**	**94,200**
Exercised	**0.46**	**(53,500)**
Lapsed	**0.85**	**(47,965)**
At 31 December 2019	**1.64**	**18,925**
Exercisable at 31 December 2019	**1.64**	**18,925**

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

Options exercised in 2019 resulted in 53,500,000 (2018 Restated: 17,000,000) shares being issued at a weighted average price of HK$0.46 (2018 Restated: HK$1.72) each. The related weighted average share price at the time of exercise was HK$0.43 (2018 Restated: HK$1.64) per share.

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)* 2019	2018
20 January 2019	1.72	–	8,765
30 January 2019	1.80	–	8,500
9 January 2020	0.80	10,000	–
20 January 2020	1.72	7,765	7,765
29 October 2020	8.40	1,160	1,160
		18,925	26,190

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 was approximately HK$15,000 (2018: HK$4,325,000), of which the Group recognised the share option expenses of approximately HK$15,000 (2018: HK$3,831,000) during the year.

The fair value of the options granted to employees during the year 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

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

Grant date	19 January 2018	19 January 2018
Exercisable period	20 January 2018 to 19 January 2019	20 January 2019 to 19 January 2020
Risk-free interest rate (%)	0.81	1.11
Expected volatility (%)	62	55
Expected life of options (year)	0.5	1.5
Dividend yield (%)	0	0
Share price (HK$ per share) (before Share Consolidation)	0.17	0.17

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

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

At the end of the reporting period, the Company had a total of 18,925,000 (2018 Restated: 26,190,000) share options outstanding under the share option schemes. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 18,925,000 (2018 Restated: 26,190,000) additional ordinary shares of the Company and additional share capital of approximately HK$473,000 (2018: HK$655,000) and share premium of approximately HK$30,627,000 (2018: HK$52,821,000) (before issue expenses).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

34. RESERVES

	Share premium HK$'000	Convertible bond equity reserve HK$'000	Capital reserve HK$'000 *(Note)*	Other reserve HK$'000	Currency translation reserve HK$'000	Share-based compensation reserve HK$'000	Revaluation reserve HK$'000	Total HK$'000
At 1 January 2018	1,295,307	1,981	15,158	(42,657)	(43,132)	70,811	10,146	1,307,614
Placing of new shares	117,416	–	–	–	–	–	–	117,416
Expenses incurred in connection with placing of new shares	(915)	–	–	–	–	–	–	(915)
Share option scheme:								
— value of employees' services	–	–	–	–	–	3,831	–	3,831
— value of other participants' services	–	–	–	–	–	9,406	–	9,406
— share options exercised	33,575	–	–	–	–	(4,760)	–	28,815
— vested share options expired	–	–	–	–	–	(66,704)	–	(66,704)
Redemption of convertible bonds	–	(3,092)	–	–	–	–	–	(3,092)
Reversal of deferred tax previously recognised on equity component of convertible bonds	–	1,111	–	–	–	–	–	1,111
Release of revaluation reserve upon depreciation of leasehold land and building	–	–	–	–	–	–	(241)	(241)
Release of currency translation reserve upon disposal of subsidiaries	–	–	–	–	(54)	–	–	(54)
Currency translation differences								
— overseas subsidiaries	–	–	–	–	(21,071)	–	–	(21,071)
— overseas associates	–	–	–	–	(203)	–	–	(203)
— overseas joint venture	–	–	–	–	(299)	–	–	(299)
At 31 December 2018	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 leasehold land and building	–	–	–	–	–	–	(241)	(241)
Currency translation differences								
— overseas subsidiaries	–	–	–	–	(7,833)	–	–	(7,833)
— overseas associates	–	–	–	–	(77)	–	–	(77)
— overseas joint venture	–	–	–	–	(62)	–	–	(62)
At 31 December 2019	1,471,249	–	15,158	(42,657)	(72,731)	8,486	9,664	1,389,169

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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35. CASH FLOW INFORMATION

(a) Cash used in operation

	2019 HK$'000	2018 HK$'000
Loss before income tax	(546,345)	(153,860)
Adjustments for:		
Depreciation of property, plant and equipment	39,706	46,138
Depreciation of right-of-use assets	16,901	–
Amortisation of intangible assets	10,690	10,903
Loss on disposal of property, plant and equipment	83	32
Gain on disposal of right-of-use assets	(494)	–
Loss on disposal of subsidiaries	–	94
Share option expenses	5,065	13,237
Fair value loss/(gain) on financial assets at fair value through profit or loss	978	(1,245)
Fair value gain on embedded derivatives of convertible bonds	–	(2,404)
Gain on remeasurement of convertible bonds	(58,144)	(8,350)
Impairment loss on interest in an associate	32,000	–
Impairment of goodwill	19,484	–
Net impairment loss on financial assets	406,496	66,062
Interest income	(57,459)	(39,840)
Finance costs	53,922	33,396
Share of losses of associates	663	4,022
Share of loss of a joint venture	2,180	1,660
Operating cash flows before changes in working capital	(74,274)	(30,155)
Changes in working capital:		
— Inventories	6,020	(756)
— Accounts receivable	8,616	8,610
— Prepayments, deposits and other receivables	69,274	(14,311)
— Accounts payable	2,355	(4,737)
— Accruals and other payables	(28,890)	12,153
— Contract liabilities	16,176	2,692
— Amount due to a joint venture	352	916
	73,903	4,567
Cash used in operation	(371)	(25,588)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

35. 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	Promissory note HK$'000	Convertible bonds HK$'000	Total HK$'000
At 1 January 2018	163,699	–	–	276,630	440,329
Financing cash flows	90,959	–	–	(119,105)	(28,146)
Interest expenses	7,687	–	–	25,709	33,396
Fair value change	–	–	–	(2,404)	(2,404)
Gain on remeasurement	–	–	–	(8,350)	(8,350)
Exchange difference	(71)	–	–	–	(71)
At 31 December 2018	262,274	–	–	172,480	434,754
Adjustment upon application of HKFRS 16	–	52,758	–	–	52,758
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
Gain on remeasurement	–	–	–	(58,144)	(58,144)
Exchange difference	(31)	(814)	–	–	(845)
At 31 December 2019	245,500	40,680	6,000	147,400	439,580

36. OPERATING LEASE COMMITMENTS

The Group had aggregate future minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	2018 HK$'000
Within one year	17,344
In the second to fifth years inclusive	24,566
Over five years	19,278
	61,188

From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term leases, see Note 17 for further information.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

37. EMPLOYEE RETIREMENT BENEFITS

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

For the Group's Hong Kong employees employed after 1 December 2000, the Group has arranged for these employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a maximum contribution 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$6,882,000 (2018: HK$8,000,000), with no (2018: Nil) deduction of forfeited contributions. At 31 December 2019, there was no material forfeited contribution available to reduce the Group's employer contribution payable in future periods (2018: Nil).

The Group had no contribution payable at 31 December 2019 (2018: HK$121,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

38. 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.

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
Total purchase consideration	8,718
Assets and liabilities recognised at the date of acquisition (determined on a provisional basis):	
Inventories	1,169
Accounts receivable	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)
Net identifiable assets acquired	(13,456)
Add: Non-controlling interest	2,690
Goodwill	19,484
Net assets acquired	8,718

The fair values of the assets and liabilities disclosed above have only been determined provisionally as the independent valuation has not been finalised.

(a) Acquisition-related costs

Acquisition-related costs of approximately HK$4,000 have been recognised as an expense in the current 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.

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For the year ended 31 December 2019

38. BUSINESS COMBINATION *(Cont'd)*

(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.

(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)
Net cash outflow on acquisition	2,927

39. RELATED PARTY TRANSACTIONS

Apart from those disclosed in Notes 20, 21 and 29, 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:

	2019 HK$'000	2018 HK$'000
Short-term employee benefits	30,086	32,127
Post-employment benefits	602	381
Employee share option benefits	72	1,049
	30,760	33,557

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For the year ended 31 December 2019

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

Statement of Financial Position

At 31 December 2019

	2019 HK$'000	2018 HK$'000
Non-current assets		
Investments in subsidiaries	9	9
Amounts due from subsidiaries	–	427,673
	9	427,682
Current assets		
Prepayments, deposits and other receivables	39	41
Amounts due from subsidiaries	393,668	515,379
Cash and bank balances	120	123
	393,827	515,543
Total assets	393,836	943,225
Current liabilities		
Accruals and other payables	891	3,947
Amounts due to subsidiaries	9,993	9,993
Convertible bonds	147,400	172,480
	158,284	186,420
Net current assets	235,543	329,123
Total assets less current liabilities	235,552	756,805
Non-current liabilities		
Deferred income tax liabilities	–	383
Net assets	235,552	756,422
Equity attributable to owners of the Company		
Share capital	25,737	24,399
Reserves *(Note)*	209,815	732,023
	235,552	756,422

The statement of financial position of the Company was approved by the Board of Directors on 29 June 2020 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 2019

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

Note: Reserve movement of the Company

	Share premium HK$'000	Convertible bond equity reserve HK$'000	Contributed surplus HK$'000 *(Note (i))*	Share-based compensation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2018	1,295,307	1,981	16,209	70,811	(266,681)	1,117,627
Placing of new shares	117,416	–	–	–	–	117,416
Expenses incurred in connection with placing of new shares	(915)	–	–	–	–	(915)
Share option scheme:						
— value of employees' services	–	–	–	3,831	–	3,831
— value of other participants' services	–	–	–	9,406	–	9,406
— share options exercised	33,575	–	–	(4,760)	–	28,815
— vested share options expired	–	–	–	(66,704)	66,704	–
Redemption of convertible bonds	–	(3,092)	–	–	3,092	–
Reversal of deferred tax previously recognised on equity component of convertible bonds	–	1,111	–	–	–	1,111
Loss for the year	–	–	–	–	(545,268)	(545,268)
At 31 December 2018	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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

41. EVENTS AFTER THE REPORTING PERIOD

(a) After the COVID-19 outbreak in early 2020, a series of precautionary and control measures have been and continued to be implemented across the globe. The Group is paying close attention to the development of, and the disruption to business and economic activities caused by, the COVID-19 outbreak and evaluating its impact on the Group. Given the dynamic nature of the COVID-19 outbreak, it is not practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group.

(b) 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. Pursuant to the third supplemental trust deed dated 28 April 2020, the Company will redeem the New Option 1 Bonds in an amount equal to (i) 15% of the principal amount outstanding on 7 November 2020; (ii) 15% of the principal amount outstanding on 7 May 2021; and (iii) 70% of the principal amount outstanding 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.

(c) On 18 June 2020, Wide Perfect Limited (the "Wide Perfect"), a wholly-owned subsidiary of the Company, entered into a legally binding provisional sale and purchase agreement with an independent third party (the "Purchaser") for the disposal of a property situated on Unit A, 28th Floor, The Altitude, No. 20 Shan Kwong Road, Hong Kong together with car parking space no. C-30 (the "Property"). The consideration for the disposal of the Property to be received by Wide Perfect is HK$44,380,000.