2017 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

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

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

COMPANY WEBSITE

www.chinalotsynergy.com

PRINCIPAL SHARE REGISTRARS

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

BRANCH SHARE REGISTRARS IN HONG KONG

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

LEGAL ADVISERS

Appleby
Baker & McKenzie

PRINCIPAL BANKERS

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

Financial Summary

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

RESULTS

	Year ended 31 December				
	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000
Revenue	**237,852**	200,319	643,748	1,034,769	743,756
Gross profit/(Gross loss)	**117,498**	(6,931)	359,472	725,864	543,981
Share option expenses	**(10,174)**	(18,998)	(92,230)	(12,378)	(7,031)
Finance costs	**(40,367)**	(56,904)	(61,412)	(55,600)	(22,656)
(Loss)/Profit before income tax	**(179,358)**	(441,700)	(370,124)	435,752	349,202
Income tax expense	**(15,741)**	(37,901)	(46,006)	(93,433)	(87,000)
(Loss)/Profit for the year	**(195,099)**	(479,601)	(416,130)	342,319	262,202
(Loss)/Profit attributable to:					
Owners of the Company	**(192,568)**	(297,967)	(497,654)	100,010	88,556
Non-controlling interests	**(2,531)**	(181,634)	81,524	242,309	173,646
	(195,099)	(479,601)	(416,130)	342,319	262,202

ASSETS AND LIABILITIES

	As at 31 December				
	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000
Total current assets	**866,304**	1,382,954	1,988,385	2,621,235	1,169,688
Total assets	**1,686,761**	2,225,288	3,161,389	3,934,211	2,381,534
Total liabilities	**(547,679)**	(952,368)	(1,344,021)	(1,728,446)	(925,358)
Net assets	**1,139,082**	1,272,920	1,817,368	2,205,765	1,456,176

Management Discussion and Analysis

The Group is engaged in the provision of technology and operation services for lottery systems, terminal equipments 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. By building up its technical competencies, expanding into new markets and upholding high standards of corporate governance, the Group has established a solid foundation and an outstanding corporate brand name, providing it with comprehensive capabilities for sustainable development.

CHINA'S LOTTERY MARKET

According to figures published by the Ministry of Finance ("MOF"), China's lottery market grew steadily in 2017, with total lottery sales of RMB426.67 billion, representing a year-on-year ("YOY") growth of 8.1%. Welfare Lottery sales rose 5.1% YOY to RMB216.98 billion, whereas Sports Lottery sales up 11.4% YOY to RMB209.69 billion. Lotto, which is the industry's main source of revenue, recorded 7.3% YOY sales growth, accounting for 61.5% of total lottery sales. Single Match Games ("SMG") sales surged 21.4% YOY, accounting for 21.8% of total lottery sales. VLT sales grew 3.8% YOY, accounting for 10.8% of total lottery sales. Paper-based Scratch Card sales and KENO sales declined by 13.6% YOY and 31.5% YOY, accounting for 5.8% and less than 0.1% of total lottery sales respectively. In addition to the secular rise in lottery sales in 2017, its growth rate has outperformed China's GDP growth for 2 consecutive years since 2015. China's lottery sales rose 8.1% in 2017, representing 1.2 percentage points higher than the GDP growth of 6.9%. Lottery is accountable for the Chinese social welfare, and now both Welfare Lottery and Sports Lottery are placing a greater importance on brand building, promoting its social welfare attributes. At the same time, lottery sales recorded a steady growth and slightly grow faster than China's GDP growth, fostering healthy development of lottery business in China.

BUSINESS REVIEW AND OUTLOOK

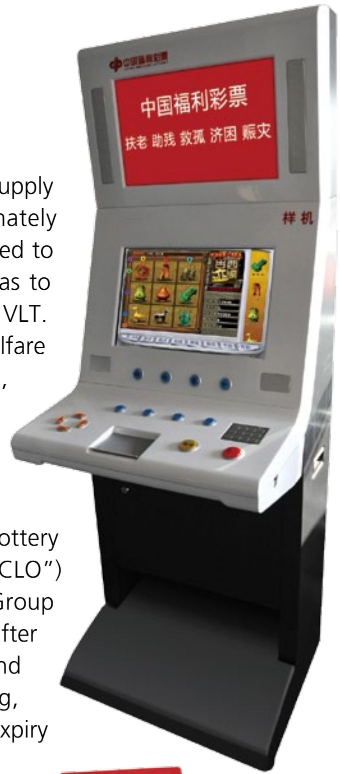
Video Lottery Business

China Welfare Lottery Video Lottery ("Welfare VLT") Business

As a technology-rich product, Welfare VLT plays a vital role in China's lottery industry. The Group is the exclusive terminal equipment provider for Welfare VLT. Welfare VLT was one of the driving forces of nationwide Welfare Lottery, with its sales increased by 3.8% YOY to RMB46.21 billion, and accounted for 10.8% of the nation's total lottery sales in 2017.

Dongguan Tianyi Electronic Company Limited ("DGTY"), a subsidiary of the Group, has been the supplier of Welfare VLT terminal for 14 years since 2003. It has unique and unmatched experience, capabilities and qualification given its continual investment in Welfare VLT terminal manufacturing and R&D. 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 Ministry of Civil Affairs. DGTY has made three generations of Welfare VLT terminal replacements and upgrades in the last 14 years, supplying a total number of over 70,000 units of terminals. For the year ended 31 December 2017, 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.

Management Discussion and Analysis



DGTY's Welfare VLT supply contract expired on 28 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. The Group decided to maintain the Welfare VLT terminals it provided in fully operational condition, so as to support the sustained and healthy growth as well as the distribution of Welfare VLT. Riding on the superb quality of DGTY's third generation terminals, the sales of Welfare VLT has continued its upward climb and achieved satisfactory performance, notwithstanding the absence of new terminal over the last three years. DGTY was well recognised by the market thanks to its strong technological prowess and integrated service capabilities.

According to legally binding documents that the Group sent to China Welfare Lottery Center ("CWLC") and Beijing China Lottery Online Technology Company Limited ("CLO") along with unanimous accreditation reached by domestic civil law experts, the Group 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 Group is awaiting the judgment of the court.

CWLC is now actively revising and smoothing out the income and expenditure arrangements of Welfare VLT, accelerating the channel expansion and strengthening the market management. The Group believes that the Welfare VLT, a flagship lottery type of Welfare Lottery, will move back into the spotlight under the management of CWLC. The Group proactively assists CWLC and provincial sales institutions, delivering better product and service to Welfare VLT, bolstering its steady, sustainable and robust growth, and making the greatest contribution to the China lottery business.

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 up by 4.7% YOY to approximately RMB14.20 billion in 2017; Chongqing Welfare Lottery CTG and Shanghai Welfare Lottery CTG, both are served by the Group, recorded sales of approximately RMB2.11 billion and RMB3.37 billion, with YOY growth of 9.2% and 7.8% respectively. Meanwhile, the Group is also responsible for the development of new high-frequency games for Guangdong Welfare Lottery, the pilot project in Shantou has already been rolled out; whereas the new generation integrated lottery information management systems, developed by the Group for Shanghai and Guangdong Welfare Lottery, have been successfully launched in 2017 respectively. The new system will lay a solid foundation for the establishment of splendid lottery electronic management for Guangdong and Shanghai Welfare Lottery.

Management Discussion and Analysis

The Group's Sports Lottery CTG terminal business grew at a robust pace in 2017. The Group won bids for the Sports Lottery CTG terminal and information display box procurement programmes of Guizhou, Guangdong, Guangxi, Jilin, Heilongjiang, Henan, Sichuan and others, expanding its business to 18 provinces, with a total order number of over 8,000 units, remained the leading position in terms of sales amount for Sports Lottery terminal. The Group has become the most important terminal provider in China's Sports Lottery market. Currently, an android terminal designed and manufactured by the group, is undergoing a third-party test by the China Sports Lottery Administration Centre, being a pioneer in passing the test would provide it greater accessibility to development opportunities. At the same time, the Group will continue to maintain and extend its collaboration with domestic and international terminal manufacturers to provide core components, including lottery terminals and scanners etc.

The Group's Cambodian CTG business, in collaboration with Khmer Pool Welfare Lottery Co., Ltd, recorded growth amidst stability in 2017, while the automatic accounts settlement system and the mobile app were launched by year end, posted a considerable sales momentum. The Group has successfully implemented mobile and internet lottery business, bringing Cambodian players more convenient betting service. In addition, a new CTG system developed by the Group for Cambodian Sports Lottery has been rolled out in the third quarter of 2017. In 2018, the Group will integrate its internal resources based on the successful experience in Cambodia, looking for changes amid development and proactively tapping other overseas markets.

NEW MEDIA LOTTERY BUSINESS

In 2017, the Group continued to maintain its close ties with several provincial lottery authorities, constantly upgraded and enriched the telephone lottery sales management system and related products, as part of the technical and operating preparations for further expansion of its new media lottery business.

China's lottery industry is undergoing developmental revolution in terms of channel realignment and innovation. The traditional lottery sales channel already cannot meet the purchasing needs of its diversified customer base and the need for digitalized and integrated lottery retail channel is gradually arising, resulting from the rise of electronic payments and artificial intelligence. In response to these development opportunities, the Group has taken the lead to introduce the notion of new lottery retail, taking advantage of the prevalent industry development trend by product and channel innovations and making vigorous efforts to open up new ideas of lottery business expansion. The Group has stepped up its R & D efforts in artificial intelligence for lottery and others, and fully used of innovative technologies such as intelligent hardware, the Internet of Things and big data etc. across the lottery retail channels, namely operation, management, marketing and others, providing lottery authorities and retail channels with total solutions in a move to optimize and eliminate the industry sticking points as well as expand and shake up the sales channel.

Management Discussion and Analysis

The new lottery retail model enables the industry to move beyond its traditional point of sale, by leveraging intelligent lottery equipment with new diversified channels as well as the combination of online and offline purchase methods, opening up new socialized sales channel.

By years of its dedication to the lottery terminal business, the Group has developed a number of new intelligent lottery equipments with features of lightweight, portable, low cost and others, supporting sales of different lottery types, together with effective, safe and convenient operations by artificial intelligence and mobile payments, leading to a wider range of point of sale applications. We also provide software systems as well as sound lottery sales operation and management, forming a set of sophisticated new lottery retail solution, reducing lottery authorities and sales channel operators' investments in technology, personnel and management cost. The Group will shape out unparalled new lottery retail service in the light of its sales channel particularities, experiences and capacities, reacting with prompt deployment of market expansion.

The Group is trying hard to establish a new multi-industry and multi-tiered retail channels system, consolidating resources from various kinds of channels, pursuing cross-industry partnership, and exploring new channels in tandem with buoyant sectors of business, services, financial and retail. The Group recently entered into a cooperation agreement with E-Capital Transfer Co., Ltd. The two will initiate in-depth strategic cooperation in the fields of lottery and financial securities, joint exploration of business scopes and applications and bring about new form of lottery sales. Meanwhile, the Group will explore more new form of cross-industry collaboration, tapping the great potential of lottery market in retail sphere.

The Group believes that carrying out of these new businesses, which are consistent with the strategic goal and policy requirement set by the lottery authorities, contributing to lure new group of players. The Group is working intensively on the preparatory work for those projects based on the relevant technical specifications, and thus lottery will soon be assimilated into the potential consumers' daily lives. The seamless engagement between lottery and new retail would further unlock the lottery market, playing a positive role in promoting the healthy development of Chinese lottery market.

Moreover, in a bid to execute the national strategy of "Fitness for All" and better fit the public needs of relaxation and entertainment, the State General Administration of Sports issued the guidelines of "interestingness of traditional card and board games" and "competitiveness of interesting card and board games", incorporating card and board games and the development roadmap of "Internet Plus".

The group has seized opportunities that driven by growing card and board games market, breaking into the market by "card and board games + e-sports" with a home-made online card and board game app. The Group has aggressively participated in professional card and board games tournaments and officially become the exclusive strategic partner of Jiangsu Mahjong ("江蘇麻將"), a performance event in the World Mahjong Sports Games hosted by the Mahjong International League.

Based on the survey findings, the card and board games market in China was sized at around RMB5.86 billion with 258 million users in 2016. There is tremendous potential in card and board games market with robust growth. By years of dedication to the new media lottery market, the Group has built up a large customer base and wealth of experience, fueling its swiftly market expansion and acceleration of growth.

Management Discussion and Analysis

CONCLUSION

Looking forward, China's annual lottery sales is expected to exceed RMB500 billion, slightly outpacing its economic growth, while the total lottery sales will exceed RMB2,000 billion during the 13th Five-Year Plan period. There is enormous potential in China's lottery market, while sustaining the healthy development of traditional lottery, there is mounting demand in new channels, channel reconstruction, new games and new gameplay to breathe new life into the sector.

The Group's focus on building its own technology and product offering has enabled it to cover VLT terminal, CTG terminal, CTG core transaction system, CTG management system, CTG game development and design, Paper-based Scratch Card integrated management system, new media lottery sales management system, new media lottery big data analysis system, and new media lottery game development and design etc. In addition, the Group has developed extensive operations and service capabilities for VLT, CTG and new media lottery.

As a leading market participant, the Group has showed its dedication to the lottery industry for over a decade with extensive investment and accountability and has amassed substantial amount of resources in government relations, technologies and customers. The Group is endeavored to explore its development strategy and execution plan in response to the guidelines on international and domestic policies set by the 19th National Congress of the Communist Party of China, rooting in China while expanding overseas market. In order to contribute to the development of a sound China's lottery ecosystem, the Group is actively engaged in allocation and development with focus on lottery games, gaming products, supporting systems, operating systems and new sales channels development, among others.

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK$237.9 million (2016: HK$200.3 million) for the year ended 31 December 2017, representing an increase of approximately 19% over 2016. Loss attributable to owners of the Company for the year ended 31 December 2017 amounted to approximately HK$193 million (2016: HK$298 million), and is mainly due to share of loss of a joint venture of approximately HK$23.4 million (2016: HK$2.4 million), loss on extinguishment and redemption of convertible bonds of approximately HK$25.2 million (2016: Nil) and staff costs (excluding employee share option benefits) of approximately HK$119.2 million (2016: HK$126.4 million).

DGTY's Welfare VLT supply contract expired on 28 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. The Group decided to maintain the Welfare VLT terminals it provided in fully operational condition, so as to support the sustained and healthy growth as well as the distribution of Welfare VLT. Riding on the superb quality of DGTY's third generation terminals, the sales of Welfare VLT has continued its upward climb and achieved satisfactory performance, notwithstanding the absence of new terminal over the last three years. According to legally binding documents that the Group sent to CWLC and CLO along with unanimous accreditation reached by domestic civil law experts, the Group 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 Group is awaiting the judgment of the court, until then no revenue nor receivable from VLT business was recognized by the Group since the expiry of VLT supply contract.

Financial assets at fair value through profit and loss comprised of various categories of securities, they include debt securities listed in Hong Kong and outside Hong Kong, listed equity securities in Hong Kong and outside Hong Kong and unlisted fund investments (the "Financial Assets"). All the Financial Assets are liquid stocks and the Company intends to hold them as short-term investments. The Company has its treasury investment policy in place for the purpose of provision of the authority and guidelines to the board of directors of the Company (the "Board" or the "Director(s)") and management to undertake investment of surplus funds for the prudent management and control of risk in their investment portfolios. The acquisitions of the Financial Assets were conducted for the purpose of treasury activities of the Group and in accordance with the treasury investment policy of the Company. All the Financial Assets were acquired from independent third parties of the Company. As at 31 December 2017, the assets ratio of each of the Financial Assets did not exceed 5% (as defined in the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules")). During the year under review, fair value gain on financial assets at fair value through profit and loss amounted to approximately HK$1.3 million (2016: HK$27.8 million).

Management Discussion and Analysis

LIQUIDITY, FINANCIAL RESOURCES, GEARING RATIO AND CAPITAL STRUCTURE

The Group believes that it has adequate financial resources to fund its capital and operating requirements. As at 31 December 2017, the Company had an outstanding corporate guarantee for unlimited amount for total banking facilities of property installment loans, term loan and bridging loan of approximately HK$164.9 million (2016: HK$153.7 million), an outstanding corporate guarantee limited to approximately HK$17 million (2016: HK$17 million) for a banking facility of a property installment loan of approximately HK$17 million (2016: HK$17 million), and an outstanding corporate guarantee for unlimited amount for credit facilities of investment purpose of US$5 million (2016: US$5 million) and overdraft for liquidity purpose of US$25 million (2016: US$25 million).

The Group had outstanding bank borrowings as at 31 December 2017 of approximately HK$163.7 million (2016: HK$313.4 million). As at 31 December 2017, 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$158.7 million (2016: HK$162.2 million); (ii) bank deposits amounting to approximately HK$7.5 million (2016: HK$124.6 million); (iii) financial assets of Nil (2016: HK$300.1 million); and (iv) an unlimited personal guarantee executed by a substantial shareholder of the Company (2016: Nil).

In 2014, the Company has issued 5% convertible bonds (the "5% Convertible Bonds") due 2019 in total aggregate principal of HK$650 million. The 5% Convertible Bonds would be converted into the paid ordinary shares of HK$0.0025 each (the "Shares") of the Company at the applicable conversion price of HK$0.92 each. The 5% Convertible Bonds bore interest at the rate of 5% per annum payable semi-annually in arrears. As at 1 January 2017, outstanding principal of 5% Convertible Bonds was HK$550 million. On 10 March 2017, the Company announced proposed offer to exchange all outstanding 5% Convertible Bonds for a combination of cash and issue of new convertible bonds. Such exchange offer was completed on 7 April 2017. The 5% convertible bonds in the amount of HK$506 million had been cancelled and exchanged for: (i) 7.5% convertible bonds due 2019 in the aggregate principal amount of HK$175.95 million (the "New Option 1 Bonds"); (ii) 8% convertible bonds due 2019 in the aggregate principal amount of HK$100 million (the "New Option 2 Bonds"); and (iii) cash consideration in the amount of HK$230.05 million. The New Option 1 Bonds shall be convertible into the Shares of the Company at an initial conversion price of HK$0.288 each. The New Option 2 Bonds shall be convertible into the Shares of the Company at an initial conversion price of HK$0.92 each. According to the terms and condition of the 5% Convertible Bonds, the Company had redeemed and cancelled the remaining 5% Convertible Bonds in the principal amount of HK$44 million at their principal amount together with any interest accrued but unpaid, being approximately HK$1.1 million, on 18 April 2017 off exchange and that there is no outstanding 5% Convertible Bonds remained in issue thereafter. The withdrawal of the listing of the 5% Convertible Bonds had been effective from the close of business on 25 April 2017. With effective with 7 November 2017, the conversion price of the New Option 1 Bonds had been adjusted from HK$0.288 to HK$0.24 under the reset mechanism pursuant to the terms and conditions of the New Option 1 Bonds.

During the year under review, no New Option 1 Bonds and New Option 2 Bonds had been converted into the Shares by the bondholders or redeemed by the Company. As at 31 December 2017, the total outstanding principal amount of the New Option 1 Bonds and New Option 2 Bonds were HK$175.95 million and HK$100 million respectively, the aggregate principal amount were HK$275.95 million. The maximum number of shares of the Company that will be issued upon conversion of all the outstanding New Option 1 Bonds and New Option 2 Bonds were 733,125,000 shares and 108,695,652 shares respectively.

During the relevant notice period ended 8 March 2018, the Company received notifications from bondholders that total principal amount of HK$101.15 million of put options will be exercised under the terms and conditions of the New Option 1 Bonds and New Option 2 Bonds.

The Group's total equity amounted to approximately HK$1,139.1 million at 31 December 2017 (2016: HK$1,272.9 million). At 31 December 2017, net current assets of the Group amounted to approximately HK$366.7 million (2016: HK$1,007.3 million), including approximately HK$193.5 million in cash and deposits with banks and financial institution (2016: HK$374.6 million).

The gearing ratio (defined as total liabilities over total assets) of the Group at 31 December 2017 was approximately 32.5% (2016: 42.8%).

Management Discussion and Analysis

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 2017, the Group's leasehold land and buildings at net book value of approximately HK$158.7 million (2016: HK$162.2 million) were pledged to banks to secure the bank borrowings granted to the Group. At 31 December 2017, the Group's cash deposits and financial assets at an aggregate carrying value of approximately HK$7.5 million (2016: HK$424.7 million) were pledged to financial institutions to secure the credit facilities granted to the Group.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any material contingent liabilities (2016: Nil).

STAFF

As at 31 December 2017, the Group employed 289 full time employees (2016: 329). The management believes that the competence of employees is a major contributing factor to the Group's sustained growth and advancement in profitability. Staff remuneration is based on performance and experience. In addition to basic salary, benefits for employees include a performance-related bonus, contributory provident fund, medical insurance and regulated employees' social security program in China. The Group also adopted a share option scheme under which options may be granted to eligible staff based on individual performance. Training programs for staff are provided as and when required. The Group will further strengthen its team buildup, in order to offer enhanced services for China's lottery market.

Biographies of Directors and Senior Management

DIRECTORS

CHAN Tan Na, Donna

Board's Chairperson, Executive Director and Chief Executive Officer

Ms. Chan, aged 36, 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 the management of several departments of the Group including finance, investor relations, company secretarial and legal etc. 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 46, 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 54, 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.

HUANG Shenglan

Independent Non-executive Director

Mr. Huang, aged 66, 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.

Biographies of Directors and Senior Management

CHAN Ming Fai

Independent Non-executive Director

Mr. Chan, aged 56, 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 twenty years of experience in investment banking and asset management. Mr. Chan had worked for Jardine Fleming Investment Management with a major responsibility to market unit trusts and asset management products in Hong Kong and subsequently in various Asian markets, and was particularly instrumental in the establishment of Jardine Fleming's investment trust operation in Japan, Korea and Indonesia. Mr. Chan also co-founded the KGI Group, which is a pan-Asian investment bank with shareholders including major investors and institutions in Asia, where he was the head of the asset management operation, which managed about USD400 million in hedge funds and other investment portfolios, and was also a member of the management committee of KGI Group. Mr. Chan is also an independent non-executive director of Burwill Holdings Limited, a company listed in Hong Kong. Mr. Chan holds a Bachelor's degree in Social Sciences with a major in Economics from the University of Hong Kong.

CUI Shuming

Independent Non-executive Director

Mr. Cui, aged 80, 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 Burwill Holdings Limited and Yue Da Mining Holdings Limited, both are listed companies in Hong Kong. He has over forty years of experience in international finance and corporate planning and management.

SENIOR MANAGEMENT

LAN Jianzhang

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

Mr. Lan, aged 46, 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.

Biographies of Directors and Senior Management

HE Ying

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

Ms. He, aged 48, joined the Group in 2007. She is currently the Senior Vice President of the Group, General Manager of Mobile and Internet Services Business Unit and General Manager of the Marketing Department. Ms. He had been the general manager of the marketing department at Founder Technology Group Corporation and vice general manager at Hisense Cyber Product Limited. Ms. He has been engaged in the information technology industry for twenty years, and has extensive experience in marketing and corporate management. Ms. He holds a Bachelor's degree in Computer Science from the Beijing University of Technology.

ZHU Xinxin

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

Ms. Zhu, aged 38, joined the Group in 2008. She is currently the Senior Vice President of the Group and Director of the Group's Human Resource and Administrative Department. Ms. Zhu had been the operation manager of Protiviti Independent Risk Consulting, China, a global business consulting and internal audit firm. Ms. Zhu had also worked in Accenture, a global leading management consulting, information technology services and outsourcing company. At Accenture, she participated in various projects including the CNOOC SAP implementation project, Robert Half International PeopleSoft Implementation project and BP Finance & Accounting Outsourcing project. Ms. Zhu holds a Bachelor's degree in Business and Finance from the University of Westminster and a Master's degree in Development Finance from the University of Manchester. Ms. Zhu also holds the Chief Human Resource Officer certificate, conducted by the Business School at Renmin University of China and ILR School at Cornell University.

WU Yunsong

Vice President

Mr. Wu, aged 50, 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 45, 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

ZHANG Yi

Vice President and Financial Controller (China)

Mr. Zhang, aged 41, joined the Group in 2008. He is currently the Vice President of the Group and Financial Controller (China), responsible for the overall financing and investment management of the Group's China region. Prior to joining the Group, Mr. Zhang had previously been the Investment Head of Investment Development Department of Fosun Group. Fosun Group is one of the largest non-state-owned corporations in China with operations in pharmaceutical, property development, steel, mining, retail, services and strategic investment. Mr. Zhang had also worked for Yongjin Group and Jiuzhitang Co., Ltd, both of which are famous corporations in China. Mr. Zhang has nearly twenty years of experience in the financial management and investment management fields. Mr. Zhang holds a Bachelor's degree in Economics from Peking University's Guanghua School of Management and a Master's degree of International Business Administration. Mr. Zhang is also a non-practicing member of the Chinese Institute of Certified Public Accountants (CICPA) and a member of the Association of Chartered Certified Accountants (ACCA).

TAN Yung Kai, Richard

Chief Financial Officer

Mr. Tan, aged 46, joined the Group in 2000. He is currently the Group's 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 of the Group

Mr. Wong, aged 34, joined the Group in 2009. He is currently the Group's Company Secretary, responsible for the overall compliance matters within the Group and providing advice to its corporate exercise and adaptation of latest corporate governance policies. Prior to joining the Group, Mr. Wong had worked for a Hong Kong listed group, responsible for the compliance issues of its companies listed on Main Board and GEM Board respectively. Mr. Wong is an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries and a member of The Hong Kong Institute of Directors. He holds a Bachelor's degree in Business from LSE, the University of London and a Master's degree in Corporate Governance and Directorship from the Hong Kong Baptist University.

Report of the Directors

The Board presents to the shareholders their report together with the audited financial statements of the Group for the year ended 31 December 2017.

FINANCIAL RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss on page 45.

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 2017 (2016: Nil).

PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The principal activity of the Company is investment holding.

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

Analysis of the Group's turnover and segment information for the year ended 31 December 2017 are set out in Note 5 to the consolidated financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

The Group's five largest customers accounted for about 66% of its turnover for the year. In addition, the largest customer of the Group accounted for about 34% of the Group's turnover.

The percentage of the Group's purchases attributable to the Group's five largest suppliers was about 31%. In addition, the largest supplier of the Group accounted for about 7% 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 15 to the consolidated financial statements.

SUBSIDIARIES

The particulars of the Company's principal subsidiaries as at 31 December 2017 are set out in Note 17 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in Note 31 to the consolidated financial statements.

Report of the Directors

RESERVES
Details of movements in reserves during the year are set out in Note 33 to the consolidated financial statements.

DISTRIBUTABLE RESERVES
As at 31 December 2017, the distributable reserves to the shareholders in accordance with the Company's Bye-laws was Nil (as at 31 December 2016: Nil).

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES
Save as the redemption of the 5% Convertible Bonds mentioned in this report, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

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, a resolution has been approved by the Company's shareholders to refresh the limit of granting option under the 2012 Option Scheme. More information can be referred in the Company's circular dated 28 April 2015. As at 31 December 2017, there were options for 238,025,000 shares of HK$0.0025 each in the share capital of the Company granted by the Company pursuant to the 2012 Option Scheme, were valid and outstanding. 1,089,705,733 shares are available for issue (being the options were granted, including those granted before and after the refreshment of limit, and outstanding plus the options may be granted) under the 2012 Option Scheme, representing approximately 12.61% of the issued shares of the Company on the date of this report.

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

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

(ii) Participants
Any person being an employee, officer, buying agent, selling agent, consultant, sales representative, marketing representative, business representative of, or supplier or provider of goods or services to, the Group or its holding company or subsidiary, or, the Board may determine in its discretion, has made valuable contribution to the business of the Group, including any executive or non-executive director of the Group or its holding company or subsidiary.

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

Report of the Directors

(iv) Maximum entitlement of each Participant

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

(v) Option period

An option may be exercised in accordance with the terms of the option scheme at any time during a period of not exceeding ten years to be notified by the Board to the grantee, such period to commence on the date of grant or such later date as the Board may determine and expiring on the last day of the said period. Under the Option Scheme, the Board may, at its discretion, prescribe a minimum period for which an option must be held before it can be exercised 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 2017:

	Date of grant	Exercise price per Share HK$	Exercise period from	Exercise period until	No. of Shares under the options: outstanding at the beginning of the year	granted during the year	exercised during the year	cancelled during the year	lapsed during the year	outstanding at the end of the year	Closing price per Share at the date of grant of the options during the year HK$
2012 Option Scheme											
(i) Name of Director											
Ms. CHAN Tan Na, Donna	14/07/2014	0.690	14/07/2017	13/07/2018	10,000,000	–	–	–	–	10,000,000	–
Mr. WU Jingwei	14/07/2014	0.690	14/07/2017	13/07/2018	10,000,000	–	–	–	–	10,000,000	–
Mr. LI Zi Kui	14/07/2014	0.690	14/07/2017	13/07/2018	5,000,000	–	–	–	–	5,000,000	–
Mr. HOONG Cheong Thard	14/07/2014	0.690	14/07/2017	13/07/2018	100,000	–	–	–	(100,000)	–	–
Mr. HUANG Shenglan	14/07/2014	0.690	14/07/2017	13/07/2018	100,000	–	–	–	–	100,000	–
Mr. CHAN Ming Fai	14/07/2014	0.690	14/07/2017	13/07/2018	100,000	–	–	–	–	100,000	–
Mr. CUI Shuming	14/07/2014	0.690	14/07/2017	13/07/2018	100,000	–	–	–	–	100,000	–
(ii) Continuous contract employees	14/07/2014	0.690	14/07/2017	13/07/2018	82,100,000	–	–	–	(2,500,000)	79,600,000	–
(iii) Other participants	14/07/2014	0.690	14/07/2017	13/07/2018	75,525,000	–	–	–	–	75,525,000	–
	29/10/2014	0.840	29/10/2015	28/10/2018	46,000,000	–	–	–	–	46,000,000	–
	29/10/2014	0.840	29/10/2017	28/10/2020	11,600,000	–	–	–	–	11,600,000	–
	02/01/2015	0.600	02/01/2015	01/01/2017	40,000,000	–	–	–	(40,000,000)	–	–
	10/07/2015	0.400	10/07/2015	09/07/2017	170,000,000	–	–	–	(170,000,000)	–	–
	29/10/2015	0.460	29/10/2015	28/10/2017	425,000,000	–	–	–	(425,000,000)	–	–
Total:					875,625,000	–	–	–	(637,600,000)	238,025,000	

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 32 to the consolidated financial statements.

2. Mr. HOONG Cheong Thard retired as director at the annual general meeting of the Company held on 1 June 2017.

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. LAU Ting (resigned on 15 September 2017)
Ms. CHAN Tan Na, Donna
Mr. WU Jingwei
Mr. LI Zi Kui

Non-Executive Director

Mr. HOONG Cheong Thard (retired on 1 June 2017)

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 and, being eligible, offer themselves for re-election.

During the year ended 31 December 2017, there were changes of Director, Board's Chairperson, Chief Executive Officer, Chief Financial Officer and Board Committees' member as followings:

(1) Mr. HOONG Cheong Thard retired as director at the annual general meeting of the Company held on 1 June 2017; (2) Ms. LAU Ting has resigned as the Board's Chairperson, Executive Director, Chief Executive Officer, Chairperson and Member of Nomination Committee and Member of Remuneration Committee of the Company with effect from 15 September 2017; (3) Ms. CHAN Tan Na, Donna has taken over as the Board's Chairperson, Chief Executive Officer, Chairperson and Member of Nomination Committee and Member of Remuneration Committee of the Company with effect from 15 September 2017; and (4) Mr. TAN Yung Kai, Richard has taken over as the Chief Financial Officer of the Company with effect from 15 September 2017.

Biographical details of the Directors are set out from pages 11 to 12 of this report.

SENIOR MANAGEMENT

Biographical details of the senior management of the Group are set out from pages 12 to 14 of this 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 2017, 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

	Number of Shares					Approximate percentage of the Company's issued share capital
Name of Director	Beneficial interests	Family interests	Corporate interests	Security interests in Shares	Total	
Ms. CHAN Tan Na, Donna	40,000,000(L)	–	–	–	40,000,000(L)	0.47%(L)
Mr. WU Jingwei	82,200,000(L)	–	–	–	82,200,000(L)	0.96%(L)
Mr. LI Zi Kui	28,000,000(L)	–	–	–	28,000,000(L)	0.33%(L)
Mr. HUANG Shenglan	1,100,000(L)	–	–	–	1,100,000(L)	0.01%(L)
Mr. CUI Shuming	2,000,000(L)	–	–	–	2,000,000(L)	0.02%(L)

Notes:

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

(2) Interests in Underlying Shares of the Company

As at 31 December 2017, certain Directors of the Company had the interests in respect of options to subscribe for the shares of the Company under the option schemes. Details of their interests in the share options of the Company are separately disclosed in the section "Share Option Schemes" of this report.

Save as otherwise disclosed above, as at 31 December 2017, none of the Directors or chief executive of the Company had, or were deemed under the SFO to have, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Report of the Directors

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

As at 31 December 2017, 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

	Number of Shares						Approximate percentage of the Company's issued share capital
Name of Shareholder	Beneficial interests	Family interest	Investment manager	Security interests in Shares	Corporate interests	Total	
Ms. LAU Ting	266,974,373(L)	242,486,426(L)	–	–	727,213,326(L)	1,236,674,125(L) *(Note 1)*	14.46%(L)
Mr. CHAN Shing	242,486,426(L)	266,974,373(L)	–	–	727,213,326(L)	1,236,674,125(L) *(Note 1)*	14.46%(L)
BFAM Partners (Cayman) Limited	–	–	–	–	668,437,500(L)	668,437,500(L) *(Note 2)*	7.81%(L)
Fuchs Benjamin Aaron	–	–	–	–	668,437,500(L)	668,437,500(L) *(Note 2)*	7.81%(L)
Tencent Holdings Limited	–	–	–	–	594,034,513(L)	594,034,513(L)	6.94%(L)
Favor King Limited	–	–	–	–	512,492,594(L)	512,492,594(L) *(Note 1)*	5.99%(L)

Notes:

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

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

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

Save as disclosed above, as at 31 December 2017, there was no person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

Report of the Directors

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the 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 has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

FINANCIAL SUMMARY

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

EMPLOYEE RETIREMENT BENEFIT

Details of the retirement benefit schemes of the Group and the employee retirement benefit costs charged to the consolidated statement of profit or loss for the year are set out in Note 36 to the consolidated financial statements.

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.

Report of the Directors

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.

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.

Report of the Directors

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.

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.

Report of the Directors

Dispute Resolution

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

Succession

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

Financial Information of OPCO

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

The Control Contracts in place during the Year

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

Report of the Directors

Risk Factors

For the year ended 31 December 2017, 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. The Company noticed that the Ministry of Commerce of PRC published a discussion draft of the proposed new Foreign Investment Law for public comments at the beginning of 2015. The Company will closely monitor the progress of the drafting of the proposed new Foreign Investment Law. Once there is substantive change on the relevant law and regulation, the Group will use its reasonable endeavors to fulfill the relevant requirement including but not limited to the restructuring of the OPCO's corporate structure and Control Contracts or unwinding the Control Contracts.

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

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

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

Report of the Directors

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.

On behalf of the Board
CHAN Tan Na, Donna
Chairperson

Hong Kong, 21 March 2018

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 shall make necessary arrangements to ensure business activities and decision-making processes are made in a proper and prudent manner.

In the opinion of the Directors, the Company, at each applicable time, has complied with all the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules (the "Code") for the financial year ended 31 December 2017, 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 2017.

BOARD OF DIRECTORS

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

Executive Directors

Ms. LAU Ting (resigned on 15 September 2017)
Ms. CHAN Tan Na, Donna
Mr. WU Jingwei
Mr. LI Zi Kui

Non-executive Director

Mr. HOONG Cheong Thard (retired on 1 June 2017)

Independent Non-executive Directors

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

As at the date of this report, the Board comprised six Directors, three 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. 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. LAU Ting (resigned on 15 September 2017)	0/2	–	0/1	0/1	0/1
Ms. CHAN Tan Na, Donna	2/2	–	–	–	1/1
Mr. WU Jingwei	2/2	–	–	–	0/1
Mr. LI Zi Kui	2/2	–	–	–	0/1
Non-executive Director					
Mr. HOONG Cheong Thard (retired on 1 June 2017)	0/1	–	–	–	0/1
Independent Non-executive Directors					
Mr. HUANG Shenglan	2/2	2/2	1/1	1/1	0/1
Mr. CHAN Ming Fai	2/2	2/2	1/1	1/1	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. Also, Ms. LAU Ting assumed the roles of the Chairperson and the Chief Executive Officer before her resignation. 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, Mr. CHAN Ming Fai and Mr. CUI Shuming are subject to retirement by rotation at the forthcoming annual general meeting in accordance with the Company's Bye-laws.

REMUNERATION COMMITTEE

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

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

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.

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

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

Corporate Governance Report

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 2017 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.

SENIOR MANAGEMENT'S REMUNERATION

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

	Number of Employees
From HK$0 to HK$1,000,000	4
From HK$1,000,001 to above	4

AUDITOR'S REMUNERATION

For the year ended 31 December 2017, 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	
	2017	2016
	HK$	HK$
Types of Services		
Audit for the Group	**980,000**	980,000

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 from pages 43 to 44 of this report.

Corporate Governance 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 (Notes)
Executive Directors	
Ms. CHAN Tan Na, Donna	✓
Mr. WU Jingwei	✓
Mr. LI Zi Kui	✓
Independent Non-executive Directors	
Mr. HUANG Shenglan	✓
Mr. CHAN Ming Fai	✓
Mr. CUI Shuming	✓

Notes:

1. 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.

2. As Ms. LAU Ting and Mr. HOONG Cheong Thard have resigned during the year, no training records have been received from them.

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.

Corporate Governance Report

The Board had reviewed once the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2017. 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.

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. HOONG Cheong Thard, Mr. HUANG Shenglan and Ms. LAU Ting were absent from the 2017 annual general meeting of the Company as is stipulated in Code provision A.6.7 and E.1.2 respectively due to their other important engagement. Shareholders may whenever it thinks fit require a special general meeting to be called. Pursuant to Section 74 of the Bermuda Companies Act 1981, the Board, notwithstanding anything in its Bye-laws shall, on the requisition of members of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company as at the date of the deposit carrying the right of voting at general meetings of the Company, forthwith proceed duly to convene a special general meeting of the Company. The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company, and may consist of several documents in like form each signed by one or more requisitionists. The Company arranges for the notice to its shareholders to be sent at least 10 clear business days before each of the general meetings of the Company in accordance with Code Provision E.1.3. To put forward proposals at an annual general meeting or a special general meeting, the shareholders shall submit a written notice of those proposals with the detail contact information to the Company Secretary at the Principal Place of Business. The request will be verified with the Company's Branch Share Registrars and Transfer Office in Hong Kong and upon its confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting.

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

Environmental, Social and Governance Report

This report covers the Group's overall performance in two subject areas, namely, Environmental and Social of the head office in Hong Kong and main business office in Beijing from 1 January 2017 to 31 December 2017, unless otherwise stated and is prepared with reference to the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 of the Listing Rules.

ENVIRONMENT

As a participant in the lottery industry in China, fulfilling the Group's social responsibilities is undoubtedly an important issue. Environmental protection is always a key focus of the Group. The Group is dedicated to providing advanced international lottery technology and management expertise to the industry and therefore the Group actively engaged in the environmental protection and integrating environmental considerations into daily operation. Measures for pollution prevention, waste and emission reduction, energy saving and other environmental protection issues are properly implemented. The Group is committed to the following environmental objectives:

- Comply with the existing environmental regulations and any other relevant requirements entered into by the Group;
- Boost technology and engineering development and reduce damages to the environment;
- Implement energy saving measures, resources recycling, prohibit the use of harmful substances and promote energy consumption reduction during product research and development and project planning;
- Provide environmental training for the staff to enhance their environmental and energy saving awareness; strive for continuous improvement in environmental management through monitoring and education; and
- Share information openly with investors, customers, partners, suppliers, the public, government and parties who are concerned about our environmental protection achievement and continuous improvement.

Emission Control

The Group is dedicated to improving energy and Greenhouse Gas performance in order to achieve sustainable development. The Group properly implement various measures for minimising the impact arising from operation to the environment, including measures addressing GHG emissions, pollution as well as hazardous and non-hazardous waste. Assessment for air emissions and GHG emissions are conducted regularly for analyse and evaluate performance on a regular basis, which allows the Group to review of our existing measures and take specific actions to mitigate and prevent emissions. Through the periodical review of the environmental policy, the change of the management procedure, nature of the works and environmental legislation can be timely responded in order to achieve the Group's self-optimisation.

The mobile emissions from the vehicles are not a significant source of emissions from the Group, but also one of the major sources of roadside air pollution in Hong Kong and Beijing. Contributing to efforts to reduce the mobile emissions, the Group has developed clear guidelines related to environmental issue for daily operation and maintenance of the vehicles. The fuel consumption is periodically recorded and monitored for review and enhance the energy efficiency and GHG performance. The Group also strictly comply with the relevant regulations to control the vehicle emissions.

Employees are also educated for involving in the works to meet the legal, contractual and other environmental requirements. The Group believes the cooperation of employees is the most important

Environmental, Social and Governance Report

Annual Emission Data from Vehicles

Pollutant	Hong Kong Office	Beijing Office	Total
Nitrogen oxides (NOx)	3,175.06 (g)	485.55 (g)	3,660.61 (g)
Sulphur oxides (SOx)	233.77 (g)	35.75 (g)	269.52 (g)
Particulate matters (PM)	73.91 (g)	11.30 (g)	85.21 (g)

To minimise the GHG emissions from daily operation, the Group committed to providing an environmentally friendly workplace with the measures in improving the energy efficiency, reducing the energy consumption and delivering the appropriate waste management.

Total Greenhouse Gas Emissions

	Hong Kong Office	Beijing Office	Total
Scope 1	12.14 (tCO_2-eq)	1.86 (tCO_2-eq)	14.00 (tCO_2-eq)
Scope 2	58.96 (tCO_2-eq)	366.41 (tCO_2-eq)	425.37 (tCO_2-eq)
Total	71.10 (tCO_2-eq)	368.26 (tCO_2-eq)	439.37 (tCO_2-eq)

The disclosure of waste, including the hazardous waste generated is omitted while it is not identified as the material aspect of the office operation of the Group.

Effective Use of Resources

To achieve the Group's goal to become an environmentally friendly workplace, the Group has adopted various energy-saving practices. Staffs are encouraged to set the air-conditioners in a preferred temperature set-point which may reduce the cooling load of the air-conditioning system. Lighting and air-conditioning are required to be turned off in unoccupied spaces. Also, computers and other office equipment are required to be switched off after the operation hours. For purchasing the electronic appliances, the energy efficiency is always taken into priority consideration.

As the office-based workplaces, the use of paper is always an important issue in environmental performance and therefore the Group focus on reducing the consumption of paper. Various green practices have been adopted in the offices for paper saving, for example, printing paper on both sides.

The Group also dedicated to making good use of technology as alternatives for environmentally friendly practices within the offices. Electronic means for disseminating information and handling documents are encouraged. Also, telephone conferences and video conferences are recommended for internal and external communication wherever possible. The Group believes these green practices will help to continually strive to contribute towards addressing the environmental impact arising from the Group's operation.

Water consumption is omitted in the disclosure while it is controlled by the property management and it is not identified as the material aspect in the business of the Group.

Total Energy Consumption

	Hong Kong Office	Beijing Office	Total
Electricity	74,636 (kWh)	366,408 (kWh)	441,044 (kWh)

Environmental, Social and Governance Report

Environment and Natural Resources

The Group's environmental policies focus on pollution prevention, waste and emission reduction, energy saving and other environmental protection measures to achieve sustainable development. The Group commits to the best green practices and dedicate to minimise the impact on the environment and natural resources. The potential environmental impacts are always in the Group's consideration of daily operation.

EMPLOYMENT AND LABOUR PRACTICES

Employment

Employees are regarded as the valuable assets and core competitive advantage of the Group and also provide driving force for the continuous innovation of the Group. The Group rewards and recognizes performing employees by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate training and providing opportunities within the Group for career advancement. Also, in order to provide a good and fair working environment and safeguards the well-being of the employees, the Group seriously considers all those valuable opinions from the employees for enhancing workplace productivity and harmony which can help the Group to build a united and harmonious professional team.

The Group strictly complies with the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, the Company Law of the People's Republic of China, Employment Ordinance in Hong Kong and other relevant laws and regulations. Recruitment or promotion of personnel will not be affected by their national origin, race, religion, sexual orientation, marital status, pregnancy, disability and political beliefs, thus putting the principle of fairness into practice.

The resting time of the Group's employees is well respected and the employees are also entitled paid holidays pursuant to statutory requirements or otherwise under their respective employment contracts. The Group also adopts zero tolerance policy towards sexual harassment at the workplace to protect its employees from unsolicited sexual advances.

The Group also maintains an appraisal policy which specifies the requirements in related to employees' remuneration and welfare to protect the rights of employees. Besides, the Group also makes statutory pension scheme contributions for the benefit of employees in accordance with the relevant legal requirements in Hong Kong and the PRC, including the mandatory provident fund contributions in Hong Kong and social insurance payments in the People's Republic of China. To enhance overall morale of its employees, the Group also organizes various events, such as Sports Competitions and Outreach Activities to allow the employees to gather outside of work for bonding and team-building.

Health and Safety

The Group has been committed to protect employees' health and safety. Sound management systems have been established in occupational health and safety in strict compliance with the Labor Law of the People's Republic of China, The Occupational Safety and Health Ordinance in Hong Kong and other relevant laws and regulations. It builds a solid foundation for safe operation to avoid accidents and protect employees and co-workers from safety risks.

Environmental, Social and Governance Report

Development and Training

Skilled employees who are capable to meet the demands of a dynamic industry is crucial to the success of the Group. Training is an important way to improve the overall quality and provide comprehensive development of the employees. The Group has continuously perfected and modified the employee training management system, established a multilevel training system, created various learning opportunities for the employees, in order to enhance their competence, job skills, knowledge and performance. The Group also encourages the employees to identify their own personal objectives for development, allowing them to grow together with the Group.

In daily operations, the Group provides on-board trainings for new employees. Experienced employees will act as mentors to guide the new comers on jobs. Such arrangements can enhance the communication and team spirit, also improve their technical skills and managerial capability and encourage the learning and further development of the employees at all levels. The Group arranges the trainings designated according to the roles and responsibilities of the employees. The Group also updates the latest information of the industry and laws and regulations which is essential to the Group's operation and their job responsibilities from time to time.

Labour Standards

The Group's recruitment management system measures clearly on the requirement of legal working age of employees. Review and verification of applicant's identity information is required during the recruitment process, and recruitment of child labor is strictly prohibited. Applicant is also required to provide document proofs of academic qualifications and working experience for verifications, applicant who is suspected to have false academic qualifications and working experience will not be employed. The Group enters employment contract with each of its employee in accordance with relevant laws and regulations in the PRC and Hong Kong.

OPERATING PRACTICES

Supply Chain Management

Conformity by suppliers with the relevant industrial standards and ethical business norms in their supply of materials and products to the Group is one of the supplier selection criteria that the Group takes into account. Suppliers' fulfilment of the environment, health and safety requirements of the Group are relevant factors which will be taken into account by the Group in its supplier selection process.

The Group manages the supply chain by performing regular assessments on the environmental and social risks of the supply chain and strengthening the risk management. Suppliers are urged to take measures to reduce their environmental and social risks. The Group values communication with suppliers, including continuous communication with suppliers in routine work and establishing strategic cooperation with suppliers through technical support and unique competitive advantage, which can achieve win-win situation and strengthen the cooperation with each other.

Product Responsibility

The Group encourages employees and business partners to engage in protection of the Group's brand. Employees are encouraged to report any suspected infringement. The Group will take corresponding anti-infringement actions. In addition, the Group's employees are obligated to retain in confidence any and all information obtained in connection with their employment, including, but not limited to, trade secrets, core technology, client information, supplier information and other proprietary information.

Anti-corruption

The Group maintains a high standard of business integrity throughout its operations and tolerates no corruption or bribery in any form. All of the Group's operations comply with local and national legislation on standards of conduct, such as 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 in Hong Kong and other relevant laws and regulations. The Group also expects its suppliers and business partners to similarly abide by the relevant local anti-corruption laws.

Environmental, Social and Governance Report

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

The Group also has implemented a whistleblowing policy for encouraging the reporting of suspected business irregularities. When suspected wrongdoings are identified, such as breach of duty, abuse of power, receiving bribes, employees should report to the Board for investigation and verification. The Group will report to the regulator and or to law enforcement authority when necessary.

COMMUNITY

Community Investment and Involvement

The Group believes that the creation of a beautiful and peaceful community relies on the co-operation of people, corporations and the government. By working together with various community partners, the Group believes can bring a tremendous impact on the sustainable development of the communities in which it operates. The Group will also actively encourage employees to volunteer their time and skills to benefit local communities. It gives employees the opportunities to find out more about the issues about the society and environment and reinforce the Group's corporate values. The Group will consider from time to time to donate to charitable organizations where appropriate.

Independent Auditors' Report

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

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

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

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 45 to 116, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and 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 2017, 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.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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.

Independent Auditors' Report

KEY AUDIT MATTERS *(Cont'd)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment for non-current assets *Refer to Notes 15 and 16 in the consolidated financial statements.* The carrying values of the Group's property, plant and equipment and goodwill as at 31 December 2017 was approximately HK$330 million and HK$236 million, respectively. Management assessed whether there was any impairment of the carrying values of goodwill and other non-current assets as at 31 December 2017 using value-in-use calculations for each smallest identifiable group of assets that generate independent cash flows (a cash-generating unit). 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 cash-generating units ("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 2017; • 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
Capitalisation of internally developed development costs *Refer to Note 16 in the consolidated financial statements.* The Group capitalises a material level of development costs in setting up and development of systems and networks on an annual basis. The carrying value of the internally generated development costs as at 31 December 2017 was approximately HK$192 million. We focused on this area because the decision as to the amounts of development costs to be capitalised requires management judgement.	Our procedures in relation to the capitalisation of development costs included: • Considering the key areas of judgement, including evaluating management's assessment that the necessary criteria for capitalisation under HKFRSs were met at the point of commencement of capitalisation; and • Testing costs that were capitalised to supporting evidence to check that these were accurately recorded.
Convertible bonds *Refer to Note 29 in the consolidated financial statements.* During the year ended 31 December 2017, the Company exchanged certain existing convertible bonds with principal amount of HK$506 million for a combination of cash of approximately HK$230 million and new convertible bonds in the aggregate principal amount of approximately HK$276 million, and redeemed the remaining existing convertible bonds with principal amount of HK$44 million for cash. This gave rise to a loss on extinguishment and redemption of convertible bonds of approximately HK$25 million which was included in the Group's profit or loss for the year ended 31 December 2017. The initial measurement of the liability, derivatives and equity components of the new convertible bonds and the subsequent measurement of derivatives component of the new convertible bonds involved the use of valuations performed by an independent professional valuer engaged by management (the "Management's Valuer"). As at 31 December 2017, the carrying amount of the liability component and the derivatives component of the new convertible bonds amounted to approximately HK$274 million and HK$2 million respectively, which were included within current liabilities on the consolidated statement of financial position of the Group at 31 December 2017. We identified the convertible bonds as a key audit matter due to the use of judgements in the classification of the conversion and other embedded features in the convertible bonds and estimation uncertainty in the valuation of the convertible bonds, as well as their materiality in the context of the consolidated financial statements as a whole.	Our procedures in relation to management's valuation of the convertible bonds included: • Obtaining and reading the exchange offer memorandum and evaluating management's assessment of the nature of the components of the convertible bonds, including any conversion and other embedded features; • Evaluating the competence, capabilities and objectivity of the Management's Valuer; • Checking, on a sample basis, the accuracy and reasonableness of the input data provided by management to the Management's Valuer; and • Engaging an auditors' valuer to assist us to assess the appropriateness of the valuation methodologies and key assumptions used by the Management's Valuer in their valuation of the convertible bonds.

Independent Auditors' Report

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.

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 judgment 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.

Independent Auditors' Report

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

- 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.

- 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, 21 March 2018

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	5	**237,852**	200,319
Costs of sales and services			
— Depreciation of lottery terminals		**(28,560)**	(128,516)
— Others		**(91,794)**	(78,734)
		(120,354)	(207,250)
Gross profit/(Gross loss)		**117,498**	(6,931)
Other income	6	**13,661**	27,559
Other losses — net	7	**(24,894)**	(156,809)
General and administrative expenses		**(211,674)**	(227,244)
Share option expenses		**(10,174)**	(18,998)
Operating loss	8	**(115,583)**	(382,423)
Finance costs	9	**(40,367)**	(56,904)
Share of loss of an associate	18	**–**	(4)
Share of loss of a joint venture	19	**(23,408)**	(2,369)
Loss before income tax		**(179,358)**	(441,700)
Income tax expense	10	**(15,741)**	(37,901)
Loss for the year		**(195,099)**	(479,601)
Loss attributable to:			
Owners of the Company		**(192,568)**	(297,967)
Non-controlling interests		**(2,531)**	(181,634)
		(195,099)	(479,601)
Loss per share attributable to owners of the Company during the year			
— basic	11	**(2.25) HK cents**	(3.49) HK cents
— diluted	11	**(2.25) HK cents**	(3.49) HK cents

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Loss for the year		**(195,099)**	(479,601)
Other comprehensive income/(expense):			
Items that may be reclassified to profit or loss			
Fair value gain/(loss) on available-for-sale financial assets	*21*	**260**	(2,944)
Reclassification adjustment on impairment of available-for-sale financial assets		**–**	2,944
Release of currency translation reserve upon disposal of subsidiaries		**–**	(235)
Currency translation differences		**51,962**	(80,133)
Other comprehensive income/(expense) for the year		**52,222**	(80,368)
Total comprehensive expense for the year		**(142,877)**	(559,969)
Attributable to:			
Owners of the Company		**(159,372)**	(353,110)
Non-controlling interests		**16,495**	(206,859)
Total comprehensive expense for the year		**(142,877)**	(559,969)

Consolidated Statement of Financial Position

At 31 December 2017

	Notes	**2017 HK$'000**	2016 HK$'000
Non-current assets			
Property, plant and equipment	*15*	**329,839**	336,481
Intangible assets	*16*	**466,573**	457,183
Investment in an associate	*18*	**4,797**	4,460
Investment in a joint venture	*19*	**6,634**	28,115
Available-for-sale financial assets	*21*	**7,316**	7,056
Deferred income tax assets	*30*	**5,298**	9,039
		820,457	842,334
Current assets			
Inventories	*22*	**19,091**	24,687
Accounts receivable	*23*	**96,522**	77,370
Prepayments, deposits and other receivables	*24*	**557,213**	591,232
Financial assets at fair value through profit or loss	*25*	**–**	315,090
Cash and bank balances	*26*	**193,478**	374,575
		866,304	1,382,954
Total assets		**1,686,761**	2,225,288
Current liabilities			
Accounts payable	*27*	**5,348**	5,736
Accruals and other payables		**39,546**	39,132
Amount due to a joint venture	*19*	**6,634**	7,919
Tax payable		**7,752**	9,477
Bank borrowings	*28*	**163,699**	313,378
Convertible bonds	*29*	**276,630**	–
		499,609	375,642
Net current assets		**366,695**	1,007,312
Total assets less current liabilities		**1,187,152**	1,849,646
Non-current liabilities			
Convertible bonds	*29*	**–**	521,520
Deferred income tax liabilities	*30*	**48,070**	55,206
		48,070	576,726
Net assets		**1,139,082**	1,272,920

Consolidated Statement of Financial Position

At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Equity attributable to owners of the Company			
Share capital	31	21,388	21,388
Reserves	33	1,307,874	1,352,856
Accumulated losses		(538,777)	(439,661)
		790,485	934,583
Non-controlling interests		348,597	338,337
Total equity		1,139,082	1,272,920

The consolidated financial statements on pages 45 to 116 were approved by the Board of Directors on 21 March 2018 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 2017

	Attributable to owners of the Company				
	Share capital HK$'000 *(Note 31)*	Reserves HK$'000 *(Note 33)*	Accumulated losses HK$'000	Non–controlling interests HK$'000	Total HK$'000
At 1 January 2016	21,330	1,433,762	(143,334)	505,610	1,817,368
Comprehensive expense					
Loss for the year	–	–	(297,967)	(181,634)	(479,601)
Other comprehensive (expense)/income:					
Fair value loss on available-for-sale financial assets	–	(2,944)	–	–	(2,944)
Reclassification adjustment on impairment of available-for-sale financial assets	–	2,944	–	–	2,944
Release of currency translation reserve upon disposal of subsidiaries	–	(235)	–	–	(235)
Currency translation differences	–	(54,908)	–	(25,225)	(80,133)
Total of other comprehensive (expense)/income	–	(55,143)	–	(25,225)	(80,368)
Total comprehensive expense	–	(55,143)	(297,967)	(206,859)	(559,969)
Release of revaluation reserve upon depreciation of leasehold land and building	–	(241)	241	–	–
Share option scheme:					
— value of employees' services	–	10,141	–	–	10,141
— value of other participants' services	–	8,857	–	–	8,857
— share options exercised	58	4,615	–	–	4,673
— vested share options expired	–	(1,378)	1,378	–	–
Repurchase of convertible bonds	–	(7,952)	21	–	(7,931)
Reversal of deferred tax previously recognised on equity component of convertible bonds	–	1,810	–	–	1,810
Changes in ownership interests in subsidiaries without change of control	–	(41,615)	–	41,615	–
Disposal of subsidiaries	–	–	–	(2,029)	(2,029)
Total transactions with owners in their capacity as owners	58	(25,763)	1,640	39,586	15,521
At 31 December 2016	21,388	1,352,856	(439,661)	338,337	1,272,920

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company				
	Share capital HK$'000 *(Note 31)*	Reserves HK$'000 *(Note 33)*	Accumulated losses HK$'000	Non–controlling interests HK$'000	Total HK$'000
At 1 January 2017	21,388	1,352,856	(439,661)	338,337	1,272,920
Comprehensive expense					
Loss for the year	–	–	(192,568)	(2,531)	(195,099)
Other comprehensive income:					
Fair value gain on available-for-sale financial assets	–	260	–	–	260
Currency translation differences	–	32,936	–	19,026	51,962
Total of other comprehensive income	–	33,196	–	19,026	52,222
Total comprehensive income/(expense)	–	33,196	(192,568)	16,495	(142,877)
Release of revaluation reserve upon depreciation of leasehold land and building	–	(241)	241	–	–
Share option scheme:					
— value of employees' services	–	4,959	–	–	4,959
— value of other participants' services	–	5,215	–	–	5,215
— vested share options expired	–	(55,267)	55,267	–	–
Extinguishment and redemption of convertible bonds	–	(37,944)	37,944	–	–
Reversal of deferred tax previously recognised on equity component of convertible bonds	–	4,161	–	–	4,161
Recognition of equity component of convertible bonds	–	3,092	–	–	3,092
Deferred tax on recognition of equity component of convertible bonds	–	(1,111)	–	–	(1,111)
Changes in ownership interests in subsidiaries without change of control	–	(1,042)	–	1,042	–
Dividends paid to non-controlling interests	–	–	–	(7,277)	(7,277)
Total transactions with owners in their capacity as owners	–	(78,178)	93,452	(6,235)	9,039
At 31 December 2017	21,388	1,307,874	(538,777)	348,597	1,139,082

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Cash flows from operating activities			
Operating cash flows before changes in working capital	34(a)	**(46,540)**	(85,232)
Changes in working capital	34(a)	**351,510**	403,790
Cash generated from operations	34(a)	**304,970**	318,558
Income tax paid		**(20,321)**	(46,446)
Net cash generated from operating activities		**284,649**	272,112
Cash flows from investing activities			
Purchase of property, plant and equipment		**(22,730)**	(17,891)
Proceeds from disposal of property, plant and equipment		**292**	–
Purchase of intangible assets		**(12,624)**	(27,481)
Decrease/(Increase) in loan receivables		**9,845**	(229,728)
Interest received		**4,007**	21,621
(Increase)/Decrease in time deposits with maturity of more than three months		**(8,141)**	244,521
Decrease/(Increase) in pledged bank deposits		**117,037**	(102,037)
Disposal of subsidiaries	37	**–**	(675)
Net cash generated from/(used in) investing activities		**87,686**	(111,670)
Cash flows from financing activities			
Interest paid		**(26,280)**	(42,904)
Proceeds from issue of shares		**–**	4,673
Repurchase of convertible bonds		**–**	(96,726)
Repayment of convertible bonds		**(274,050)**	–
Repayment of bank borrowings		**(249,679)**	(496,247)
Proceeds from bank borrowings		**100,000**	226,587
Dividends paid to non-controlling interests		**(7,277)**	–
Net cash used in financing activities		**(457,286)**	(404,617)
Net decrease in cash and cash equivalents		**(84,951)**	(244,175)
Cash and cash equivalents at beginning of the year		**250,001**	517,117
Effect of foreign exchange rate changes		**12,437**	(22,941)
Cash and cash equivalents at end of the year *(Note)*	26	**177,487**	250,001

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 2017

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 the annual report.

The Company and its subsidiaries (collectively referred to as the "Group") are technology and operation service providers of lottery systems, terminal equipment and gaming products in 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.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

2.1.1 Changes in accounting policy and disclosures

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

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2017:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	Disclosure of Interests in Other Entities

The adoption of amendments to HKAS 12 and amendments to HKFRS 12 did not have any impact on the current period or any prior period and is not likely to affect future periods.

Amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

2.1 Basis of preparation *(Cont'd)*

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

(b) *New standards and interpretations not yet adopted*

The following are new standards and amendments to existing standards that have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2018 or later periods, but have not been early adopted by the Group.

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 *Financial Instruments* with HKFRS 4 *Insurance Contracts*[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 15	Clarifications to HKFRS 15 *Revenue from Contracts with Customers*[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to HKFRS 1	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2021.

HKFRS 9 *Financial Instruments*

HKFRS 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Based on the Group's financial assets as at 31 December 2017, the Group does not expect the new guidance to have significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 *Financial Instruments: Recognition and Measurement* and have not been changed.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

2.1 Basis of preparation *(Cont'd)*

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

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

HKFRS 9 *Financial Instruments* *(Cont'd)*

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group does not have any hedge instrument. Therefore, the Group does not expect any impact on the new hedge accounting rules.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15 *Revenue from Contracts with Customers*, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the new impairment model may result in an earlier recognition of credit losses on the Group's accounts receivable and other financial assets.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The new standard must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparative figures for 2017 will not be restated.

HKFRS 15 *Revenue from Contracts with Customers*

The HKICPA issued HKFRS 15 as a new standard for the recognition of revenue to replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management has assessed the effects of applying the new standard on the Group's consolidated financial statements. Based on the preliminary assessment result, the Group does not expect a material impact on the adoption of HKFRS 15.

The new standard is mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

2.1 Basis of preparation *(Cont'd)*

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

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

HKFRS 16 *Leases*

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of approximately HK$55,984,000. The Group estimates that approximately 10%–15% of these relate to payments for short-term and low-value leases which will be recognised on a straight-line basis as an expense in profit or loss.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

The standard is mandatory for financial years beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group.

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 when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power 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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

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

2.2.2 Associates

Associates are all entities over which the Group has significant influence but not control or joint control, 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 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.

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

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

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.8.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

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

2.2.5 Changes in ownership interests (Cont'd)

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 HKFRS.

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 Separate financial statements

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.

2.4 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.

2.5 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 2017

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

2.5 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 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 available-for-sale financial assets 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 2017

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

2.5 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.

2.6 Property, plant and equipment

Leasehold land classified as finance lease and all other 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:

Leasehold land classified as finance lease	Shorter of remaining lease term or useful life
Building	2.5%
Lottery terminals leased to third parties under operating leases	20%
Leasehold improvements	20%–50%
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 2017

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

2.7 Intangible assets

(a) Goodwill

Goodwill is measured as described in Note 2.8. 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. Intellectual properties 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 2017

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

2.8 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 to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash 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.

2.9 Financial assets

2.9.1 Classification

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

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

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

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets.

(c) *Available-for-sale financial assets*

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (at fair value through profit or loss, loans and receivables or held-to-maturity investments) are also included in the available-for-sale category.

The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within twelve months of the end of the reporting period.

2.9.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. 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 risks and rewards of ownership.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

2.9 Financial assets *(Cont'd)*

2.9.3 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, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- for 'financial assets at fair value through profit or loss' — in profit or loss within net gains/(losses);

- for available-for-sale financial assets that are monetary securities denominated in a foreign currency — translation differences related to changes in the amortised cost of the security are recognised in profit or loss and other changes in the carrying amount are recognised in other comprehensive income;

- for other monetary and non-monetary securities classified as available-for-sale — in other comprehensive income.

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payments is established.

Interest income from financial assets at fair value through profit or loss is included in the net gains/(losses). Interest on available-for-sale securities, and loans and receivables calculated using the effective interest method is recognised in the statement of profit or loss.

2.10 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.

2.11 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

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

(a) Assets carried at amortised cost

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

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

(b) Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale financial asset increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

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.

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 recognised initially 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 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

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.

2.19 Compound financial instruments

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

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

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

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

2.20 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 2017

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 taxes 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 2017

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

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 employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

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

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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

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

(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 has been reliably estimated. Provisions are not recognised for future operating losses.

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

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

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

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

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

2.26 Interest income

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

2.27 Dividend income

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

2.28 Operating leases

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

2.29 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's 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 co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group's foreign exchange risk arises 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/(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 2017

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
2017			
If HK$ weakens against RMB	**5**	**901**	**36,348**
If HK$ strengthens against RMB	**(5)**	**(815)**	**(34,368)**
2016			
If HK$ weakens against RMB	5	17,621	34,525
If HK$ strengthens against RMB	(5)	(15,572)	(31,834)

(ii) Price risk

The Group is exposed to price risk arising from investments classified as available-for-sale financial assets and held for trading investments.

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

	(Decrease)/ Increase in loss before income tax HK$'000	Increase/ (Decrease) in equity HK$'000
2017		
5% increase in price	**–**	**366**
5% decrease in price	**–**	**(366)**
2016		
5% increase in price	(15,755)	353
5% decrease in price	15,755	(353)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

3.1 Financial risk factors *(Cont'd)*

(a) Market risk (Cont'd)

(iii) Cash flow and fair value interest rate risk

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

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings. It is the Group's policy to keep its 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 and LIBOR arising from the Group's bank borrowings denominated in HK$ and United States dollars ("US$").

The following table demonstrates the sensitivity to 5% increase/decrease in interest rates, with all other variables held constant, of the Group's loss 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
2017			
HK$ and US$	**5**	**211**	**(211)**
HK$ and US$	**(5)**	**(211)**	**211**
2016			
HK$ and US$	5	309	(309)
HK$ and US$	(5)	(309)	309

(b) Credit risk

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

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. At the end of the reporting period, the Group had certain concentrations of credit risk as 68% (2016: 79%) and 97% (2016: 94%) of the Group's accounts receivable were due from the Group's largest customer and the five largest customers, respectively.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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$'000	Between 1 and 3 months HK$'000	Between 3 months and 1 year HK$'000	Between 1 and 5 years HK$'000
2017						
Accounts payable	5,348	5,348	5,348	–	–	–
Accruals and other payables	39,195	39,195	39,195	–	–	–
Amount due to a joint venture	6,634	6,634	6,634	–	–	–
Bank borrowings	163,699	163,699	163,699	–	–	–
Convertible bonds	276,630	288,599	5,343	–	283,256	–
	491,506	503,475	220,219	–	283,256	–
2016						
Accounts payable	5,736	5,736	5,736	–	–	–
Accruals and other payables	38,799	38,799	38,799	–	–	–
Amount due to a joint venture	7,919	7,919	7,919	–	–	–
Bank borrowings	313,378	313,378	313,378	–	–	–
Convertible bonds	521,520	618,750	–	–	27,500	591,250
	887,352	984,582	365,832	–	27,500	591,250

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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 Group's financial position, the Board does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The Board believes that such bank loans will be repaid after the end of the reporting period 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 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash outflows HK$'000	Carrying amount HK$'000
At 31 December 2017	**113,671**	**8,055**	**23,952**	**22,784**	**168,462**	**163,699**
At 31 December 2016	249,085	15,893	23,914	30,509	319,401	313,378

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 and bank borrowings as shown in the consolidated statement of financial position. Adjusted capital comprises convertible bonds and all components of equity (including share capital, reserves, accumulated losses and non-controlling interests as shown in the consolidated statement of financial position).

The debt-to-adjusted capital ratios at 31 December 2017 and 2016 are as follows:

	2017 HK$'000	2016 HK$'000
Total debt	**215,227**	366,165
Adjusted capital	**1,415,712**	1,794,440
Debt-to-adjusted capital ratio	**15.2%**	20.4%

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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 2017.

	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Assets				
Available-for-sale financial assets				
— Unlisted fund investment	**–**	**7,316**	**–**	**7,316**
Liabilities				
Financial liabilities at fair value through profit or loss				
— Derivatives component of convertible bonds	**–**	**2,404**	**–**	**2,404**

The following table presents the Group's financial assets that are measured at fair value at 31 December 2016.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Financial assets at fair value through profit or loss				
— Listed debt securities	102,253	–	–	102,253
— Listed equity securities	186,000	–	–	186,000
— Unlisted fund investments	–	26,837	–	26,837
Available-for-sale financial assets				
— Unlisted fund investment	–	7,056	–	7,056
	288,253	33,893	–	322,146

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

The fair value of derivatives component of convertible bonds is 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 2.8. 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.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

(d) Financial instruments such as equity investments, debt investments and derivatives component of convertible bonds 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 AND SEGMENT INFORMATION

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

	2017 HK$'000	2016 HK$'000
Income from provision of lottery terminals and systems	**129,114**	119,138
Income from sales of equipment	**107,943**	80,976
Income from provision of consultancy services	**795**	205
	237,852	200,319

Segment information

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

Geographical information

(a) Revenue from external customers

	2017 HK$'000	2016 HK$'000
People's Republic of China ("PRC")	**227,690**	193,792
Others	**10,162**	6,527
	237,852	200,319

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

Geographical information *(Cont'd)*

(b) Non-current assets

	2017		2016	
	Total non-current assets HK$'000	**Additions to non-current assets HK$'000**	Total non-current assets HK$'000	Additions to non-current assets HK'000
PRC	**642,524**	**35,750**	655,190	43,414
Hong Kong	**160,150**	**108**	164,447	1,441
Others	**5,169**	**383**	6,602	2,473
	807,843	**36,241**	826,239	47,328

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

Information about major customers

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

	2017 HK$'000	2016 HK$'000
Customer A	**34,638**	N/A[1]
Customer B	**81,369**	81,982

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

6. OTHER INCOME

	2017 HK$'000	2016 HK$'000
Interest income from bank deposits and other receivables	**13,661**	27,559

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

7. OTHER LOSSES — NET

	2017 HK$'000	2016 HK$'000
Fair value gain on financial assets at fair value through profit or loss	1,294	27,847
Fair value gain on embedded derivatives of convertible bonds	7,056	–
Gain on repurchase of convertible bonds	–	5,841
Gain on disposal of subsidiaries	–	56
Impairment of available-for-sale financial assets	–	(2,944)
Impairment of property, plant and equipment	–	(188,127)
Loss on extinguishment and redemption of convertible bonds	(25,221)	–
Loss on disposal of property, plant and equipment	(27)	(255)
Loss on disposal of intangible assets	(4,576)	–
Foreign exchange (losses)/gains	(3,420)	773
	(24,894)	(156,809)

8. OPERATING LOSS

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

	2017 HK$'000	2016 HK$'000
Costs of sales and services		
— Depreciation of lottery terminals	28,560	128,516
— Amortisation of intangible assets	10,842	7,778
— Business tax	1,451	98
— Cost of inventories recognised as expense	75,233	58,701
— Repairs and maintenance	1,783	7,623
— Commission and handling charges	610	938
— Others	1,875	3,596
	120,354	207,250
Operating lease rentals in respect of land and buildings	16,133	17,877
Auditors' remuneration	980	980
Depreciation of other items of property, plant and equipment	11,654	11,876

9. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest expenses on bank borrowings	3,919	10,821
Interest expenses on convertible bonds	36,448	46,083
	40,367	56,904

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

10. INCOME TAX EXPENSE

Hong Kong Profits Tax is calculated at the rate of 16.5% (2016: 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 2017 and 2016 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% (2016: 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% (2016: 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.

	2017 **HK$'000**	2016 HK$'000
Current tax		
— PRC Enterprise Income Tax	**13,616**	12,631
— PRC Withholding Tax	**10,961**	48,443
— Adjustments in respect of prior years	**(6,609)**	(5,639)
Total current tax	**17,968**	55,435
Deferred tax *(Note 30)*		
— Origination and reversal of temporary differences	**(2,227)**	(17,534)
Income tax expense	**15,741**	37,901

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:

	2017 **HK$'000**	2016 HK$'000
Loss before income tax	**(179,358)**	(441,700)
Tax calculated at 16.5%	**(29,594)**	(72,881)
Income not subject to tax	**(5,461)**	(7,192)
Expenses not deductible for tax purposes	**34,286**	15,445
Tax losses which no deferred income tax asset recognised	**17,063**	54,674
Adjustments in respect of prior years	**(6,609)**	(5,639)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**10,961**	48,443
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(4,905)**	5,051
Tax charge	**15,741**	37,901

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

11. 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 8,555,307,333 (2016: 8,547,775,912) ordinary shares in issue during the year.

The computation of diluted loss per share for the years ended 31 December 2017 and 2016 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.

12. STAFF COSTS

Staff costs (including directors' emoluments) comprise:

	2017 HK$'000	2016 HK$'000
Wages and salaries	**109,950**	116,280
Employee share option benefits	**4,959**	10,141
Social security costs	**6,548**	6,686
Pension costs — defined contribution plans	**912**	931
Other staff welfare	**1,782**	2,487
	124,151	136,525

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year included four (2016: four) directors of the Company, whose emoluments are set out in Note 13. The emoluments payable to the remaining one (2016: one) non-director and non-chief executive highest paid individual during the year are as follows:

	2017 HK$'000	2016 HK$'000
Basic salaries, other allowances and benefits in kind	**5,112**	5,996
Discretionary bonuses	**393**	500
Employer's contributions to pension schemes	**18**	18
	5,523	6,514

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 (2016: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The remuneration of every director and the chief executive of the Company for the year ended 31 December 2017 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 scheme HK$'000	Total HK$'000
Executive directors						
Ms. Lau Ting *(note (i))*	–	5,994	2,348	–	330	8,672
Ms. Chan Tan Na, Donna	–	5,074	1,010	533	18	6,635
Mr. Wu Jingwei	–	4,847	1,118	–	18	5,983
Mr. Li Zi Kui	–	2,585	306	266	18	3,175
Non-executive director						
Mr. Hoong Cheong Thard *(note (ii))*	140	–	28	5	–	173
Independent non-executive directors						
Mr. Huang Shenglan	336	–	28	5	–	369
Mr. Chan Ming Fai	336	–	28	5	–	369
Mr. Cui Shuming	336	–	28	5	–	369
	1,148	18,500	4,894	819	384	25,745

The remuneration of every director and the chief executive of the Company for the year ended 31 December 2016 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 scheme HK$'000	Total HK$'000
Executive directors						
Ms. Lau Ting	–	9,204	3,540	–	425	13,169
Ms. Chan Tan Na, Donna	–	4,636	1,900	533	18	7,087
Mr. Wu Jingwei	–	5,685	2,330	–	18	8,033
Mr. Li Zi Kui	–	2,872	1,000	266	18	4,156
Non-executive director						
Mr. Hoong Cheong Thard	364	–	60	5	–	429
Independent non-executive directors						
Mr. Huang Shenglan	336	–	60	5	–	401
Mr. Chan Ming Fai	336	–	60	5	–	401
Mr. Cui Shuming	336	–	60	5	–	401
	1,372	22,397	9,010	819	479	34,077

Notes:

(i) Resigned on 15 September 2017

(ii) Retired on 1 June 2017

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

Ms. Lau Ting was the chief executive of the Company prior to her resignation on 15 September 2017 and her emoluments disclosed above include those for services rendered by her as the chief executive.

Ms. Chan Tan Na, Donna has taken over as the chief executive of the Company since 15 September 2017 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 2017 and 2016.

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 (2016: Nil).

14. DIVIDENDS

The Board does not recommend the payment of a dividend for the year ended 31 December 2017 (2016: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land held for own use under finance lease HK$'000	Buildings HK$'000	Lottery terminals leased to third parties under operating leases HK$'000	Lottery terminals under construction HK$'000	Leasehold improvement HK$'000	Plant and equipment HK$'000	Computer equipment and software HK$'000	Office equipment and furniture HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2016										
Cost	171,995	13,313	731,799	1,847	11,136	26,427	23,951	10,003	10,025	1,000,496
Accumulated depreciation	(17,048)	(1,837)	(269,162)	–	(9,603)	(12,089)	(11,633)	(5,820)	(4,336)	(331,528)
Net book amount	154,947	11,476	462,637	1,847	1,533	14,338	12,318	4,183	5,689	668,968
Year ended 31 December 2016										
Opening net book amount	154,947	11,476	462,637	1,847	1,533	14,338	12,318	4,183	5,689	668,968
Exchange differences	–	(41)	(19,383)	(119)	(65)	(815)	(676)	(218)	(270)	(21,587)
Additions	–	–	2,044	14,672	26	528	1,114	1,463	–	19,847
Transfers	–	–	14,129	(14,129)	–	–	–	–	–	–
Disposals	–	–	–	–	–	(87)	(19)	(149)	–	(255)
Disposal of subsidiaries	–	–	–	–	–	–	(17)	–	–	(17)
Impairment	–	–	(188,127)	–	–	–	–	–	–	(188,127)
Depreciation	(3,234)	(353)	(128,516)	–	(794)	(3,435)	(3,324)	(1,277)	(1,415)	(142,348)
Closing net book amount	151,713	11,082	142,784	2,271	700	10,529	9,396	4,002	4,004	336,481
At 31 December 2016										
Cost	171,995	13,251	701,001	2,271	10,746	23,545	23,090	10,098	9,489	965,486
Accumulated depreciation and impairment	(20,282)	(2,169)	(558,217)	–	(10,046)	(13,016)	(13,694)	(6,096)	(5,485)	(629,005)
Net book amount	151,713	11,082	142,784	2,271	700	10,529	9,396	4,002	4,004	336,481
Year ended 31 December 2017										
Opening net book amount	151,713	11,082	142,784	2,271	700	10,529	9,396	4,002	4,004	336,481
Exchange differences	–	41	9,295	172	22	707	552	160	212	11,161
Additions	–	–	342	22,445	28	80	80	115	527	23,617
Transfers	–	–	24,141	(24,141)	–	–	–	–	–	–
Disposals	–	–	(67)	–	–	–	(4)	(1)	(247)	(319)
Depreciation	(3,235)	(353)	(28,560)	–	(649)	(2,322)	(3,317)	(1,405)	(1,260)	(41,101)
Closing net book amount	148,478	10,770	147,935	747	101	8,994	6,707	2,871	3,236	329,839
At 31 December 2017										
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

Notes:

(i) Depreciation of lottery terminals leased to third parties under operating leases of approximately HK$28,560,000 (2016: HK$128,516,000) has been charged in costs of sales and services. Depreciation of other items of property, plant and equipment of approximately HK$887,000 (2016: HK$1,956,000) has been capitalised in lottery terminals under construction and of approximately HK$11,654,000 (2016: HK$11,876,000) has been charged in general and administrative expenses.

(ii) At 31 December 2017, the Group's leasehold land and buildings with a carrying amount of approximately HK$158,680,000 (2016: HK$162,224,000) was pledged to secure bank borrowings granted to the Group.

(iii) The Company through its subsidiary, 東莞天意電子有限公司 ("天意公司") is principally engaged in the provision of video lottery terminals ("VLT"). During the year ended 31 December 2016, 天意公司 still had not received any compensation for its provision of VLT from Beijing China Lottery Online Technology Company Limited ("CLO"). Since there was high uncertainty of income from provision of VLT, management determined that an impairment loss of approximately HK$188,127,000 was required to reduce the value of these VLT to their recoverable amounts. The recoverable amounts of the relevant assets were determined on the basis of their value in use. The discount rate in measuring the amount of value in use was 11.68%.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

16. INTANGIBLE ASSETS

	Goodwill HK$'000	Internally generated development costs HK$'000	Intellectual properties HK$'000	Total HK$'000
At 1 January 2016				
Cost	1,198,888	162,155	53,699	1,414,742
Accumulated amortisation and impairment	(962,312)	–	(4,094)	(966,406)
Net book amount	236,576	162,155	49,605	448,336
Year ended 31 December 2016				
Opening net book amount	236,576	162,155	49,605	448,336
Exchange difference	(1,599)	(6,414)	(2,843)	(10,856)
Additions	–	27,481	–	27,481
Amortisation charge	–	(3,876)	(3,902)	(7,778)
Closing net book amount	234,977	179,346	42,860	457,183
At 31 December 2016				
Cost	1,184,516	183,177	50,223	1,417,916
Accumulated amortisation and impairment	(949,539)	(3,831)	(7,363)	(960,733)
Net book amount	234,977	179,346	42,860	457,183
Year ended 31 December 2017				
Opening net book amount	**234,977**	**179,346**	**42,860**	**457,183**
Exchange difference	**1,284**	**7,953**	**2,947**	**12,184**
Additions	**–**	**12,624**	**–**	**12,624**
Disposals	**–**	**–**	**(4,576)**	**(4,576)**
Amortisation charge	**–**	**(7,759)**	**(3,083)**	**(10,842)**
Closing net book amount	**236,261**	**192,164**	**38,148**	**466,573**
At 31 December 2017				
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**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

16. 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 2017, the Group incurred research and development expenses of approximately HK$3,784,000 (2016: HK$1,716,000) 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 cash-generating unit ("CGU") as follows:

	2017 HK$'000	2016 HK$'000
Provision of traditional computer lottery system and equipment	**199,403**	199,403
Development of lottery transaction and management systems	**36,858**	35,574
	236,261	234,977

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

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

The value-in-use calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. The key assumptions used for the cash flow projections include the budgeted 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 12.13% (2016: 11.68%), 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 2017 as the recoverable amount of this CGU exceeded its carrying amount (2016: 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 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 12.13% (2016: 11.68%), 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 2017 as the recoverable amount of this CGU exceeded its carrying amount (2016: Nil).

(iii) Impairment test for development costs

The development costs not ready to use are tested annually for impairment. At 31 December 2017, the recoverable amount of development costs has been determined based on a value-in-use calculation. The value-in-use calculation uses pre-tax cash flow projections approved by management covering a 5-year period. The key assumptions used for the cash flow projections included the budgeted revenue and expenses during each of the forecasting periods, which are determined by management based on its expectation of market development. All cash flows are discounted at a discount rate of 12.13% (2016: 11.68%). No impairment loss was recognised in respect of development costs for the year ended 31 December 2017 as the recoverable amount exceeded the carrying amount (2016: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

17. SUBSIDIARIES

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

Name	Place of incorporation/ establishment, Kind of legal entity *(Note (ii))*	Particulars of issued share capital/ registered capital	Interest held 2017	Interest held 2016	Principal activities
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
Onwealth Holdings Limited	British Virgin Islands, Limited company	US$1	100% (indirect)	100% (indirect)	Investment holding
Champ Mark Investments Limited	British Virgin Islands, Limited company	3,600 issued shares of no par value	100% (indirect)	100% (indirect)	Investment holding
Champ Technology Limited	Hong Kong, Limited company	HK$1	100% (indirect)	100% (indirect)	Investment holding
China LotSynergy Limited	Hong Kong, Limited company	US$500,000	100% (indirect)	100% (indirect)	Investment holding and provision of management service
China LotSynergy Asset Management Limited	Hong Kong, Limited company	US$2	100% (indirect)	100% (indirect)	Investment holding and treasury management
China LotSynergy Development Limited	Hong Kong, Limited company	HK$1	100% (indirect)	100% (indirect)	Investment holding
China LotSynergy Group Limited	Hong Kong, Limited company	HK$1	100% (indirect)	100% (indirect)	Investment holding
Corich International Limited ("Corich")	British Virgin Islands, Limited company	US$2,000,000	50% (indirect) *(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
Goldwide Limited	Hong Kong, Limited company	HK$1	100% (indirect)	100% (indirect)	Investment holding

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

17. SUBSIDIARIES *(Cont'd)*

Name	Place of incorporation/ establishment, Kind of legal entity *(Note (ii))*	Particulars of issued share capital/ registered capital	Interest held 2017	Interest held 2016	Principal activities
Lottnal Holdings Limited	Hong Kong, Limited company	US$350,000	**80% (indirect)**	80% (indirect)	Investment holding
Upmax Investments Limited	British Virgin Islands, Limited company	US$1	**100% (indirect)**	100% (indirect)	Investment holding
Willstrong Investments Limited	British Virgin Islands, Limited company	US$1	**80% (indirect)**	80% (indirect)	Provision of lottery system and equipment
天意公司	PRC, Wholly foreign owned enterprise	HK$8,000,000	**50% (indirect) *(Note (iii))***	50% (indirect) *(Note (iii))*	Provision of 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 system 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 system and equipment in the PRC
北京優昌源科技有限公司	PRC, Wholly foreign owned enterprise	HK$10,000,000	**100% (indirect)**	100% (indirect)	Research and development of lottery system and equipment in the PRC

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

17. SUBSIDIARIES *(Cont'd)*

Name	Place of incorporation/ establishment, Kind of legal entity *(Note (ii))*	Particulars of issued share capital/ registered capital	Interest held 2017	Interest held 2016	Principal activities
北京中大彩訊科技有限公司	PRC, Wholly foreign owned enterprise	HK$10,000,000	**75% (indirect)**	75% (indirect)	Research and development of lottery system and equipment in the PRC
北京華彩贏通科技有限公司 *(Note (i))*	PRC, Limited liability company	RMB50,000,000	**100% (indirect)**	100% (indirect)	Research and development of lottery system and equipment in the PRC
北京贏彩通科技有限公司 *(Note (i))*	PRC, Limited liability company	RMB5,000,000	**100% (indirect)**	100% (indirect)	Research and development of lottery system and equipment in the PRC
成都華彩贏通科技有限公司 *(Note (i))*	PRC, Limited liability company	RMB1,000,000	**100% (indirect)**	100% (indirect)	Research and development of lottery system and equipment in the PRC
重慶拓扣網絡科技有限公司 *(Note (i))*	PRC, Limited liability company	RMB1,665,000	**100% (indirect)**	100% (indirect)	Research and development and operation of sales platform for high frequency lottery 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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

17. SUBSIDIARIES *(Cont'd)*

Notes:

(i) These companies are limited liability companies 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

17. SUBSIDIARIES *(Cont'd)*

(a) Material non-controlling interests

The total accumulated non-controlling interest as at the end of the year ended 31 December 2017 was approximately HK$348,597,000 (2016: HK$338,337,000) of which approximately HK$317,387,000 (2016: HK$313,580,000) 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

	2017 HK$'000	2016 HK$'000
Current		
Assets	**572,151**	597,883
Liabilities	**(46,015)**	(41,146)
Total current net assets	**526,136**	556,737
Non-current		
Assets	**53,823**	52,592
Liabilities	**(18,360)**	(55,280)
Total non-current net assets/(liabilities)	**35,463**	(2,688)
Net assets	**561,599**	554,049

Summarised statement of profit or loss and other comprehensive income

	2017 HK$'000	2016 HK$'000
Revenue	**–**	–
Loss before income tax	**(28,689)**	(318,421)
Income tax credit/(expense)	**3,633**	(30,745)
Loss for the year	**(25,056)**	(349,166)
Other comprehensive income/(expense)	**32,607**	(45,034)
Total comprehensive income/(expense) for the year	**7,551**	(394,200)
Loss allocated to non-controlling interests	**(12,528)**	(174,054)
Dividends to non-controlling interests	**–**	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

17. SUBSIDIARIES *(Cont'd)*

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

Summarised cash flows

	2017 HK$'000	2016 HK$'000
Cash flows from operating activities		
Cash used in operations	(94,149)	(220,778)
Income tax paid	(9,249)	(40,141)
Net cash used in operating activities	(103,398)	(260,919)
Net cash generated from investing activities	661	253,170
Net cash used in financing activities	–	(242,782)
Net decrease in cash and cash equivalents	(102,737)	(250,531)
Cash and cash equivalents at beginning of year	118,916	386,347
Effect of foreign exchange rate changes	5,047	(16,900)
Cash and cash equivalents at end of year	21,226	118,916

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

	2017 HK$'000	2016 HK$'000
Revenue	–	4,138
Loss for the year	(8,961)	(7,160)
Net assets	13,976	21,645

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

18. INVESTMENT IN AN ASSOCIATE

	2017 HK$'000	2016 HK$'000
At 1 January	4,460	4,764
Share of loss	–	(4)
Exchange differences	337	(300)
At 31 December	4,797	4,460

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

Name	Particular of registered capital	Place of business/ establishment	Interest held 2017	2016	Principal activity	Measurement method
深圳市前海華彩金控科技有限公司 ("前海華彩")	RMB50,000,000	PRC	40%	40%	Investment holding	Equity

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

Commitments in respect of the associate

The Group has the following commitment relating to its associate:

	2017 HK$'000	2016 HK$'000
Commitment to provide funding	19,210	17,857

Summarised financial information for the associate

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

Summarised statement of financial position

	2017 HK$'000	2016 HK$'000
Current assets	11,993	11,149
Current liabilities	–	–
Net assets	11,993	11,149

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

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

Summarised statement of profit or loss and other comprehensive income

	2017 HK$'000	2016 HK$'000
Revenue	–	–
Loss from continuing operations	–	(11)
Income tax	–	–
Post-tax loss from continuing operations	–	(11)
Post-tax profit from discontinued operations	–	–
Other comprehensive income/(expense)	844	(750)
Total comprehensive income/(expense)	844	(761)
Dividends received from associate	–	–

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

Reconciliation of summarised financial information

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

	2017 HK$'000	2016 HK$'000
Opening net assets	11,149	11,910
Loss for the year	–	(11)
Other comprehensive income/(expense)	844	(750)
Closing net assets	11,993	11,149
Interest in associate @ 40%	4,797	4,460

Significant restrictions

Cash and short-term deposits of approximately HK$4,802,000 (2016: HK$4,469,000) 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

19. INVESTMENT IN AND AMOUNT DUE TO A JOINT VENTURE

	2017 HK$'000	2016 HK$'000
At 1 January	28,115	32,534
Share of losses	(23,408)	(2,369)
Exchange differences	1,927	(2,050)
At 31 December	6,634	28,115

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 2017	2016	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.

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

	2017 HK$'000	2016 HK$'000
Current		
Cash and cash equivalents	284	1,529
Other current assets (excluding cash and cash equivalents)	16,198	58,591
Total current assets	16,482	60,120
Financial liabilities (excluding trade payables and provisions)	3,214	25,322
Other current liabilities (including trade payables and provisions)	–	–
Total current liabilities	3,214	25,322
Non-current		
Non-current assets	–	21,433
Financial liabilities	–	–
Other non-current liabilities	–	–
Total non-current liabilities	–	–
Net assets	13,268	56,231

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

19. 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

	2017 HK$'000	2016 HK$'000
Revenue	–	4
Depreciation and amortisation	6,409	6,588
Interest income	1	–
Interest expense	–	–
Loss from continuing operations	(46,816)	(5,985)
Income tax	–	–
Post-tax loss from continuing operations	(46,816)	(5,985)
Post-tax profit from discontinued operations	–	–
Other comprehensive income/(expense)	3,853	(4,099)
Total comprehensive expense	(42,963)	(10,084)
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 interest in the joint venture.

	2017 HK$'000	2016 HK$'000
Opening net assets	56,231	66,315
Loss for the year	(46,816)	(5,985)
Other comprehensive income/(expense)	3,853	(4,099)
Closing net assets	13,268	56,231
Interest in joint venture @ 50%	6,634	28,115

Significant restrictions

Cash and short-term deposits of approximately HK$196,000 (2016: HK$306,000) 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

20. FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
2017			
Financial assets as per consolidated statement of financial position:			
Available-for-sale financial assets	–	7,316	7,316
Accounts receivable	96,522	–	96,522
Deposits and other receivables	538,974	–	538,974
Cash and bank balances	193,478	–	193,478
	828,974	7,316	836,290

	Financial liabilities at amortised cost HK$'000	Financial liabilities at fair value though profit or loss HK$'000	Total HK$'000
2017			
Financial liabilities as per consolidated statement of financial position:			
Accounts payable	5,348	–	5,348
Accruals and other payables	39,195	–	39,195
Amount due to a joint venture	6,634	–	6,634
Bank borrowings	163,699	–	163,699
Liability component of convertible bonds	274,226	–	274,226
Derivatives component of convertible bonds	–	2,404	2,404
	489,102	2,404	491,506

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

	Loans and receivables HK$'000	Financial assets at fair value through profit or loss HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
2016				
Financial assets as per consolidated statement of financial position:				
Available-for-sale financial assets	–	–	7,056	7,056
Accounts receivable	77,370	–	–	77,370
Deposits and other receivables	560,632	–	–	560,632
Financial assets at fair value through profit or loss	–	315,090	–	315,090
Cash and bank balances	374,575	–	–	374,575
	1,012,577	315,090	7,056	1,334,723

	Financial liabilities at amortised cost HK$'000
2016	
Financial liabilities as per consolidated statement of financial position:	
Accounts payable	5,736
Accruals and other payables	38,799
Amount due to a joint venture	7,919
Bank borrowings	313,378
Liability component of convertible bonds	521,520
	887,352

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 HK$'000	2016 HK$'000
At 1 January	7,056	10,000
Net gain/(loss) transferred to equity	260	(2,944)
At 31 December	7,316	7,056

Available-for-sale financial assets including the following:

	2017 HK$'000	2016 HK$'000
Unlisted fund investments, at fair value	7,316	7,056

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

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

22. INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials	9,282	11,331
Work in progress	3,021	3,068
Finished goods	6,788	10,288
	19,091	24,687

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

23. ACCOUNTS RECEIVABLE

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

	2017 HK$'000	2016 HK$'000
Less than three months	**20,406**	10,331
Over three months but less than one year	**8,652**	2,716
Over one year	**67,464**	64,323
	96,522	77,370

At 31 December 2017, accounts receivables of approximately HK$78,290,000 (2016: HK$67,655,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these accounts receivables based on past due date is as follows:

	2017 HK$'000	2016 HK$'000
Less than three months	**10,575**	1,496
Over three months but less than one year	**522**	1,836
Over one year	**67,193**	64,323
	78,290	67,655

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

	2017 HK$'000	2016 HK$'000
RMB	**86,089**	77,370
US$	**10,433**	–
	96,522	77,370

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in the Group's prepayments, deposits and other receivables at 31 December 2017 are loan receivables of approximately HK$416,612,000 (2016: HK$422,999,000), which are repayable within one year or on demand. Except for an amount of approximately HK$280,339,000 (2016: HK$282,661,000) which bears interest ranging from 4.75% to 8% (2016: 4.75% to 8%) per annum, the remaining loan receivables are interest-free. At 31 December 2017, the loan receivables with an aggregate amount of approximately HK$268,000,000 (2016: Nil) are secured by the personal guarantees executed by certain third parties.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 HK$'000	2016 HK$'000
Listed debt securities		
— in Hong Kong	–	15,603
— outside Hong Kong	–	86,650
Listed equity securities		
— in Hong Kong	–	12,307
— outside Hong Kong	–	173,693
Unlisted fund investments	–	26,837
	–	315,090

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

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

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

At 31 December 2016, listed securities of approximately HK$300,128,000 were pledged to secure bank borrowings and banking facilities granted to the Group.

26. CASH AND BANK BALANCES

	2017 HK$'000	2016 HK$'000
Cash and bank balances	118,998	367,879
Time deposits	74,480	6,696
	193,478	374,575
Less: Time deposits with maturity of more than three months	(8,454)	–
Pledged bank deposits	(7,537)	(124,574)
Cash and cash equivalents	177,487	250,001

At 31 December 2017, the Group had cash and bank balances of approximately HK$148,301,000 (2016: HK$211,463,000) which were denominated in RMB. The remittance of these funds out of the PRC was subject to the exchange control restrictions imposed by the PRC government.

At 31 December 2017, deposits of approximately HK$7,537,000 (2016: HK$124,574,000) were pledged to secure bank borrowings and banking facilities granted to the Group.

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

Notes to the Consolidated Financial Statements
For the year ended 31 December 2017

27. ACCOUNTS PAYABLE

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

	2017 HK$'000	2016 HK$'000
Less than three months	**3,653**	2,837
Over three months but less than one year	**1,015**	475
Over one year	**680**	2,424
	5,348	5,736

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

28. BANK BORROWINGS

	2017 HK$'000	2016 HK$'000
Current		
Portion of term loans from bank due for repayment within one year	**112,450**	247,268
Portion of term loans from bank due for repayment after one year which contain a repayment on demand clause	**51,249**	66,110
	163,699	313,378

At 31 December 2017, the Group's bank borrowings were due for repayment as follows:

	2017 HK$'000	2016 HK$'000
Portion of term loans due for repayment within one year	**112,450**	247,268
Term loans due for repayment after one year *(Note)*		
After one year but within two years	**7,232**	14,950
After two years but within five years	**22,160**	21,928
After five years	**21,857**	29,232
	51,249	66,110
	163,699	313,378

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

The bank borrowings carry interest at rates ranging from 1.56% to 3.49% (2016: 0.97% to 3.30%) per annum.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

28. BANK BORROWINGS *(Cont'd)*

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

	2017 HK$'000	2016 HK$'000
HK$	163,699	282,291
US$	–	31,087
	163,699	313,378

At 31 December 2017, the Group's bank borrowings and banking facilities were secured by: (i) the Group's leasehold land and buildings with a carrying amount of approximately HK$158,680,000; (ii) the Group's bank deposits amounting to approximately HK$7,537,000; and (iii) an unlimited personal guarantee executed by a substantial shareholder of the Company.

At 31 December 2016, the Group's bank borrowings and banking facilities were secured by: (i) the Group's leasehold land and buildings with a carrying amount of approximately HK$162,224,000; (ii) the Group's bank deposits amounting to approximately HK$124,574,000; and (iii) the Group's trading securities of approximately HK$300,128,000.

29. CONVERTIBLE BONDS

	2017 HK$'000	2016 HK$'000
Liability component:		
Existing Bonds	–	521,520
New Option 1 Bonds	173,385	–
New Option 2 Bonds	100,841	–
	274,226	521,520
Derivatives component:		
New Option 1 Bonds	2,404	–
	276,630	521,520

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

29. CONVERTIBLE BONDS *(Cont'd)*

Existing Bonds

In April and May 2014, the Company issued 5% convertible bonds due 2019 of an aggregate principal amount of HK$650,000,000.

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

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

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

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

The Existing 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 7.59% per annum.

On 29 November 2016, the Company repurchased a principal amount of HK$100,000,000 of the Existing Bonds on the Stock Exchange.

On 10 March 2017, the Company invited the holders of the Existing Bonds to tender their Existing Bonds (the "Exchange Offer") in exchange for one of the following:

(a) Option 1 — a fixed combination of cash and New Option 1 Bonds; or

(b) Option 2 — a fixed combination of cash and New Option 2 Bonds.

Pursuant to the memorandum dated 10 March 2017 setting out the detailed terms of the Exchange Offer, the Exchange Offer expired on 16 March 2017 (the "Deadline"). As at the Deadline, Existing Bonds with aggregate principal amount of HK$506,000,000 were offered for exchange by their holders.

On 7 April 2017, Existing Bonds in the amount of HK$506,000,000 had been exchanged for: (i) the New Option 1 Bonds in the aggregate principal amount of HK$175,950,000 (the "New Option 1 Bonds"); (ii) the New Option 2 Bonds in the aggregate principal amount of HK$100,000,000 (the "New Option 2 Bonds"); and (iii) the cash consideration of HK$230,050,000.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

29. CONVERTIBLE BONDS *(Cont'd)*

Existing Bonds *(Cont'd)*

The Existing Bonds in the principal amount of HK$44,000,000 were not offered for exchange pursuant to the Exchange Offer and remained outstanding as at 7 April 2017. On 18 April 2017, the Company redeemed such Existing Bonds at their principal amount together with the interest accrued but unpaid.

The movement of liability component of the Existing Bonds for the current and prior years is set out below:

	HK$'000
At 1 January 2016	602,156
Interest charged	46,083
Interest paid	(32,083)
Repurchased	(94,636)
At 31 December 2016	**521,520**
Interest charged	**10,058**
Interest paid	**(6,799)**
Extinguished and redeemed	**(524,779)**
At 31 December 2017	**–**

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 (the "Reset Date") from the initial conversion price of HK$0.288 to HK$0.24.

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 will, at the option of the holder of New Option 1 Bonds, redeem all or some of that holder's New Option 1 Bonds on 7 April 2018, at the principal amount of the New Option 1 Bonds together with interest accrued.

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 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

29. CONVERTIBLE BONDS *(Cont'd)*

New Option 1 Bonds *(Cont'd)*

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

	Liability component HK$'000	Derivatives component HK$'000	Total HK$'000
At 1 January 2017	–	–	–
Issued	166,490	9,460	175,950
Interest charged	16,583	–	16,583
Interest paid	(9,688)	–	(9,688)
Fair value change	–	(7,056)	(7,056)
At 31 December 2017	173,385	2,404	175,789

New Option 2 Bonds

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

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

The Company will, at the option of the holder of the New Option 2 Bonds, redeem all or some of that holder's 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 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 New Option 2 Bonds contains two components, liability and equity components. The equity component is presented in equity heading "convertible bond equity reserve". The effective interest rate of the liability component is 12.56% per annum.

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

	HK$'000
At 1 January 2017	–
Issued	96,908
Interest charged	9,807
Interest paid	(5,874)
At 31 December 2017	100,841

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

30. DEFERRED INCOME TAX

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

Deferred income tax liabilities:

	Intangible assets HK$'000	Convertible bonds HK$'000	Accelerated tax depreciation HK$'000	Withholding tax on dividend income HK$'000	Total HK$'000
At 1 January 2016	11,071	7,894	17,563	37,661	74,189
Credited to equity	–	(1,810)	–	–	(1,810)
(Credited)/Charged to profit or loss	(744)	(1,385)	(14,429)	637	(15,921)
Exchange difference	(716)	–	(536)	–	(1,252)
At 31 December 2016	9,611	4,699	2,598	38,298	55,206
Credited to equity	–	(3,050)	–	–	(3,050)
Credited to profit or loss	(771)	(1,160)	(613)	(3,892)	(6,436)
Exchange difference	697	–	20	1,633	2,350
At 31 December 2017	9,537	489	2,005	36,039	48,070

Deferred income tax assets:

	Tax losses HK$'000
At 1 January 2016	8,402
Credited to profit or loss	1,613
Exchange difference	(976)
At 31 December 2016	9,039
Charged to profit or loss	(4,209)
Exchange difference	468
At 31 December 2017	5,298

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 2017, the Group did not recognise deferred income tax asset in respect of tax losses amounting to approximately HK$569,790,000 (2016: HK$492,826,000) that can be carried forward to offset against future taxable profits. Tax losses amounting to approximately HK$407,930,000 (2016: HK$316,636,000) will expire from 2018 to 2022 (2016: 2017 to 2021).

At 31 December 2017, deferred tax liabilities has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the certain PRC subsidiaries amounting to approximately HK$86,829,000 (2016: HK$97,325,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

31. SHARE CAPITAL

	Authorised ordinary shares of HK$0.0025 each	
	Number of shares	HK$'000
At 1 January 2016, 31 December 2016 and 31 December 2017	**16,000,000,000**	**40,000**

	Issued and fully paid ordinary shares of HK$0.0025 each	
	Number of shares	HK$'000
At 1 January 2016	8,531,807,333	21,330
Share options exercised *(Note)*	23,500,000	58
At 31 December 2016 and 31 December 2017	**8,555,307,333**	**21,388**

Note: Share options were exercised by option holders during the year ended 31 December 2016 to subscribe for a total of 23,500,000 shares of HK$0.0025 each by payment of subscription monies of approximately HK$4,673,000, of which approximately HK$58,000 was credited to share capital and the balance of approximately HK$4,615,000 was credited to the share premium account.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

32. SHARE OPTION SCHEMES

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

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

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

	2002 Option Scheme		2012 Option Scheme		Total
	Average exercise price (HK$ per share)	Options (thousands shares)	Average exercise price (HK$ per share)	Options (thousands shares)	options (thousands shares)
At 1 January 2016	0.29	17,200	0.52	890,125	907,325
Exercised	0.29	(12,000)	0.11	(11,500)	(23,500)
Lapsed	0.29	(5,200)	0.69	(3,000)	(8,200)
At 31 December 2016	–	–	0.53	875,625	875,625
Exercisable at 31 December 2016	–	–	0.48	681,000	681,000
At 1 January 2017	–	–	0.53	875,625	875,625
Exercised	–	–	–	–	–
Lapsed	–	–	0.45	(637,600)	(637,600)
At 31 December 2017	–	–	0.73	238,025	238,025
Exercisable at 31 December 2017	–	–	0.73	238,025	238,025

Options exercised in 2016 resulted in 23,500,000 shares being issued at a weighted average price of HK$0.20 each. The related weighted average share price at the time of exercise was HK$0.31 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)	Options (thousands shares) 2017	2016
2012 Option Scheme			
2 January 2017	0.600	–	40,000
10 July 2017	0.400	–	170,000
29 October 2017	0.460	–	425,000
14 July 2018	0.690	180,425	183,025
29 October 2018	0.840	46,000	46,000
29 October 2020	0.840	11,600	11,600
		238,025	875,625

At the end of the reporting period, the Company had a total of 238,025,000 (2016: 875,625,000) 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 238,025,000 (2016: 875,625,000) additional ordinary shares of the Company and additional share capital of approximately HK$595,000 (2016: HK$2,189,000) and share premium of approximately HK$172,282,000 (2016: HK$459,982,000) (before issue expenses).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

33. 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$'000	Available–for-sale investments HK$'000	Total HK$'000
At 1 January 2016	1,287,179	39,925	15,158	–	(20,925)	101,797	10,628	–	1,433,762
Share option scheme:									
— value of employees' services	–	–	–	–	–	10,141	–	–	10,141
— value of other participants' services	–	–	–	–	–	8,857	–	–	8,857
— share options exercised	8,128	–	–	–	–	(3,513)	–	–	4,615
— vested share options expired	–	–	–	–	–	(1,378)	–	–	(1,378)
Repurchase of convertible bonds	–	(7,952)	–	–	–	–	–	–	(7,952)
Reversal of deferred tax previously recognised on equity component of convertible bonds	–	1,810	–	–	–	–	–	–	1,810
Changes in ownership interests in subsidiaries without change of control	–	–	–	(41,615)	–	–	–	–	(41,615)
Release of revaluation reserve upon depreciation of leasehold land and building	–	–	–	–	–	–	(241)	–	(241)
Fair value loss on available-for-sale financial assets	–	–	–	–	–	–	–	(2,944)	(2,944)
Reclassification adjustment on impairment of available-for-sale financial assets	–	–	–	–	–	–	–	2,944	2,944
Release of currency translation reserve upon disposal of subsidiaries	–	–	–	–	(235)	–	–	–	(235)
Currency translation differences									
— overseas subsidiaries	–	–	–	–	(52,558)	–	–	–	(52,558)
— overseas associate	–	–	–	–	(300)	–	–	–	(300)
— overseas joint venture	–	–	–	–	(2,050)	–	–	–	(2,050)
At 31 December 2016	1,295,307	33,783	15,158	(41,615)	(76,068)	115,904	10,387	–	1,352,856
Share option scheme:									
— value of employees' services	–	–	–	–	–	4,959	–	–	4,959
— value of other participants' services	–	–	–	–	–	5,215	–	–	5,215
— vested share options expired	–	–	–	–	–	(55,267)	–	–	(55,267)
Extinguishment and redemption of convertible bonds	–	(37,944)	–	–	–	–	–	–	(37,944)
Reversal of deferred tax previously recognised on equity component of convertible bonds	–	4,161	–	–	–	–	–	–	4,161
Recognition of equity component of convertible bonds	–	3,092	–	–	–	–	–	–	3,092
Deferred tax on recognition of equity component of convertible bonds	–	(1,111)	–	–	–	–	–	–	(1,111)
Changes in ownership interests in subsidiaries without change of control	–	–	–	(1,042)	–	–	–	–	(1,042)
Release of revaluation reserve upon depreciation of leasehold land and building	–	–	–	–	–	–	(241)	–	(241)
Fair value gain on available-for-sale financial assets	–	–	–	–	–	–	–	260	260
Currency translation differences									
— overseas subsidiaries	–	–	–	–	30,672	–	–	–	30,672
— overseas associate	–	–	–	–	337	–	–	–	337
— overseas joint venture	–	–	–	–	1,927	–	–	–	1,927
At 31 December 2017	1,295,307	1,981	15,158	(42,657)	(43,132)	70,811	10,146	260	1,307,874

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

34. CASH FLOW INFORMATION

(a) Cash generated from operations

	2017 HK$'000	2016 HK$'000
Loss before income tax	(179,358)	(441,700)
Adjustments for:		
Depreciation	40,214	140,392
Amortisation of intangible assets	10,842	7,778
Loss on disposal of property, plant and equipment	27	255
Gain on disposal of subsidiaries	–	(56)
Gain on repurchase of convertible bonds	–	(5,841)
Share option expenses	10,174	18,998
Fair value gain on financial assets at fair value through profit or loss	(1,294)	(27,847)
Fair value gain on embedded derivatives of convertible bonds	(7,056)	–
Loss on extinguishment and redemption of convertible bonds	25,221	–
Loss on disposal of intangible assets	4,576	–
Impairment of available-for-sale financial assets	–	2,944
Impairment of property, plant and equipment	–	188,127
Interest income	(13,661)	(27,559)
Finance costs	40,367	56,904
Share of loss of an associate	–	4
Share of loss of a joint venture	23,408	2,369
Operating cash flows before changes in working capital	(46,540)	(85,232)
Changes in working capital:		
— Inventories	7,186	31,047
— Accounts receivable	(13,195)	3,469
— Prepayments, deposits and other receivables	43,918	7,250
— Financial assets at fair value through profit or loss	316,384	390,223
— Accounts payable	(791)	(10,010)
— Accruals and other payables	(707)	(19,342)
— Amount due to a joint venture	(1,285)	1,153
	351,510	403,790
Cash generated from operations	304,970	318,558

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

34. 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$'000	Convertible bonds HK$'000	Total HK$'000
At 1 January 2017	313,378	521,520	834,898
Financing cash flows	(153,598)	(296,411)	(450,009)
Interest expenses	3,919	36,448	40,367
Fair value changes	–	(7,056)	(7,056)
Loss on extinguishment and redemption	–	25,221	25,221
Recognition of equity component	–	(3,092)	(3,092)
At 31 December 2017	163,699	276,630	440,329

(c) Non-cash transactions

On 7 April 2017, the Existing Bonds in the amount of HK$275,950,000 had been exchanged for (i) the New Option 1 Bonds in the aggregate principal amount of HK$175,950,000; and (ii) the New Option 2 Bonds in the aggregate principal amount of HK$100,000,000, as disclosed in Note 29.

35. OPERATING LEASE COMMITMENTS

At 31 December 2017, the Group had aggregate future minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	2017 HK$'000	2016 HK$'000
Within one year	13,574	17,434
In the second to fifth years inclusive	18,098	25,340
Over five years	24,312	26,314
	55,984	69,088

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

36. 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$7,460,000 (2016: HK$7,617,000), with no (2016: Nil) deduction of forfeited contributions. At 31 December 2017, there was no material forfeited contribution available to reduce the Group's employer contribution payable in future periods (2016: Nil).

The Group's contribution payable at 31 December 2017 amounted to approximately HK$115,000 (2016: HK$132,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

37. DISPOSAL OF SUBSIDIARIES

On 8 April 2016, the Group disposed of its entire interest in 廣州頂尚信息科技有限公司 ("廣州頂尚"). The net assets of 廣州頂尚 at the date of disposal were as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	17
Accounts receivable	2,240
Prepayments, deposits and other receivables	57
Amount due from a fellow subsidiary	4,556
Cash and bank balances	675
Accruals and other payables	(262)
Amount due to a fellow subsidiary	(519)
	6,764
Gain on disposal of subsidiaries:	
Consideration	–
Net assets disposal of	(6,764)
Non-controlling interests	2,029
Intercompany balance due by the Group waived	4,556
Release of currency translation reserve upon disposal	235
	56
Net cash outflow on disposal of subsidiaries	
Cash consideration received	–
Less: Cash and cash equivalents disposed of	(675)
	(675)

38. RELATED PARTY TRANSACTIONS

Apart from those disclosed in Note 19, the Group had the following significant related party transaction 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:

	2017 HK$'000	2016 HK$'000
Short-term employee benefits	**30,047**	39,275
Post-employment benefits	**402**	497
Employee share option benefits	**819**	819
	31,268	40,591

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

Statement of Financial Position

At 31December 2017

	2017 HK$'000	2016 HK$'000
Non-current assets		
Investments in subsidiaries	9	9
Amounts due from subsidiaries	776,472	–
	776,481	9
Current assets		
Prepayments, deposits and other receivables	41	45
Amounts due from subsidiaries	654,598	1,815,816
Cash and bank balances	849	849
	655,488	1,816,710
Total assets	1,431,969	1,816,719
Current liabilities		
Accruals and other payables	5,842	7,676
Amounts due to subsidiaries	9,993	9,993
Convertible bonds	276,630	–
	292,465	17,669
Net current assets	363,023	1,799,041
Total assets less current liabilities	1,139,504	1,799,050
Non-current liabilities		
Convertible bonds	–	521,520
Deferred income tax liabilities	489	4,699
	489	526,219
Net assets	1,139,015	1,272,831
Equity attributable to owners of the Company		
Share capital	21,388	21,388
Reserves *(Note (a))*	1,117,627	1,251,443
	1,139,015	1,272,831

The statement of financial position of the Company was approved by the Board of Directors on 21 March 2018 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 2017

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

Note:

(a) Reserve movement of the Company

	Share premium HK$'000	Convertible bond equity reserve HK$'000	Contributed surplus HK$'000 *(Note)*	Share-based compensation reserve HK$'000	(Accumulated losses)/ retained profits HK$'000	Total HK$'000
At 1 January 2016	1,287,179	39,925	16,209	101,797	67,403	1,512,513
Share option scheme:						
— value of employees' services	–	–	–	10,141	–	10,141
— value of other participants' services	–	–	–	8,857	–	8,857
— share options exercised	8,128	–	–	(3,513)	–	4,615
— vested share options expired	–	–	–	(1,378)	1,378	–
Repurchase of convertible bonds	–	(7,952)	–	–	21	(7,931)
Reversal of deferred tax previously recognised on equity component of convertible bonds	–	1,810	–	–	–	1,810
Loss for the year	–	–	–	–	(278,562)	(278,562)
At 31 December 2016	1,295,307	33,783	16,209	115,904	(209,760)	1,251,443
Share option scheme:						
— value of employees' services	–	–	–	4,959	–	4,959
— value of other participants' services	–	–	–	5,215	–	5,215
— vested share options expired	–	–	–	(55,267)	55,267	–
Extinguishment and redemption of convertible bonds	–	(37,944)	–	–	37,944	–
Reversal of deferred tax previously recognised on equity component of convertible bonds	–	4,161	–	–	–	4,161
Recognition of equity component of convertible bonds	–	3,092	–	–	–	3,092
Deferred tax on recognition of equity component of convertible bonds	–	(1,111)	–	–	–	(1,111)
Loss for the year	–	–	–	–	(150,132)	(150,132)
At 31 December 2017	1,295,307	1,981	16,209	70,811	(266,681)	1,117,627

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