



# AGTech Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 8279

## ANNUAL REPORT 2015

FORTUNE

HAPPINESS

HEALTH

LUCK

RESPONSIBILITY





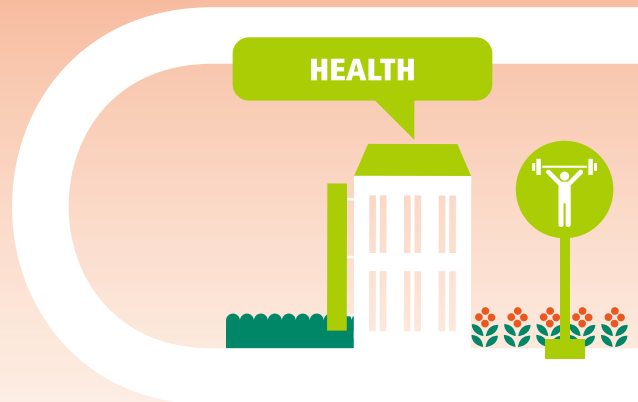
## CHARACTERISTICS OF GEM

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This report, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*





**HAPPINESS**

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**RESPONSIBILITY**



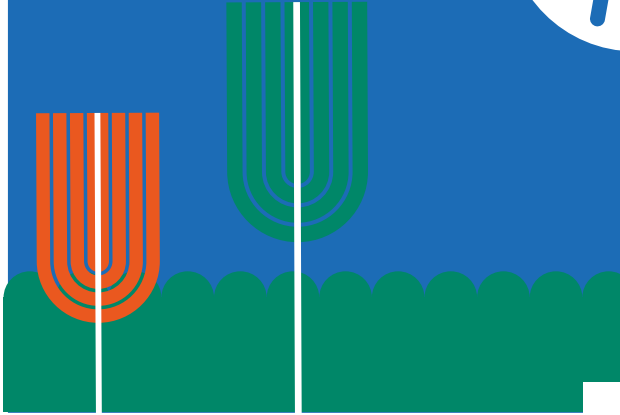
# FORTUNE

We provide the PRC lottery market with fully integrated professional lottery games and systems, hardware, distribution and ancillary services, with a view to boosting lottery sales and bringing fortune to lottery players through exciting game products.





**FORTUNE**



# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Sun Ho (*Chairman & CEO*)  
Bai Jinmin  
Liang Yu  
Cheng Guoming

### Non-executive Director

Ho King Fung, Eric

### Independent Non-executive Directors

Monica Maria Nunes  
Feng Qing  
Gao Jack Qunyao

## AUTHORISED REPRESENTATIVES

Sun Ho  
Lo Kei Chi

## COMPANY SECRETARY

Lo Kei Chi

## COMPLIANCE OFFICER

Sun Ho

## REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

## HEAD OFFICE & PRINCIPAL PLACE OF BUSINESS

Unit 3912, 39th Floor, Tower Two  
Times Square, Causeway Bay  
Hong Kong

Tel: (852) 2506 1668  
Fax: (852) 2506 1228

## PRINCIPAL BANKERS

China Merchants Bank  
The Hongkong and Shanghai Banking Corporation Limited

## AUDIT COMMITTEE

Monica Maria Nunes (*Chairperson*)  
Feng Qing  
Gao Jack Qunyao

## REMUNERATION COMMITTEE

Monica Maria Nunes (*Chairperson*)  
Feng Qing  
Gao Jack Qunyao

## NOMINATION COMMITTEE

Monica Maria Nunes (*Chairperson*)  
Feng Qing  
Gao Jack Qunyao  
Sun Ho



## **CORPORATE GOVERNANCE COMMITTEE**

Sun Ho (*Chairman*)  
Lo Kei Chi

## **RISK MANAGEMENT AND INTERNAL CONTROL COMMITTEE**

Sun Ho (*Chairman*)  
Cheng Guoming  
Lo Kei Chi  
Hong Yanchuan

## **AUDITORS**

HLB Hodgson Impey Cheng Limited  
*Certified Public Accountants*  
31st Floor, Gloucester Tower  
The Landmark  
11 Pedder Street  
Central, Hong Kong

## **SHARE REGISTRAR IN BERMUDA**

Codan Services Limited  
Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

## **BRANCH SHARE REGISTRAR IN HONG KONG**

Tricor Abacus Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## **STOCK CODE**

8279

## **WEBSITE**

<http://www.agtech.com>



## DEFINITIONS

In this report, unless the context otherwise requires, the following words and expressions shall have the following meanings when used herein:

“AGT”	Asia Gaming Technologies Limited, a company incorporated in Hong Kong and is an indirect wholly-owned subsidiary of the Company
“Board”	means the board of Directors
“Bye-laws”	means the bye-laws of the Company
“CEO”	means chief executive officer
“Circular”	means the circular of the Company dated 8 December 2014
“Company” or “AGTech”	means AGTech Holdings Limited, a company incorporated in Bermuda as an exempted company with limited liability and its issued Shares are listed on GEM
“Director(s)”	means the director(s) of the Company
“GEM”	means the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	means the Rules Governing the Listing of Securities on GEM
“GOT”	means 北京亞博高騰科技有限公司 (Beijing AGTech GOT Technology Co., Ltd.), a company incorporated in the PRC with limited liability and is an indirect wholly-owned subsidiary of the Company
“Group”	means the Company and its subsidiaries
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“Macau”	means the Macau Special Administrative Region of the PRC
“MOF”	means the Ministry of Finance of China
“NSLAC”	means the National Sports Lottery Administration Centre of the PRC
“PRC” or “China”	means the People’s Republic of China which, for the purpose of this report, excludes Hong Kong, Macau and Taiwan
“province(s)”	means province(s), municipality(ies) and autonomous region(s) of the PRC unless otherwise specified, and “provincial” shall be construed accordingly
“Purchaser”	means Silvercreek Technology Holdings Limited, which is a wholly-owned subsidiary of the Company





“Score Value”	means Score Value Limited which is an indirect wholly-owned subsidiary of the Company following completion of its acquisition on 8 January 2015
“Score Value Group”	means Score Value Limited and its subsidiaries
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Option Scheme”	means the share option scheme of the Company adopted on 18 November 2004 (or, after its expiry on 17 November 2014, the share option scheme of the Company adopted on 23 December 2014)
“Share(s)”	means ordinary share(s) of HK\$0.002 each in the share capital of the Company
“Shareholder(s)”	means holder(s) of the Share(s)
“Shenzhen Subsidiary”	means Shenzhen Zoom Read Tech Co., Ltd.*, a company incorporated in the PRC with limited liability and is an indirect wholly-owned subsidiary of Score Value
“Silvercreek”	means 深圳市銀溪數碼技術有限公司 (Shenzhen Silvercreek Digital Technology Co., Ltd.*), a company incorporated in the PRC with limited liability and is an indirect wholly-owned subsidiary of the Company
“Sports Lottery”	means the national sports lottery of China
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“Welfare Lottery”	means the national welfare lottery of China
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

## Notes:

1. In this report, the exchange rate of HK\$1.194 to RMB1.00 has been used for reference only.
2. The English translation of the Chinese company names in this report are included for reference only and should not be regarded as the official English translation of such Chinese company names.
3. In the event of any inconsistency, the English text of this report shall prevail over the Chinese text.

\* For identification purposes only





# HEALTH

We liaise closely with the PRC regulatory authorities and do our utmost to help them develop a healthy lottery industry. We also assist them to evaluate new forms of legal and regulated lottery avenues with a view to cracking down on the illegal gambling market.



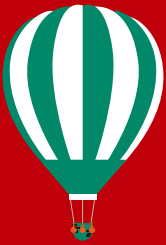
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**HEALTH**





## CORPORATE PROFILE

### ABOUT AGTECH

#### **Vision: To be the Leading Total Solution Provider and Integrated Company in China's Lottery Market**

AGTech Holdings Limited was incorporated in Bermuda and its shares are listed on the GEM of the Stock Exchange. The Group is an integrated lottery technology and services company in the PRC lottery market. As at the date of this report, the Group has a team of over 200 employees, and the footprint of the Group's lottery business covers multiple provinces and municipalities across the PRC.

The Group's vision and strategy is to be a fully integrated service provider for the PRC lottery industry. Its principal business activities comprise:

- (i) Games and systems: the development and supply of lottery games, related software and underlying supporting systems;
- (ii) Hardware: the development, sale and maintenance of lottery hardware (terminals and other lottery-related equipment);
- (iii) Distribution: the sales and distribution of lottery games; and
- (iv) Ancillary Services: the provision of ancillary services.

The Group is committed to applying international management concepts and advanced technologies to the PRC lottery industry along the entire value chain, covering lottery systems, lottery hardware, lottery games, internet and mobile smart phone systems and distribution, wireless network and streaming media, thereby providing the PRC's lottery authorities and millions of lottery players in the PRC with professional and integrated lottery services.

The Group is an associate member of each of the World Lottery Association (WLA) and the Asia Pacific Lottery Association (APLA).



## INDUSTRY OVERVIEW

### The PRC: A large but still under-penetrated lottery market

The PRC's regulated lottery industry launched in 1987 and has since grown rapidly to become one of the world's largest lottery markets by sales volume. Lottery sales have increased at a compound annual growth rate of approximately 31% between 1987 and 2015. During this time, the products on offer have gradually expanded from an initial base of simple, weekly-draw lotto games to today's comprehensive range which includes weekly draw games as well as high frequency games, scratch cards, video lottery terminals (VLT), sports betting and virtual sports betting. The PRC's two authorised lottery operators, the Welfare Lottery and the Sports Lottery, provide very significant levels of funding for good causes such as social welfare and building community sports facilities.

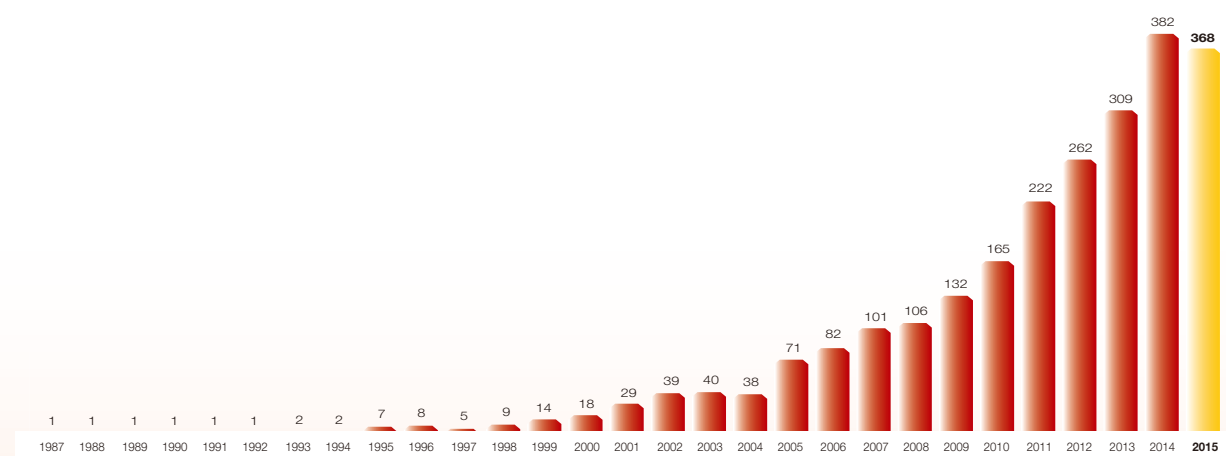
PRC annual lottery sales in 2015 were the second highest on record at approximately RMB368 billion. Despite the significant size of today's China lottery market, the penetration rate of regulated lottery in China remains comparatively low by international standards. Given that the illegal gambling market in China is estimated to be approximately 10-20 times that of the legal lottery market, there is enormous potential for future growth in China's legal lottery market.



In order to adequately protect the vulnerable, reduce the potential for corruption and to increase the funding available for good causes, the PRC lottery authorities are committed to channeling the existing vast underground gaming revenues away from the illegal market and into the legal and regulated lottery network. This process is already underway, which explains the growth performance of the regulated market in the past several years. Through further initiatives such as continued increases in prize payout ratios, the introduction of new rapid-draw lottery and virtual sports betting games, further expansion of the sports betting network and the expected opening of online and mobile distribution channels, the Chinese authorities will strive to make the permitted lottery even more competitive and appealing and ensure its rapid but responsible growth.

For further details on recent industry developments and a more detailed review of trends in the lottery, please refer to the “Discussion and Analysis of the Group’s Results and Business” section on pages 56 to 73.

### China’s Regulated Lottery Sales: 1987-2015 (RMB billion)



Source: MOF



## GAMES & SYSTEMS

### The development and supply of lottery games, related software and underlying supporting systems

The Games & Systems division has a reserve of rich and attractive lottery game content in various product categories designed to fulfill the demands of the lottery market and the lottery players.

#### Virtual Lottery Games

AGT, our 51%-owned joint venture with Ladbroke Group (one of the world's largest sports betting companies) supplies the country's only virtual sports lottery platform to the China Sports Lottery and has successfully launched two virtual sports games in the country. AGT's motor racing-themed virtual game Lucky Racing was launched in Hunan province





in 2011 while its football themed game e-Ball Lottery was launched in Jiangsu province during 2013. Since both games are approved lottery products as defined by MOF, we believe that both Lucky Racing and e-Ball Lottery could be introduced via the internet and mobile channel across the country (subject to regulatory approval) to enhance their popularity.

### Other Categories

In addition to virtual lottery games, the Group has launched a number of strategic initiatives to introduce new types of lottery games in the PRC, including a mobile smart phone lottery game and system, a high frequency numbers-based lottery game, and other game categories new to the PRC. The Group intends to introduce these new products to the market in the future, subject to the relevant regulatory approvals.

The Group plans to continue to work with international partners for research and development of various types of self-developed, creative and new lottery games that are suitable to cater for the evolving tastes of China's lottery players.

**GOT 高騰**



## HARDWARE

### **The development, sale and maintenance of lottery hardware (terminals and other lottery-related equipment)**

Through its subsidiaries, GOT and the Shenzhen Subsidiary of Score Value, AGTech's hardware division supplies both the Welfare Lottery and Sports Lottery and has lottery hardware deployed in multiple provinces, cities and municipalities of the PRC. The Shenzhen Subsidiary of Score Value is a leading manufacturer and supplier of paper scratch card sales hardware (instant ticket verification terminals, "IVT(s)") while GOT is a leading manufacturer and supplier of traditional lottery terminals as well as IVTs with international as well as domestic sales.

Thanks to the anticipated rapid technology development of the PRC, the Group believes that effective R&D activities are essential to ensure that the Groups' hardware business remains up-to-date and equipped with competitive technology. The Group's hardware division plans to continue to focus on R&D, maintain its domestic market share, grow its international sales and to broaden its product spectrum with new hardware ranges such as Video Lottery Terminal(s) ("VLT"(s)) which would be suitable for both domestic and international users.

## DISTRIBUTION

### **The sales and distribution of lottery games**

The Group continues to closely monitor policy developments with respect to the government approval of lottery sales via internet and mobile and continues to operate offline shops for the sale and distribution of lottery games.

In the internet channel, the authorities are working on a national (as opposed to provincial) internet distribution system. It is anticipated that sales of the Group's approved games, "Lucky Racing" and "e-Ball Lottery", could benefit strongly when such a system is introduced.

With respect to mobile smart phones, as evidenced by the recent MOF relevant policies, China's lottery market has begun to activate the trial sale of new types of mobile phone lottery games in various provinces. The Group is well positioned to actively participate in this market in various aspects.

With the Group's valuable PRC internet service provider and PRC internet content provider experience, as well as its excellent business track record and relationship, the Group has established close cooperation with the various potential domestic and international technology and distribution partners and is committed to providing a full range of support and services to localise and develop the PRC's mobile lottery systems and games.



## SERVICES

### The provision of ancillary services

The Group has been providing ancillary services to the PRC provincial lottery authorities since early 2007. In this time, we have provided a wide range of products and services to our provincial clients to assist them in growing sales and improving operations in an efficient manner. Our services include consulting, marketing, training and channel management.

## RESPONSIBLE LOTTERY

AGTech advocates responsible lottery practices. Although we believe that the vast majority of China's lottery players participate on a recreational basis, we work hard to ensure that problem gaming is prevented.

AGTech works with the lottery authorities to implement responsible lottery measures (for example, prohibition of credit betting and taking bets from underage players). Responsible lottery information is available at lottery shops and can be found in product promotion materials. From time to time, AGTech participates in public educational programs for lottery customers, including the provision of counseling services.



## CORPORATE VALUES

AGTech's philosophy is founded on five core values: **"FORTUNE"**, **"HEALTH"**, **"HAPPINESS"**, **"LUCK"** and **"RESPONSIBILITY"**. Together they form the color scheme of our logo.



### FORTUNE

We provide the PRC lottery market with fully integrated professional lottery games and systems, hardware, distribution and ancillary services, with a view to boosting lottery sales and bringing fortune to lottery players through exciting game products.

### HEALTH

We liaise closely with the PRC regulatory authorities and do our utmost to help them develop a healthy lottery industry. We also assist them to evaluate new forms of legal and regulated lottery channels with a view to cracking down on the illegal gambling market.

### HAPPINESS

As a form of entertainment, lotteries are growing in popularity among the Chinese citizens, and we are privileged to bring lottery players happiness and an exciting pastime.

### LUCK

Lottery wins are perceived as a token of "luck", and it is one of our core corporate values to bring such luck to China's lottery players and society through our products.

### RESPONSIBILITY

We strive to actively contribute to the development of a responsible lottery industry which will raise important funds for charity, welfare and sports development projects in China. We are actively involved in sports development and charity events, and we are the sponsor of a wide range of sports events.



## CONTRIBUTING TO THE SOCIETY

AGTech is committed to promoting healthy and steady development of China's lottery industry. In recent years, the Group has been working on several charity and sports projects such as Helping the Poor Children in Yunnan Province, Sponsoring Shanghai Youth Girls Soccer Team, AGTech Cup Olympic Photography Competition, Sponsoring Anhui Huangshan Martial Arts Competition Tournament, AGTech 15th He Long Cup Golf Celebrity Invitation, 2013 Shenzhen Charity Exhibition as well as being the strategic partner of the Tennis Association for Central Government Agencies and sponsoring various tennis tournaments and tennis promotional campaign. In the future, we shall continue to work closely with regulatory authorities and do our best to help the government evaluate new forms of legal and regulated avenues, with a view to fighting illegal gambling and raising funds for sports and welfare projects.

AGTech is an associate member of the World Lottery Association (WLA) and the Asia Pacific Lottery Association (APLA). We will work closely with other members to ensure healthy and stable development of the Asian and global lottery markets.



## EXCELLENT TEAM

Having recognised that talents are assets to our company, AGTech possesses talented employees who are experienced in our industry and other professional areas. We provide employees with a good working environment, competitive salaries and extensive platforms for them to showcase their capabilities. We will continue to streamline our incentive scheme to stimulate employees' initiative and creativity.

Currently, AGTech has over 200 professionals with qualifications in lottery, information technology and other specialised fields. With such a strong team, it enables AGTech to build a solid business foundation and to achieve breakthroughs in the future.



## FOOTPRINTS OF OUR BUSINESS

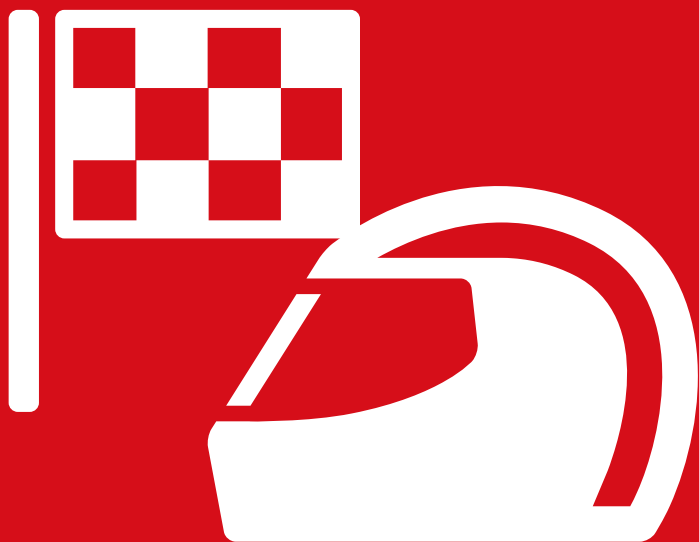
The footprint of our business covers over 80% of the provinces and municipalities across China. AGTech has built up a comprehensive sales and after-sales network throughout the country.





# HAPPINESS

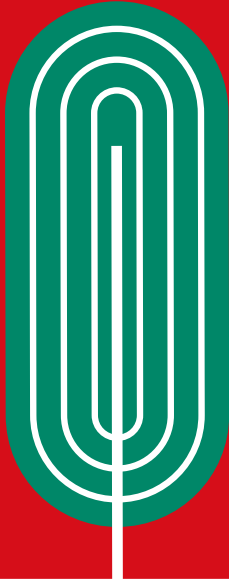
As a form of entertainment, lotteries are growing in popularity among the Chinese citizens, and we are privileged to bring lottery players happiness and an exciting pastime.







**HAPPINESS**



# CHAIRMAN'S STATEMENT

## Dear Shareholders,

The policy environment of the PRC lottery industry witnessed significant change during the year which contributed to a decline in annual lottery sales volume for the first time in a decade. Despite these developments, the PRC remains one of the world's largest lottery markets and was able to record its second highest ever sales volume of approximately RMB368 billion in 2015. This led to good causes payments for the year of approximately RMB98 billion.

In April 2015, an announcement by the MOF and seven other ministries of the PRC government (the "Announcement of Eight Ministries") promulgated that lottery sales through online channels could only be conducted through licensed online distributors approved by the MOF. We understand that a major reason for the Announcement of Eight Ministries was to allow for regulation of sales and distribution of lottery games through online channels in the PRC. As such, we view the policy developments of 2015 as positive for both the industry and our Company. We believe that the PRC lottery market is poised to undergo a period of technological enhancement combined with a significant expansion of its player base through new forms of distribution (including, subject to approval, mobile and internet distribution channels).

Subsequent to the end of the 2015 reporting period, as disclosed in the announcement of the Company dated 4 March 2016, on 4 March 2016, the Company had entered into a subscription agreement under which Ali Fortune Investment Holding Limited ("Ali Fortune") (a company indirectly owned as to 60% by Alibaba Group Holding Limited ("Alibaba") and as to 40% by Zhejiang Ant Small and Micro Financial Services Group Co., Ltd. ("Ant Financial")) will subscribe for approximately HK\$2.4 billion of new shares and convertible bonds in AGTech. Upon completion of the transaction, AGTech will become the exclusive lottery business platform of Alibaba and Ant Financial and Ali Fortune will become the Company's largest Shareholder. If completed, we believe that the transaction will enhance AGTech's technical ability to develop and expand our existing lottery business and in particular we expect that our mobile and internet lottery business will benefit from significant potential synergies resulting from the cooperation of the Group with Alibaba and Ant Financial. After completion of the transaction, I will continue to serve as the Company's Chief Executive Officer, Executive Director and Chairman of the Board.





During the financial year under review, Group revenue rose to HK\$301.6 million (2014: HK\$211.1 million) while gross profit maintained at HK\$69.2 million (2014: HK\$69.6 million). Our balance sheet remains strong. At the end of 2015, we had net bank balances and cash of HK\$224.7 million.

Policy development plays a crucial role in facilitating the stable development of the PRC lottery industry. We expect that during 2016 the PRC lottery industry will see further significant policy developments including the introduction of relevant laws and regulations (particularly related to internet and mobile distribution) which will further regulate and professionalise lottery supervision. Thanks to many years of accurately interpreting national regulations and policies, AGTech has successfully grasped industry trends and formulated a corresponding, long-term strategy for business development. Providing full-service solutions across game software and systems, hardware and distribution, we are a fully integrated lottery technology and service provider. We have a track record of working with international lottery technology and services companies to localise and customise games for the PRC, setting us apart in a market where the demand for sophisticated technology is rising with respect to new games, systems, hardware and distribution channels. We believe that the Group is very well placed to capture opportunities arising from the evolution of PRC lottery policy.

The Group has been closely monitoring policy developments with respect to the government approval of lottery sales via internet and mobile channels for many years. In light of the proven potential of the mobile and internet channels and the reported comments of senior Lottery Agency and regulator officials at a recent annual lottery strategy meeting regarding the lottery's active pursuit of preparatory work for an internet sales pilot scheme, we believe that new online and mobile channels for lottery sales in the PRC are likely to be approved. We believe that any new games and systems that will be approved for online sales will require robust and scalable technology in order to deliver effective and efficient monitoring and control systems. We consider that the Group is well positioned to participate in these areas.



Our proprietary in-store games, Lucky Racing Game and e-Ball Lottery, remain successful. Due to the decline in national lottery sales of the traditional lottery products seen during 2015, we anticipate an increased urgency within the lottery to push new products to the stores and we believe that this will likely lead to both Lucky Racing Game and e-Ball Lottery expanding beyond their launch provinces in due course.

On the topic of hardware, we believe that developments in the PRC lottery market are likely to demand new and more sophisticated hardware solutions that can be deployed as bundled products involving the supply of hardware that is integrated with lottery games and underlying supporting systems and which would benefit from a revenue sharing model. In light of our leading positions in point of sale and handheld terminals as well as our first class international partnerships and long track-record in the PRC lottery market, we believe that AGTech is very well positioned to take advantage of such new opportunities in hardware.

As a group with a strong sense of corporate and social responsibility, AGTech will continue to live by its core corporate values of enriching society through "Fortune", "Health", "Happiness", "Luck" and "Responsibility". In addition to developing games that provide responsible lottery entertainment to the public, we will respond proactively to the possible social problems arising from obsession with lottery. In this respect, I take the opportunity to remind our Shareholders that in line with the Group's past practice, all of our lottery businesses in the PRC have been conducted in full compliance with all relevant lottery regulations in the PRC including obtaining approval from relevant government authorities, where applicable.





In conclusion, I would like to express my heartfelt gratitude to all of my colleagues for their dedication and hard work. My warmest thanks also go to our board members, management team, Shareholders, business partners and customers for their indispensable contribution and continuing support of AGTech. I look forward to your continued trust and support as we help to deliver a very bright future for AGTech and the entire PRC lottery industry.

Yours faithfully,

**Sun Ho**

Chairman & CEO

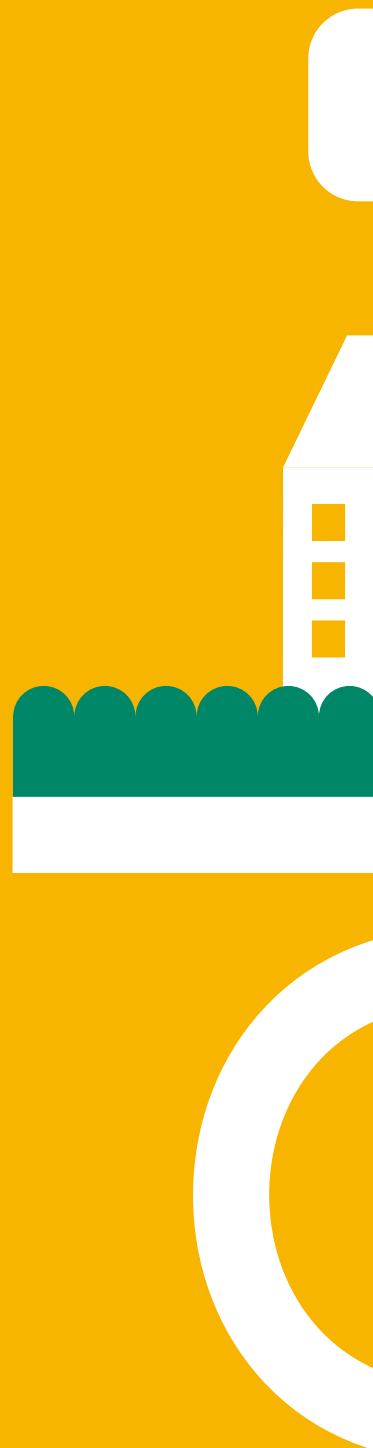
Hong Kong, 18 March 2016





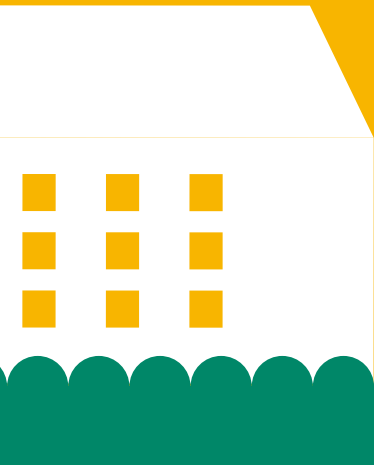
# LUCK

Lottery wins are perceived as a token of “luck”, and it is one of our core corporate values to bring such luck to China’s lottery players and society through our products.





**LUCK**



# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining high standards of corporate governance in order to uphold the transparency of the Group and safeguard interests of the Shareholders.

The Company has adopted the applicable code provisions in the Corporate Governance Code and Corporate Governance Report (the “Code”) as set out in Appendix 15 of the GEM Listing Rules. The Company has applied the principles of the Code in different respects, including but not limited to:

- the frequency and proper conduct of Board meetings;
- the well-balanced composition of the Board, with independent non-executive Directors representing not less than one-third of the total number of Directors;
- the proper procedures for appointment and re-election of Directors;
- the annual review of individual Directors’ contributions to the Group, the status of each Director’s work commitments outside of the Group, and the years of service of each independent non-executive Directors;
- the establishment of an audit committee to review the financial reporting, risk management and internal controls of the Group and the enhanced communications between the audit committee and the auditors of the Company through meetings held for the pre-audit planning and the annual results of the Group without the presence of other Directors;
- the establishment of a remuneration committee to review the remuneration policy and other remuneration-related matters for the Group;
- the establishment of a nomination committee to formulate a policy concerning diversity in the Board and a nomination policy, make recommendations to the Board on any proposed appointment of Directors and assess the independence of the independent non-executive Directors on a regular basis;
- the establishment of a corporate governance committee to assist the Board in performing the corporate governance duties as required under the Code;
- the establishment of a risk management and internal control committee to assist the Board in discharging its ongoing responsibility to oversee the Group’s risk management and internal control systems;
- the provision of briefing or training (at the expense of the Company) on the relevant requirements of the GEM Listing Rules (including the Code) and the Securities and Futures Ordinance to all newly appointed Directors and to the entire Board as and when there are new changes to such rules and regulations;
- the provision of insurance coverage for Directors’ liabilities;
- the timely supply of sufficient information to Directors for matters seeking their approval or opinions;





- the timely publications of announcements, circulars, annual, interim and quarterly results and reports (collectively referred to as the “Publications”) to keep the Shareholders posted of the latest business developments and financial performance of the Group;
- the holding of an annual general meeting each year to meet with the Shareholders and answer their enquiries; and
- the timely updating of the Company’s official website with the latest Publications of the Company and the provision of a platform for communications with the Shareholders and investors through such website.

During the year under review, the Company complied with the Code except for the following deviations:

- under the Code provision A.2.1, the roles of chairman and CEO should be separate and should not be performed by the same individual. The roles of chairman and CEO of the Company were performed by the executive Director, Mr. Sun Ho, during the year under review. The Company considered that the combination of the roles of chairman and CEO could effectively formulate and implement the strategies of the Company. The Company considered that under the supervision of its Board and its independent non-executive Directors, a balancing mechanism existed so that the interests of the Shareholders were adequately and fairly represented. The Company considered that there was no imminent need to change the arrangement;
- under the Code provision A.4.2, every Director should be subject to retirement by rotation at least once every three years. However, pursuant to the Bye-laws, the chairman of the Company shall not be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. During the year under review, the chairman of the Board was not subject to retirement by rotation, as the Board considered that the continuity of the office of the chairman provided the Group with strong and consistent leadership and was of great importance to the smooth operations of the Group;
- under the Code provision A.2.7, the chairman of the Board should at least annually hold meetings with the non-executive Directors (including independent non-executive Directors) without the executive Directors’ presence. During the year under review, the chairman of the Board did not hold such kind of private meetings with the non-executive Directors. The chairman of the Board considered that it was unnecessary as it would be more transparent to let the non-executive Directors speak out their views to all executive Directors in the full Board meetings which would be held at least four times a year. Besides, the chairman of the Board, being an executive Director himself, always welcomes all non-executive Directors to directly communicate with him via his email or phone to discuss any matters of the Company from time to time;
- under the Code provision A6.6, each Director should disclose to the Company, among other things, an indication of the time involved by him/her in his/her offices held in other public companies or organisations and other significant commitments. During the year under review, no such disclosure was made by the Directors to the Company. As the Board had adopted a new corporate governance practice that each Director’s contributions to the Group were reviewed and discussed at the Board meeting annually (the “Annual Contributions Review”), the Board considered that assessing the time spent by each Director on his/her commitments outside the Group was not necessary for the purposes of the Annual Contributions Review and that the disclosure of the time spent by a Director in performing his/her duties did not necessarily indicate accurately the efficiency of such Director and the effectiveness of his/her work, and may therefore be misleading;



- (e) under the Code provision B.1.2, the remuneration committee should review and recommend to the Board for approval of the specific remuneration packages of senior management. The remuneration committee of the Company had reviewed its scope of duties and considered that the delegated responsibility to review and recommend to the Board to approve the specific remuneration packages of senior management should be vested in the executive Directors who have a better understanding of the level of expertise, experience and performance expected of the senior management in the daily business operations. Notwithstanding the foregoing, the remuneration committee would continue to be primarily responsible for the review and recommendation of the remuneration packages of the Directors;
- (f) under the Code provision B.1.5, the Company should disclose details of any remuneration payable to members of senior management by band in its annual report. The Company did not make such disclosure in its annual report as the Board considered that (i) the remuneration of any newly appointed “chief executive” (as defined under the GEM Listing Rules) would have already been disclosed in the announcement previously issued by the Company in respect of such appointment in accordance with GEM Listing Rule 17.50(2)(g); (ii) the five highest paid employees within the Group had already been disclosed in the notes to the consolidated financial statements of the Group in the annual report, and (iii) giving further details of remuneration for each and every senior management staff would result in particulars of excessive length and no additional value to the Shareholders, whilst at the same time may impair the flexibility of the Group in its negotiations of remuneration packages for senior management staff (especially those who are not Directors or chief executives of the Group and hence are not supposed to be subject to the aforesaid disclosure requirement under GEM Listing Rule 17.50(2)(g)) should it need to find replacement staff or recruit additional senior personnel in the future;
- (g) under the Code provision A.6.7, independent non-executive Directors and other non-executive Directors should attend general meetings of the Company and develop a balanced understanding of the views of the Shareholders. An annual general meeting (“AGM”) was held by the Company during the year on 5 May 2015. The former independent non-executive Directors, Mr. Wang Ronghua and Mr. Hua Fengmao, were absent from the AGM as they were to retire from the Board on the date of the AGM; and
- (h) under the Code provision E.1.2, the chairman of the Board should attend the AGM. During the year under review, the chairman of the Board, Mr. Sun Ho, was unable to attend the AGM held on 5 May 2015 as he was away on a business trip on that date. Mr. Sun had to attend overseas business meetings with business partner and customers in early May 2015 to accommodate the customers’ availability, which was informed and confirmed by the customers only after the Company had published the notice of the AGM. In order not to disrupt the original timetable fixed for the AGM, another executive Director, Mr. Bai Jinmin, was assigned to chair the AGM in place of Mr. Sun to answer any queries from Shareholders.

(The above deviations (a) to (f) were similarly disclosed on pages 29 and 30 of the Company’s annual report for the year ended 31 December 2014, and the above deviations (g) and (h) were new ones that took place during the year under review. All the above deviations (a) to (h) were similarly disclosed on pages 33 to 35 of the Company’s interim report for the six months ended 30 June 2015.)



## DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had made specific enquiry of all Directors and was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding Directors' securities transactions during the year under review.

During the year under review, letters were sent to Directors before the commencement of the "black-out periods" in preparation for the annual, interim and quarterly results announcements to remind them that they should not deal in the securities of the Company during such periods.

## THE BOARD

Being the highest decision-making body of the Company, the Board is responsible for the Group's corporate policy formulation, strategic business planning, business development, risk management, material acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual, interim and quarterly results for Board approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements, rules and regulations.

During the year under review, the members of the Board comprised:

Executive Directors:	Mr. Sun Ho ( <i>Chairman</i> ) Mr. Bai Jinmin Mr. Liang Yu Mr. Cheng Guoming (appointed on 6 May 2015) Mr. Robert Geoffrey Ryan (resigned on 1 May 2015)
Non-executive Director:	Mr. Ho King Fung, Eric
Independent non-executive Directors:	Ms. Monica Maria Nunes Mr. Feng Qing (appointed on 4 May 2015) Dr. Gao Jack Qunyao (appointed on 6 May 2015) Mr. Wang Ronghua (retired on 5 May 2015) Mr. Hua Fengmao (retired on 5 May 2015)

An updated list of the Directors identifying their roles and functions and as to whether they are independent non-executive Directors is posted on the websites of the Company and of the Stock Exchange.

To the best knowledge of the Directors, there are no financial, business, family or other material relationships among the members of the Board. During the year under review, there were at least three independent non-executive Directors (representing not less than one-third of the total number of Directors) and at least one of them possesses the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 5.05(2) of the GEM Listing Rules.



The appointments of the Directors are subject to retirement by rotation once every three years and re-election in accordance with the Bye-laws at the Company's annual general meeting or (in the case of filling a casual vacancy) at its next general meeting, except that the chairman of the Board is not subject to retirement by rotation, as the Board considers that the continuity of the office of the chairman provides the Group with strong and consistent leadership and is of great importance to the smooth operations of the Group. The service agreements for all the Directors are determinable by the Company within a year without payment of any compensation (other than statutory compensation).

The Board meets at least four times each year at approximately quarterly intervals to review the financial and operating performance of the Group. The Directors participate in person or through other electronic means of communication. At least 14 days' notice of all regular Board meetings is given to all Directors while reasonable notice is generally given for other Board meetings. An agenda together with supporting Board papers are sent to the Directors no less than three days before a Board meeting. All Directors are given an opportunity to include matters in the agenda for discussion. The company secretary assists the chairman in the preparation of the agenda for the meeting and ensures that all applicable rules and regulations regarding the meetings are observed. The company secretary records the proceedings of each Board meeting in minutes with details of the decisions reached, any concerns raised and dissenting views expressed. Drafts of Board minutes are circulated to all Directors for comments and approval as soon as practicable after the meetings. All minutes are open for inspection at any reasonable time on request by any Director.

During the year under review, all members of the Board are provided with monthly updates on internal unaudited financial statements so as to give the Directors a balanced and understandable assessment of the Company's performance, position and prospects.

### **Respective responsibilities of Directors and auditors**

The Board has the ultimate responsibility for the preparation of financial statements of the Group. For the year under review, the Board was not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Board continued to adopt the going concern approach in preparing the financial statements for the year under review, for which the auditors of the Company have reporting responsibilities as stated in the independent auditors' report on pages 112 and 113.

### **Policy for Directors to seek independent professional advice and assistance, and Directors' insurance**

The Company has adopted a policy for Directors to seek independent professional advice and assistance. In performing his/her duties for the Company, a Director is authorised by the Board to obtain independent professional advice and assistance from external legal, accounting or other advisors at the expense of the Company if necessary. Such Director should lodge a written request with the company secretary, specifying the reasons why such professional advice and assistance are necessary. Upon the endorsement of the chairman of the Board, the company secretary shall then find the appropriate professional party as soon as possible and pass its draft engagement letter (containing the expected scope of services and fee quotation) for the Director's review and comments before the Company signs such engagement letter. Directors' insurance is provided to the Directors in connection with the performance of their duties.

### **Directors' work commitments outside of the Group**

Directors are required to disclose in a timely manner to the company secretary for any change, the number and nature of offices held in public companies or organisations and other significant commitments, and the identity of such public companies or organisations. The Board decides to disclose such information in the Company's annual report each year in the biographies section of the Directors.



### Directors' training

The Company provides newly appointed Directors with briefings on the businesses of the Group and training materials on corporate governance, directors' duties and responsibilities and other matters under the GEM Listing Rules and other relevant rules or regulations. The company secretary updates Directors on any changes to the GEM Listing Rules and other relevant rules and regulations.

Pursuant to code provision A.6.5 of the Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year under review, all Directors have participated in continuous professional development by studying materials on the topics related to corporate governance, GEM Listing Rules and/or regulations, and/or attending or participating in in-house or outside training, industry-specific seminars and conferences and provided a record of training to the Company.

Directors	Type of trainings received
<b>Executive Directors</b>	
SUN Ho	A,B
Robert Geoffrey RYAN (resigned on 1 May 2015)	Not applicable
BAI Jinmin	A,B
LIANG Yu	A,B
CHENG Guoming (appointed on 6 May 2015)	A
<b>Non-executive Director</b>	
HO King Fung, Eric	A,B
<b>Independent non-executive Directors</b>	
Monica Maria NUNES	A,B
FENG Qing (appointed on 4 May 2015)	A
GAO Jack Qunyao (appointed on 6 May 2015)	A
WANG Ronghua (retired on 5 May 2015)	Not applicable
HUA Fengmao (retired on 5 May 2015)	Not applicable

A: studying materials related to corporate governance, GEM Listing Rules and/or regulations

B: attending or participating in in-house or outside training, industry-specific seminars and conferences

### CHAIRMAN AND CHIEF EXECUTIVE

During the year under review, the roles of chairman and chief executive ("CEO") of the Company were performed by the same individual, namely, the executive Director, Mr. Sun Ho. The Company considered that the combination of the roles of chairman and CEO could effectively formulate and implement the strategies of the Company. The Company considered that under the supervision of its Board and its independent non-executive Directors, a balancing mechanism existed so that the interests of the Shareholders were adequately and fairly represented. The Company considered that there was no imminent need to change the arrangement.

Apart from being responsible for the strategic planning, business development, management and monitoring of operational as well as financial performance of the Group, the role of the chairman also includes providing leadership for the Board. He is also the chairman of the corporate governance committee and the risk management and internal control committee, a member of the nomination committee, the compliance officer and authorised representative of the Company.



Furthermore, the chairman is responsible for ensuring that:

- other Directors are properly briefed on issues arising at Board meetings;
- Directors receive, in a timely manner, adequate information, which is accurate, clear, complete and reliable;
- the Board works effectively and performs its responsibilities;
- all key and appropriate issues are discussed by the Board in a timely manner;
- good corporate governance practices and procedures are established by the Group;
- Directors make a full and active contribution to the Board's affairs and act in the best interests of the Company;
- different views and concerns of Directors are discussed with sufficient time at Board meetings before reaching any Board decisions which fairly reflect the consensus of the Board; and
- he himself attends the annual general meeting, and other Directors are invited to attend all general meetings of the Company to enhance communications with the Shareholders and answer any queries that they may have in respect of the financial performance and other affairs of the Group.

The chairman approves the agenda for each Board meeting, which is prepared by the company secretary and has incorporated any matters proposed by other Directors for discussion.

## NON-EXECUTIVE DIRECTORS

Each non-executive Director was appointed by way of a service agreement on a two-year basis, except that (i) under a renewed service agreement with Ms. Monica Maria Nunes, her renewed service period commenced from 20 June 2015 until the conclusion of the annual general meeting of the Company to be held in May 2017, and (ii) under a renewed service agreement with Mr. Ho King Fung, Eric, his renewed service period commenced from 23 May 2015 until the conclusion of the annual general meeting of the Company to be held in May 2017, in order to align with the approximate expiry dates of service agreements for other non-executive Directors for the ease of administration and monitoring by the company secretary of the Company.

The Company has received from each of the existing independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that all of such independent non-executive Directors are independent. None of the independent non-executive Directors has served the Board for more than 9 years. All independent non-executive Directors are clearly identified in all corporate communications of the Company that disclose the names of Directors.

For any proposal by the Board to elect a person as an independent non-executive Director at the general meeting of the Company, the reasons for such proposal and why the Board considers that person to be independent shall be set out in the circular to Shareholders and/or the explanatory statement accompanying the notice of the relevant general meeting.

Where a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall be dealt with by a physical Board meeting rather than a written resolution, and independent non-executive Directors who, and whose associates, have no material interest in the transaction shall be present in that meeting.



## BOARD COMMITTEES

The Board delegates its functions to five Board committees (namely, the remuneration committee, the nomination committee, the corporate governance committee, the audit committee and the risk management and internal control committee) and the management of the Group. The Board however recognises that delegating its functions and authorities to its committees and the management does not absolve its overall responsibility from the sound governance of the Company or from applying the required levels of skill, care and diligence in the performance of its duties as Directors.

### 1. Remuneration committee

The remuneration committee was established on 24 June 2005. During the year under review, Ms. Monica Maria Nunes, Mr. Feng Qing (appointed on 4 May 2015), Dr. Gao Jack Qunyao (appointed on 6 May 2015), Mr. Wang Ronghua (retired on 5 May 2015) and Mr. Hua Fengmao (retired on 5 May 2015) (all of whom being independent non-executive Directors) were appointed as members of the remuneration committee. The current chairperson of the remuneration committee is Ms. Monica Maria Nunes.

The remuneration committee is responsible for formulating and recommending to the Board the emolument policy and the remuneration packages of Directors of the Group, as well as reviewing and making recommendations on the Company's Share Option Scheme, bonus structure, benefits in kind, provident fund and compensation payments, including any compensation payable for loss or termination of office or appointment. The committee consults with the chairman and CEO on his proposal and recommendations. The committee is also provided with other resources enabling it to discharge its duties, including but not limited to obtaining advice and assistance from internal or external legal, accounting or other advisors at the expense of the Company if necessary. The remuneration committee adopts the execution model whereby the remuneration committee makes recommendations to the Board for approval.

As incentives for their contributions to the Group, the employees of the Group and all the Directors (including the independent non-executive Directors and non-executive Director) may be granted share options by the Company from time to time pursuant to the Share Option Scheme. The remuneration committee reviews and recommends to the Board for approval of the emoluments of the Directors, having regard to the Group's operating results, individual performance, time commitment and responsibilities, and comparable market remuneration packages for executive and non-executive directors of listed issuers in Hong Kong. The remuneration committee of the Company has delegated the responsibility to the executive Directors to approve specific remuneration packages of senior management since the executive Directors have a better understanding of the level of expertise, experience and performance expected of the senior management in the daily business operations.

The specific terms of reference of the remuneration committee are posted on the websites of the Company and of the Stock Exchange and are available to the Shareholders upon request.

During the year under review, the remuneration committee passed resolutions to recommend to the Board the remuneration packages of the executive Director, Mr. Cheng Guoming, and the two independent non-executive Directors, Mr. Feng Qing and Dr. Gao Jack Qunyao, as well as the grants of share options to certain Directors, employees of the Group and other eligible participants under the Share Option Scheme.



## 2. Nomination committee

The nomination committee was established on 24 June 2005. During the year under review, Mr. Sun Ho, Ms. Monica Maria Nunes, Mr. Feng Qing (appointed on 4 May 2015), Dr. Gao Jack Qunyao (appointed on 6 May 2015), Mr. Wang Ronghua (retired on 5 May 2015) and Mr. Hua Fengmao (retired on 5 May 2015) were appointed as members of the nomination committee. The current chairperson of the nomination committee is Ms. Monica Maria Nunes. Except for the executive Director, Mr. Sun Ho, all other members of the nomination committee were independent non-executive Directors.

The nomination committee is responsible for formulating nomination policy and making recommendations to the Board on nomination and appointment of Directors and Board succession. The committee will also develop selection procedures for nomination of candidates, review the size, structure and composition of the Board, as well as assess the compliance with the Board diversity policy. The committee is provided with sufficient resources enabling it to discharge its duties, including but not limited to obtaining advice and assistance from internal or external legal, accounting or other advisors at the expense of the Company if necessary. The nomination committee will also assess independence of the independent non-executive Directors and check whether any of them has served the Board for more than 9 years, thus requiring separate Shareholders' approval for his/her further appointment.

Any member of the nomination committee is authorised to identify suitable candidates for the position of Director when there is a vacancy or an additional Director is considered necessary. Once identified, the member of the nomination committee will propose the appointment of such candidates to the nomination committee which will review the qualifications, experience and background of the relevant candidates for determining the suitability to the Group. The candidates approved by the nomination committee will then be proposed to the entire Board for final approval and, where appropriate, for recommendation to the Shareholders for their approval at the general meeting of the Company.

The specific terms of reference of the nomination committee are posted on the websites of the Company and of the Stock Exchange and are available to the Shareholders upon request.

During the year under review, a meeting of the nomination committee was held to approve the appointment of Mr. Feng Qing as independent non-executive Director with effect from 4 May 2015, and written resolutions were passed by the nomination committee to approve the appointment of Mr. Cheng Guoming as executive Director and Dr. Gao Jack Qunyao as independent non-executive Director, both with effect from 6 May 2015. The number of years of service of the former independent non-executive Directors, Mr. Wang Ronghua and Mr. Hua Fengmao, had been reviewed and they were found to have served the Board for more than 8 years and therefore both of them retired from the Board following the conclusion of the annual general meeting of the Company held on 5 May 2015. The independence of all the independent non-executive Directors was also reviewed and confirmed during such meeting.

During the year under review, compliance with the policy concerning diversity of Board members (the "Policy") was reviewed with reference to the Board composition and measurable objectives to assess the achievement of the Policy.





## Summary of the Company's Board diversity policy

**(a) Purpose**

The Policy sets out the approach to diversity of Board members.

**(b) Scope of application**

The Policy applies to the Board. It does not apply to diversity in relation to employees of the Group.

**(c) Policy statement**

The Company recognises and embraces the benefits of building a diverse Board to prevent biased decision-making when its members are homogenous. The Board believes that diversity at Board level is important to achieve and maintain a sustainable development and a competitive advantage of the Company.

The Board believes all Board appointments should be made on meritocracy having due regard to a range of diversity elements, including (but not limited to) gender, age, nationality, tenure of service with the Company ("Tenure"), presence of a substantial percentage of non-executive Directors on the Board to safeguard minority Shareholders' interests ("Directorship Designation") and at least one Director having directorship experience with other public company(ies) to keep the Board abreast of the current practices of other listed companies ("Other Public Company Directorship Experience"). These elements are considered to be complementary to the Board as a whole to enhance its quality and effectiveness of performance in a continuously balanced manner from time to time.

**(d) Measurable objectives**

Measurable objectives set for implementing the Policy include gender, age, nationality, Tenure, Directorship Designation and Other Public Company Directorship Experience.

**(e) Monitoring and reporting**

The nomination committee will review and monitor whether the measurable objectives of the Policy have been achieved annually. The Corporate Governance Report contained in the annual report of the Company each year will also disclose a summary of the Policy, the measurable objectives set for implementing the Policy and the status of whether such measurable objectives have been achieved.

**(f) Review of the Policy**

The nomination committee will review the Policy, as appropriate, to ensure its effectiveness. The nomination committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

Having reviewed the Board composition and the measurable objectives (including the gender, age, nationality, Tenure, Directorship Designation and Other Public Company Directorship Experience) chosen to assess the achievement of the Policy for the year under review as set out below, the nomination committee is of the view that the Board composition has achieved the measurable objectives and has complied with the Policy.



		No. of Directors	%	Measurable objectives	Achieved
<b>Gender</b>	Male	7	87.5%	<b>Both genders present</b> to ensure different views from different genders are considered	✓
	Female	1	12.5%		
<b>Age (Years)</b>	31-40	1	12.5%	<b>Age spans over at least a decade</b> to ensure a balanced mix of conservative and ambitious experience from relatively sophisticated veteran and energetic young Directors	✓
	41-50	5	62.5%		
	51-70	2	25.0%		
<b>Nationality</b>	Chinese	7	87.5%	<b>More than a single nationality</b> to ensure the international perspectives and global view are considered	✓
	Portuguese	1	12.5%		
<b>Tenure (Number of years)</b>	below 5	5	62.5%	<b>Different tenures of Directors' service contracts</b> to ensure the consistency of business strategies implemented by the veteran Directors being complemented by new ideas from relatively new Directors	✓
	6-7	1	12.5%		
	8-9	2	25.0%		
<b>Directorship Designation</b>	Executive Directors	4	50.0%	<b>Presence of substantial percentage of non-executive Directors</b> to ensure interests of minority Shareholders and the Company as a whole are considered	✓
	Non-executive Director	1	12.5%		
	Independent non-executive Directors	3	37.5%		
<b>Other Public Company Directorship Experience (Number of companies)</b>	Nil	3	37.5%	<b>At least one Director having directorship experience with other public companies</b> to share directorship experience from other public companies and help the Board keep abreast of the current practices of other public companies	✓
	One	3	37.5%		
	Two or above	2	25.0%		



### 3. Corporate governance committee

The Company has established a corporate governance committee on 23 March 2012 with its specific terms of reference posted on the websites of the Company and of the Stock Exchange and are available to the Shareholders upon request. The corporate governance committee is to assist the Board in performing the corporate governance duties as required under the Code. The corporate governance committee comprises two members, namely, the chairman of the Board, Mr. Sun Ho (as chairman of such committee), and the company secretary, being Mr. Lai Yick Fung (resigned on 1 April 2015) and Ms. Lo Kei Chi (appointed on 12 May 2015).

The corporate governance committee is responsible for reviewing and monitoring the adequacy of the corporate governance guidelines of the Company and for recommending any proposed changes to the Board for approval. The corporate governance committee also reviews and monitors the training and continuous professional development of Directors and senior management of the Company, the Company's policies and practices on compliance with legal and regulatory requirements, the code of conduct applicable to employees of the Group and the Directors, and the Company's compliance with the Code and disclosure in this Corporate Governance Report. The committee is provided with sufficient resources enabling it to discharge its duties, including but not limited to obtaining advice and assistance from internal or external legal, accounting or other advisors at the expense of the Company if necessary.

During the year under review, the corporate governance committee prepared and adopted a checklist to highlight key areas of concern that the management of the Company should pay attention to during the due diligence and negotiations process for any merger and acquisition transactions. In addition, the corporate governance committee recommended to the Board that a new risk management and internal control committee of the Company be established by the Company with effect from 1 January 2016 in response to the new requirements under the Code to integrate risk management functions with internal controls of the Group, which shall take effect from 1 January 2016.

### 4. Audit committee

The Company has established an audit committee with its specific terms of reference posted on the websites of the Company and of the Stock Exchange and are available to the Shareholders upon request. The primary duties of the audit committee are to review and supervise the financial reporting process as well as risk management and internal control systems of the Group, consider the appointment or reappointment of auditors and provide advice and comments on the Group's draft annual, interim and quarterly results and reports to the Board.

During the year under review, the three independent non-executive Directors, Ms. Monica Maria Nunes, Mr. Feng Qing (appointed on 4 May 2015), Dr. Gao Jack Qunyao (appointed on 6 May 2015), Mr. Wang Ronghua (retired on 5 May 2015) and Mr. Hua Fengmao (retired on 5 May 2015) were appointed as members of the audit committee. The current chairperson of the audit committee is Ms. Monica Maria Nunes. The committee is provided with sufficient resources enabling it to discharge its duties, including but not limited to obtaining advice and assistance from internal or external legal, accounting or other advisors at the expense of the Company if necessary.

The Group's draft unaudited interim, quarterly and audited annual results were reviewed by the audit committee during the year under review, and the committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures had been made. The audit committee also attended two meetings during the year under review with HLB Hodgson Impey Cheng Limited ("HLB"), the external auditors of the Company, to discuss final results of the Group and the audit preparation and status for the final results.



As mentioned below, the risk management and internal control committee of the Company has confirmed with the Board via the audit committee that the risk management and internal control systems (including the internal audit functions) of the Group were effective and adequate, and that the Group's processes for financial reporting and GEM Listing Rule compliance were effective. The audit committee, having discussed with the external auditors of the Company, HLB, their findings about the internal controls of the Group during their annual audit and having considered the various financial, operational and compliance internal control policies and/or procedures of the Group in place (together with the work performed by the internal audit senior manager of the Group during the year under review), concurred with the findings of the risk management and internal control committee.

#### **5. Risk management (“RM”) and internal control (“IC”) committee (“RMICC”)**

In order to comply with the “risk management and internal control” code provisions under C.2 of the Code, the RMICC has been approved and established by the Board with effect from 1 January 2016. The Board has delegated to the RMICC the responsibilities for implementation of the RM and IC systems and reviewing of all relevant financial, operational, compliance controls, the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions.

The specific terms of reference of the RMICC have been posted on the websites of the Company and of the Stock Exchange and are available to the Shareholders upon request. The primary duties of the RMICC are to assist the Board in (i) deciding the Group's risk level and risk appetite; (ii) considering the Group's risk management strategies and gives directions where appropriate; (iii) reviewing and monitoring the RM and IC systems of the Group; and (iv) providing advice on the RM and IC systems and reporting any findings (including any deficiencies, failures or risks noted) to the Board via the audit committee of the Company.

The RMICC comprises at least three members as follows:

- the Compliance Officer of the Company (currently being Mr. Sun Ho) who shall act as the chairman of the RMICC;
- the Chief Financial Officer/Head of Accounting Department of the Group (currently being Mr. Cheng Guoming), and/or the company secretary of the Company (currently being Ms. Lo Kei Chi), who (or who together) shall be responsible for monitoring the overall RM and IC functions of the Group on an ongoing basis; and
- the internal audit (“IA”) manager/senior manager of the Group from time to time, who shall be responsible for carrying out IA on different operating units of the Group by rotation on an ongoing basis.

The RMICC is provided with sufficient resources enabling it to discharge its duties, including but not limited to obtaining advice and assistance from internal or external legal, accounting or other advisors at the expense of the Company if necessary.



The terms of reference of the RMICC together with its proposed acceptance levels of certain risk areas that may affect the Group were discussed and approved by the Board. Such terms of reference set out the responsibilities of the RMICC for monitoring the RM and IC functions of the Group, and the actual work performed by the RMICC was outlined as follows:

**(a) RM functions**

The RM functions were delegated to the Chief Financial Officer/Head of Accounting Department and/or the company secretary of the Company. The RMICC had identified various risk areas that may affect the Group (including operational, liquidity, foreign exchange or treasury, credit and legal or political risks) and formulated the acceptance levels of such risks if arisen. Such identified risk areas, their corresponding acceptance levels and the proposed scope of work of RMICC members had been tabled to the Board for approval in advance. The identified areas of risks were reviewed and monitored on a monthly basis by the RMICC. Any deviation from the acceptance levels of risks pre-approved by the Board must be reported by the RMICC as soon as practicable to the Board via the audit committee. In particular, the RMICC had performed, on an ongoing basis, the following scope of work in monitoring such risks:

- (i) monitoring whether there were any material deviations, adverse trends or other operational risks noted from the actual financial performance of the Group as compared against the annual budgets formulated by the Board for the financial year under review;
- (ii) monitoring whether there were any liquidity risks noted from the capital resources, cashflow or working capital forecast, liquidity ratio (i.e. total current assets divided by total current liabilities) and gearing ratio (i.e. total bank borrowings divided by shareholders' equity) of the Group;
- (iii) monitoring whether there were any foreign exchange or treasury risks arising from the foreign exchange and/or interest rate exposures of the Group;
- (iv) monitoring whether there were any credit risks arising from any long-outstanding or delinquent balances due from customers or other third parties; and
- (v) monitoring whether there were any legal or political risks arising from any new policies, rules and/or regulations in China or any jurisdiction in which the Group has operations which may have a material adverse impact on the business or trading prospect of the Group.



**(b) IC functions**

The monitoring of the IC system of the Group was delegated to the Chief Financial Officer/Head of Accounting Department and/or the company secretary of the Company who had ensured, on an ongoing basis, that various financial, operational and compliance internal control policies and/or procedures in place were adhered to.

**(c) IA functions**

As part of the overall IC system, the Group has IA functions in place which were delegated to the IA senior manager of the Group. The IA senior manager had performed, on an ongoing basis during the financial year under review, the following scope of work:

- (i) carrying out site visits by rotation to different operating subsidiaries of the Company in China to ensure that proper accounting and IC systems stipulated by the head office in Hong Kong were implemented and followed by such subsidiaries. Priorities of site visits were given to those subsidiaries newly acquired by the Group;
- (ii) regularly checking whether any message had been received in the “whistle-blowing” email account of the Group, following up on any concerns or complaints raised, in confidence, by any staff member of the Group about any possible improprieties in financial reporting, IC, RM, plans and ideas about the Group, and reporting to the audit committee for further investigation, if required; and
- (iii) providing training to new accounting staff in China to ensure that they were familiar with the accounting and IC systems of the Group stipulated by the head office in Hong Kong.

The RMICC shall report the findings (including any deficiencies, failures or risks noted) of the RM and IC monitoring to the Board via the audit committee at least four times a year or as and when any material deficiency, failure or risk was noted.

Since the establishment of the RMICC which took effect from 1 January 2016, no significant risks or significant internal control deficiencies or failures had been noted by the RMICC which reported the findings accordingly to the Board via the audit committee. The RMICC also confirmed with the Board via the audit committee that the RM and IC systems (including the IA functions) of the Group were effective and adequate, and that the Group’s processes for financial reporting and GEM Listing Rule compliance were effective.



## RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems, and reviewing the effectiveness of such systems. The risk management and internal control systems of the Group aim to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure to achieve business objectives.

The Board has delegated to the management during the year under review (and now to the RMICC since its establishment on 1 January 2016) the implementation of the internal control systems and reviewing of all relevant financial, operational and compliance controls, risk management functions, the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions.

In order to enhance the risk management and internal control systems of the Group, various measures were taken by the Group which included, but not limited to, the following:

- (i) an internal audit senior manager was appointed by the Group to carry out internal audit functions as described in the section headed "5. Risk management ("RM") and internal control ("IC") committee ("RMICC")" in this Corporate Governance Report;
- (ii) the RMICC was established with effect from 1 January 2016 to assist the Board in performing various RM and IC functions;
- (iii) a whistle-blowing arrangement was implemented to give all staff of the Group an opportunity to raise, in confidence, concerns about any possible improprieties in financial reporting, internal control, plans and ideas about the Group to the Group's internal auditor and the audit committee for further investigation, if required; and
- (iv) a "Disclosure Policy" was adopted by the Company, providing a general guide to directors, officers, senior management and relevant employees of the Group in the handling of inside information and/or monitoring of information disclosure pursuant to the relevant rules and regulations.

The Board has conducted, on an annual basis, a review of the effectiveness of (a) the IC system (including the internal audit functions) of the Group for the year under review up to 18 March 2016 (which was the date of the Board meeting to approve the annual results of the Group for the year ended 31 December 2015)(the "IC Review Period"); and (b) the RM system of the Group since the establishment of the RMICC on 1 January 2016 up to 18 March 2016 (the "RM Review Period"). Both the RM and IC systems (including the IA functions) of the Group were found to be effective and adequate, and no material deficiencies, failures or risks were noted:

- (a) in respect of the IC system (including the internal audit functions) for the IC Review Period and the last annual review by the Board; and
- (b) in respect of the RM system for the RM Review Period.



The Board's annual review also confirmed that the Group's processes for financial reporting and GEM Listing Rule compliance were effective.

In its annual review of the effectiveness of the RM and IC systems (including the internal audit functions) of the Group, the Board has considered the following factors:

- terms of reference, delegation of duties (i.e. scope of work) and acceptable levels of risks of the RMICC have previously been tabled to the Board for approval together with the resolution seeking the approval of the establishment of the RMICC;
- the extent and frequency of the reporting duties of the RMICC to the Board via the audit committee;
- the RMICC has been empowered under its terms of reference to have access to adequate resources, enabling it to discharge its duties, including but not limited to obtaining advice and assistance from internal or external legal, accounting or other advisors at the expense of the Company if necessary;
- the members of the RMICC have the necessary qualifications, experience and competence to carry out its duties;
- training is obtained by, or will be (upon request) made available to, members of the RMICC, and that new accounting staff will be provided with training by the internal audit senior manager of the Group;
- previous findings reported by the RMICC to the Board via the audit committee;
- the confirmation received from the RMICC to the Board via the audit committee that the RM and IC systems (including the internal audit functions) of the Group were effective and adequate, and that the Group's processes for financial reporting and GEM Listing Rule compliance were effective; and
- the discussion with the external auditors of the Company, HLB, that no significant deficiencies were identified by them during their annual audit of the Group.

In the event that any material deficiency, failure or risk is reported by the RMICC to the Board via the audit committee, the Board should convene a physical Board meeting to consider ways to rectify the deficiency or failure, or to mitigate the risk or adverse impact, and decide whether any announcement of inside information to inform the Shareholders is necessary.

As mentioned above, the handling of inside information by Directors and other staff of the Group and/or monitoring of information disclosure pursuant to the SFO and the GEM Listing Rules have been governed by the "Disclosure Policy" adopted by the Company, whereby:

- the Company adopts an upward reporting approach for identifying and escalating any potential inside information to the Board;
- employees of the Company shall bring any potential inside information promptly to the attention of their immediate superiors or the heads of business units or departments as appropriate;





- heads of business units or departments should promptly ascertain the facts and gather all relevant details reported by the staff and notify and escalate the details of any potential proposal, transaction or business development which may give rise to disclosure obligations to the Head of Legal Department or to the Chief Financial Officer (for financial or accounting related matters) to verify and assess such details reported. After identifying any potential inside information, the Head of Legal Department or the Chief Financial Officer should notify the company secretary and the Chief Executive Officer;
- the Chief Executive Officer, with the assistance of the company secretary if necessary, shall seek professional advice (where appropriate) and report to the Board or its delegate(s) and provide them with adequate details for review and assessment of the likely impact of such proposal, transaction or business development and ascertain whether it constitutes inside information or is subject to disclosure in order to avoid a false market of the Shares;
- the Board or its delegate(s) should review all relevant details and factors and decide whether disclosure is required and approve the relevant announcement and any further actions where applicable;
- inside information should be disseminated via the electronic publication system operated by the Stock Exchange before the information is released via other channels, such as the media or posting on the Company's official website;
- all Directors and employees are made aware of the "Disclosure Policy" and their obligations to maintain the confidentiality of any confidential information of the Group;
- no employee is permitted to disclose, discuss or share any confidential information about the Group with outside parties without the Company's prior approval;
- all Directors and employees are absolutely prohibited to deal or procure another person to deal in any securities of the Company when they possess any unpublished inside information; and
- any breach of the above obligations and professional conduct may result in internal disciplinary actions and where applicable, personal sanctions (civil or criminal) under applicable laws and regulations.

## AUDITORS' REMUNERATION

Remuneration to the auditors of the Company, HLB, amounted to HK\$1,100,000 for the year ended 31 December 2015. During the year under review, a resolution for re-appointment of HLB as auditors of the Company was proposed at the annual general meeting held on 5 May 2015. The Board concurred with the views of the audit committee in determining the re-appointment of auditors of the Company. There has been no change in auditors in any of the preceding five financial years.



## MEETING ATTENDANCE

The individual attendance records of each Director at the meetings of the Board and its committees and the annual general meeting of the Company during the year under review are set out in the following table:

	Meetings attended/held					Annual General Meeting
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee	
<b>Executive Directors</b>						
SUN Ho	4/4	N/A*	N/A*	1/1	1/1	0/1
Robert Geoffrey RYAN (resigned on 1 May 2015)	1/1 (Note b)	N/A*	N/A*	N/A*	N/A*	N/A (Note b)
BAI Jinmin	3/4	N/A*	N/A*	N/A*	N/A*	1/1
LIANG Yu	3/4	N/A*	N/A*	N/A*	N/A*	1/1
CHENG Guoming (appointed on 6 May 2015)	3/3 (Note c)	N/A*	N/A*	N/A*	N/A*	N/A (Note c)
<b>Non-executive Director</b>						
HO King Fung, Eric	4/4	N/A*	N/A*	N/A*	N/A*	1/1
<b>Independent non-executive Directors</b>						
Monica Maria NUNES	4/4	5/5	N/A (Note a)	1/1	N/A*	1/1
FENG Qing (appointed on 4 May 2015)	3/3 (Note d)	4/4 (Note d)	N/A (Note a)	N/A (Note d)	N/A*	1/1 (Note d)
GAO Jack Qunyao (appointed on 6 May 2015)	3/3 (Note e)	4/4 (Note e)	N/A (Note a)	N/A (Note e)	N/A*	N/A (Note e)
WANG Ronghua (retired on 5 May 2015)	1/1 (Note f)	1/1 (Note f)	N/A (Note a)	1/1	N/A*	0/1 (Note f)
HUA Fengmao (retired on 5 May 2015)	1/1 (Note f)	1/1 (Note f)	N/A (Note a)	1/1	N/A*	0/1 (Note f)

\* Not applicable, as these Directors were not members of the relevant Board committees.



## Notes:

- a. During the year under review, no physical meeting of such Board committee was held as the relevant committee members had resolved the matters by written resolutions instead.
- b. Only one Board meeting but no annual general meeting of the Company had been held during the year under review before Mr. Robert Geoffrey Ryan resigned as executive Director on 1 May 2015.
- c. Only three Board meetings and no annual general meeting of the Company had been held during the year under review after Mr. Cheng Guoming was appointed as executive Director on 6 May 2015.
- d. Only three Board meetings, four audit committee meetings and one annual general meeting of the Company, but no nomination committee meeting, had been held during the year under review after Mr. Feng Qing was appointed as independent non-executive Director on 4 May 2015.
- e. Only three Board meetings and four audit committee meetings, but no nomination committee meeting and annual general meeting of the Company, had been held during the year under review after Dr. Gao Jack Qun Yao was appointed as independent non-executive Director on 6 May 2015.
- f. Only one Board meeting, one nomination committee meeting and one annual general meeting of the Company had been held during the year under review before Mr. Wang Ronghua and Mr. Hua Fengmao retired as independent non-executive Directors on 5 May 2015.

## COMPANY SECRETARY

The company secretary is responsible for facilitating the Board's process and communications among Board members and with the Shareholders and the management, and advising the Board and its committees on all corporate governance matters. She reports to the chairman of the Board and/or the CEO and her selection, appointment or dismissal shall be a Board decision. During the year under review, Ms. Lo Kei Chi was appointed as the company secretary, authorised representative and member of the corporate governance committee of the Company with effect from 12 May 2015, and a physical Board meeting was held to consider and approve her appointment as required under the Code provision F.1.2.

The Directors have access to the advice and services of the company secretary to ensure that Board procedures and all applicable laws, rules and regulations are followed.

During the year under review, the company secretary, Ms. Lo Kei Chi, had undertaken not less than 15 hours of relevant professional training required under Rule 5.15 of the GEM Listing Rules. The Company did not engage an external service provider as its company secretary.

## COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Group is committed to maintaining a high level of transparency and employs a policy of open and timely disclosure of relevant information to the Shareholders and the investing public.



The Company has adopted a “Shareholder Communications Policy” to encourage and maintain timely and effective communications with the Shareholders through the following means:

- (i) The Directors shall host the annual general meeting each year to meet with the Shareholders and answer their enquiries. The chairmen of the Board, corporate governance, risk management and internal control, audit, nomination and remuneration committees shall attend the annual general meeting to answer questions from the Shareholders. A separate resolution shall be proposed to be considered by the attending Shareholders in respect of each substantially separate issue, and voting on each resolution shall be conducted by way of a poll. The poll voting procedures shall be explained fully to Shareholders during the meeting. The Company’s branch share registrar shall be appointed as scrutineer to monitor and count the poll votes cast at the meeting. The results of the poll which include the number of shares voted for and against each resolution shall be posted on the Stock Exchange’s and the Company’s websites on the same day of the meeting.
- (ii) The Company shall update its Shareholders and the investors on the Group’s latest business developments and financial performance through announcements, circulars as well as annual, interim and quarterly reports to be issued by the Company from time to time.
- (iii) The corporate website of the Company shall serve as an effective communication platform to the investing public and the Shareholders, and the Company has posted the following documents to its website:
  - list of Directors specifying their roles and functions;
  - the updated and consolidated version of its Bye-laws and memorandum of association;
  - the procedures for eligible Shareholders to propose a person for election as a Director;
  - the procedures for eligible Shareholders to convene a special general meeting or to put forward proposals at Shareholders’ meetings;
  - the announcements, circulars as well as annual, interim and quarterly reports of the Company; and
  - terms of reference of the Company’s Board committees, including audit, remuneration, nomination, corporate governance and risk management and internal control committees.
- (iv) Notice to the Shareholders in respect of the annual general meetings and other general meetings of the Company shall be sent by the Company at least 20 clear business days and at least 10 clear business days respectively before such meetings.

The Company’s principal share registrar and transfer agent in Bermuda is Codan Services Limited, Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. Share registration matters shall be handled for the Shareholders by the Company’s branch share registrar in Hong Kong, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong.

During the year under review, there were no significant changes in the Company’s constitutional documents.



## SHAREHOLDERS' RIGHTS

### (A) Shareholders to convene a special general meeting or to put forward proposals at Shareholders' meetings

In accordance with Bye-law 58 of the Bye-laws of the Company, Shareholders holding (at the date of deposit of the requisition) not less than one tenth of the paid-up capital of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require a special general meeting to be called by the Board to consider any proposed resolution specified in such requisition (the "Proposal"); and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty one (21) days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

Under Bye-law 59 of the Company and the code provision E.1.3 set out in Appendix 15 of the GEM Listing Rules, a special general meeting shall be called:

- (i) by written notice of not less than fourteen (14) clear days or ten (10) clear business days (whichever notice period is longer) to the Shareholders if an ordinary resolution is proposed to be considered at that meeting; or
- (ii) by written notice of not less than twenty one (21) clear days or ten (10) clear business days (whichever notice period is longer) to the Shareholders if a special resolution is proposed to be considered at that meeting.

However, a general meeting may be called by shorter notice if it is so agreed by a majority in number of the Shareholders having the right to attend and vote at the meeting, being a majority together holding not less than ninety five per cent. (95%) in nominal value of the issued shares of the Company giving that right.

The written notice shall specify the time and place of the meeting, together with details of the Proposal to be considered at the meeting.

A circular containing the background and details of the Proposal and the aforesaid written notice should also be sent to the Shareholders, Directors and auditors of the Company.

Eligible Shareholders who wish to requisition for the convening of a special general meeting should sign the written requisition and send the same to the company secretary of the Company, at Unit 3912, 39/F, Tower Two, Times Square, Causeway Bay, Hong Kong. In the written requisition, the requisitionist should state his contact details including telephone number and email address to facilitate the follow-up action by the company secretary.

### (B) Shareholders sending enquiries to the Board

Shareholders may at any time send their enquiries to the Board in writing by contacting either the company secretary of the Company at Unit 3912, 39th Floor, Tower Two, Times Square, Causeway Bay, Hong Kong or through our Shareholders' hotline (852) 25061668, fax no. (852) 25061228, e-mail at ir@agtech.com or directly by questions at the annual or special general meetings of the Company. Questions on the procedures for convening or putting forward proposals at the annual or special general meetings of the Company may also be put to the company secretary by the same means.



**(C) Shareholders to propose a person for election as Director**

In accordance with Bye-law 58 of the Bye-laws of the Company, Shareholders holding (at the date of deposit of the requisition) not less than one tenth of the paid-up capital of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require a special general meeting to be called by the Board to consider the proposal of electing a person as Director as specified in such requisition (the “Election Proposal”); and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty one (21) days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

Under Bye-law 59 of the Company and the code provision E.1.3 set out in Appendix 15 of the GEM Listing Rules, the special general meeting for the Election Proposal shall be called by written notice of not less than fourteen (14) clear days or ten (10) clear business days (whichever notice period is longer) to the Shareholders. However, a general meeting may be called by shorter notice if it is so agreed by a majority in number of the Shareholders having the right to attend and vote at the meeting, being a majority together holding not less than ninety five per cent. (95%) in nominal value of the issued shares of the Company giving that right.

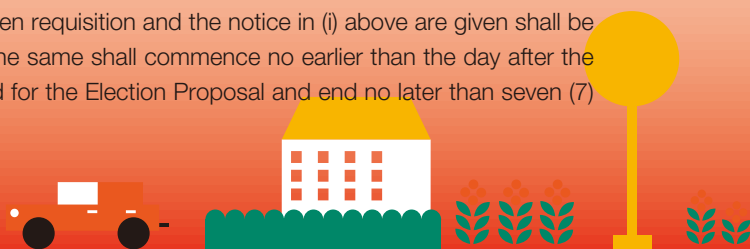
The written notice shall specify the time and place of the meeting, full name(s) of the person(s) to be proposed as Director(s) and their respective designation on the Board (i.e. whether such proposed person(s) is/are to be designated as executive, non-executive or independent non-executive Director(s)), with each nomination to be considered as a separate ordinary resolution in the meeting.

A circular should also be sent, together with the aforesaid written notice, to the Shareholders, Directors and auditors of the Company containing the background and details of the Election Proposal (including biographical details of the person(s) proposed to be elected as Director(s) and other information about him/them as required to be disclosed under GEM Listing Rules 17.50(2)).

Eligible Shareholders (other than the person to be proposed for election as a Director) who wish to requisition for the convening of a special general meeting to consider the Election Proposal should sign the written requisition and send the same to the company secretary of the Company, at Unit 3912, 39/F, Tower Two, Times Square, Causeway Bay, Hong Kong. In the written requisition, the requisitioner should state his contact details including telephone number and email address to facilitate the follow-up action by the company secretary and enclose the following documents:

- (i) a written notice signed by the nominated candidate of the candidate’s willingness to be appointed as Director;
- (ii) the candidate’s personal information as required to be disclosed under GEM Listing Rule 17.50(2) and such other information as set out in the section headed “Required information of the candidate(s) nominated by Shareholders” below; and
- (iii) the candidate’s written consent to the publication of his/her personal data by the Company.

The minimum length of the period during which the written requisition and the notice in (i) above are given shall be at least seven (7) days and the period for lodgment of the same shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for the Election Proposal and end no later than seven (7) days prior to the date of such general meeting.



### **Required information of the candidate(s) nominated by Shareholders**

In order to enable Shareholders to make an informed decision on their election of Directors, the above Election Proposal should be accompanied with the following information of the nominated candidate(s):

- a) full name and age;
- b) positions to be held with the Company and its subsidiaries (if any);
- c) experience including (i) other directorships held in the past three years in public companies of which the securities are listed on any securities market in Hong Kong and overseas, and (ii) other major appointments and professional qualifications;
- d) current employment and such other information (which may include business experience and academic qualifications) of which Shareholders should be aware of, pertaining to the ability or integrity of the candidate;
- e) length or proposed length of service with the Company;
- f) relationships with any Directors, senior management, substantial shareholders or controlling shareholders (as defined in the GEM Listing Rules) of the Company, or an appropriate negative statement;
- g) interests in the Shares within the meaning of Part XV of SFO, or an appropriate negative statement;
- h) a declaration made by the nominated candidate in respect of the information required to be disclosed pursuant to GEM Listing Rule 17.50(2)(h) to (w), or an appropriate negative statement to that effect where there is no information to be disclosed pursuant to any of such requirements nor there are any other matters relating to that nominated candidate's standing for election as a Director that should be brought to Shareholders' attention; and
- i) contact details of the nominated candidate.

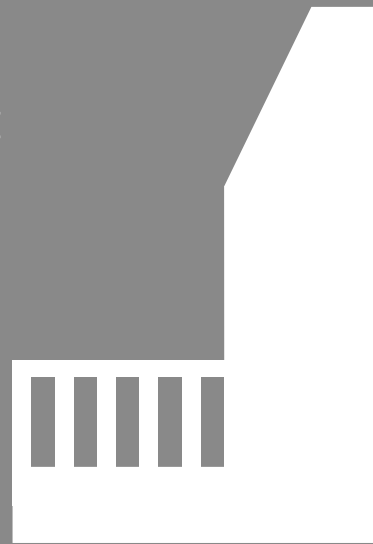
The Shareholder proposing the candidate(s) will be required to read out aloud the proposed resolution(s) at the general meeting of the Company.





# RESPONSIBILITY

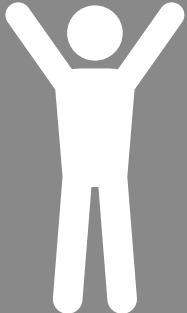
We strive to actively contribute to the development of a responsible lottery industry which will raise important funds for charity, welfare and sports development projects in China. We are actively involved in sports development and charity events, and we are the sponsor of a wide range of sport events.







# RESPONSIBILITY



# DISCUSSION AND ANALYSIS OF THE GROUP'S RESULTS AND BUSINESS

## ABOUT THE GROUP

AGTech Holdings Limited was incorporated in Bermuda and its shares are listed on the GEM of the Stock Exchange. The Group is an integrated lottery technology and services company in the PRC lottery market. As at the date of this report, the Group has a team of over 200 employees, and the footprint of the Group's lottery business covers multiple provinces and municipalities across the PRC.

The Group's vision and strategy is to be a fully integrated service provider for the PRC lottery industry. Its principal business activities comprise:

- (i) Games and systems: the development and supply of lottery games, related software and underlying supporting systems;
- (ii) Hardware: the development, sale and maintenance of lottery hardware (terminals and other lottery-related equipment);
- (iii) Distribution: the sales and distribution of lottery games; and
- (iv) Ancillary Services: the provision of ancillary services.

The Group is committed to applying international management concepts and advanced technologies to the PRC lottery industry along the entire value chain, covering lottery systems, lottery hardware, lottery games, internet and mobile smart phone systems and distribution, wireless network and streaming media, thereby providing the PRC's lottery authorities and millions of lottery players in the PRC with professional and integrated lottery services.

The Group is an associate member of each of the World Lottery Association (WLA) and the Asia Pacific Lottery Association (APLA).

## CORPORATE STRATEGY AND OBJECTIVES

Our long-term objectives are to maintain a leading position as an integrated lottery technology and service provider in the PRC lottery market. We will continue to support both of the PRC's legal lottery operators, namely the Welfare Lottery and the Sports Lottery, in this respect. In order to achieve these objectives, we are committed to bringing together international and domestic industry expertise, technologies, management, skills and infrastructure into the PRC lottery market both through the existing and any new remote channels. Our Group has been working with various world-renowned strategic partners in these efforts for many years.

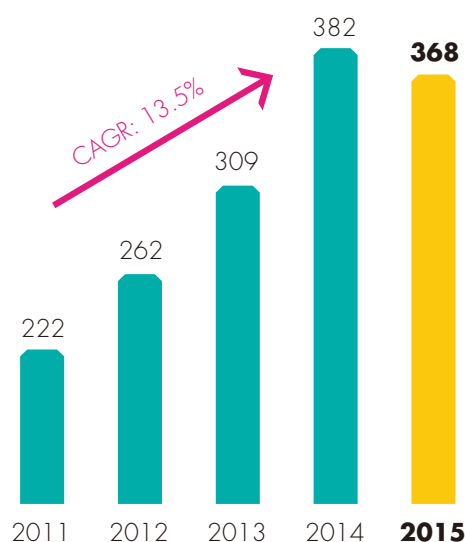
## INDUSTRY OVERVIEW

### The PRC's Lottery Market Achieved Sales of over RMB367 billion in 2015

PRC annual lottery sales in 2015 were the second highest on record. According to data published by the MOF, total lottery sales reached approximately RMB368 billion for the year. Although sales showed an annual decrease of approximately 3.8%, according to figures published by Sina.com, the lotteries were still able to distribute approximately RMB98 billion to good causes during the year.

In April 2015, an announcement by the MOF and seven other ministries of the PRC government (the "Announcement of Eight Ministries") promulgated to prohibit all unauthorised remote lottery ticket sales activity. This policy was announcement by the MOF and seven other ministries of the PRC government in April 2015 (the "Announcement of Eight Ministries"). The policy is ongoing and is seen as a precursor to a more clearly regulated operation, management and distribution model. In the internet and mobile channels, it is widely expected that selected lottery products will gain approvals for trial sales in certain provinces in future.



**Total Lottery Sales 2011-2015 (RMB billion)**

Source: MOF

Looking over a longer time horizon, as shown in the above chart, the lottery has delivered a compound annual growth rate (“CAGR”) of approximately 13.5% during the past five years. This growth has been driven by a number of factors including growth in disposable income, increased prize payout ratios, the introduction of more appealing products as well as changes to the retail distribution network through the nascent interface between the retail network and remote channels (prior to the cessation of internet lottery sales in 2015).

Despite the impressive size of the lottery industry in the PRC, compared with other countries, the PRC’s lottery participation rates are at a relatively low level. Official figures show rates of lottery betting participation in China estimated at around 7.5% in recent years, well below those of developed markets such as Hong Kong and the United States. This low penetration of regulated products is driven by a number of factors which include constraints on distribution with respect to the quality and location of lottery stores and the nascent stage of development of the remote channel, gaps in terms of the breadth of certain products (e.g. sports betting) and, particularly for the products with higher play frequency such as sports betting, virtual sports betting and high frequency games, payout ratios which are not sufficiently high to effectively compete with the illegal market.

The PRC authorities are committed to channeling the existing vast underground gaming revenues away from the illegal market and into the legal and regulated lottery network. This process is already underway and is a vital step to ensure that the vulnerable in society are adequately protected, that the potential for corruption is minimised and that the funding available for good causes can increase. Through further initiatives such as continued increases in prize payout ratios, the introduction of new rapid-draw lottery and virtual sports betting games, further expansion of the sports betting network and the planned development of online and mobile distribution systems, the PRC lottery authorities will make the regulated lottery even more competitive and appealing to consumers and thereby ensure its rapid but responsible growth.

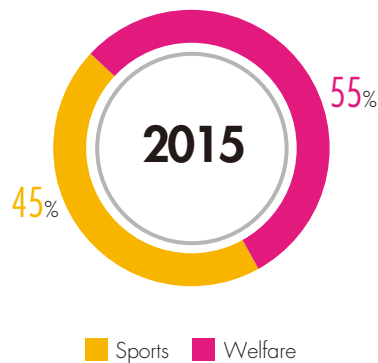


## INDUSTRY HIGHLIGHTS

There are two legal lottery operators in the PRC: the national welfare lottery (Welfare Lottery) and the national sports lottery (Sports Lottery).

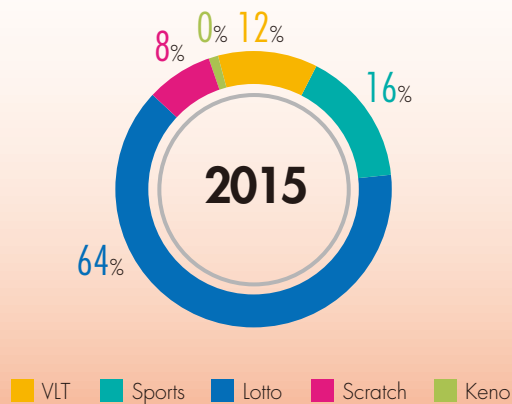
The Welfare Lottery and the Sports Lottery have five main product categories: lotto type lottery game product that are either traditional in nature with a daily or weekly draw pattern as well as modern high frequency games featuring multiple draws per hour ("Lotto"), sport betting ("Sports"), video lottery terminals ("VLT"), a keno product ("Keno") and instant scratch cards ("Scratch"). Of these products, Lotto and Scratch have been common to both lottery operators for some years. Historically, VLT has only been permitted in the Welfare Lottery although a trial VLT product was launched in the Sports Lottery during 2015. At present, only the Sports Lottery is permitted to offer Sports (i.e. the sports betting product).

**Total Lottery Sales by Lottery (2015)**



Source: MOF

**Market Share of Sales by Major Game Type (2015)**

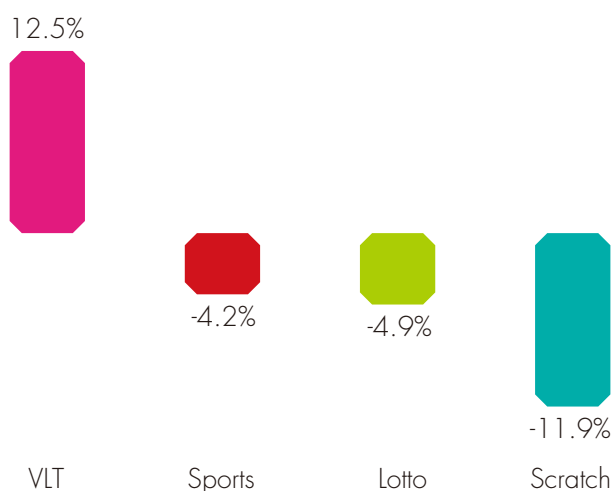


Source: MOF



In 2015, with the exception of VLT, all of the lottery products suffered year on year sales declines. The product categories most impacted by the authorities' April 2015 action were Lotto and Sports. VLT did not benefit from internet distribution in the past which may explain its relatively resilient performance. The Scratch product has been in a pattern of decline for several years.

**Lottery Sales Growth Rates Comparison by Product (2014–2015)**

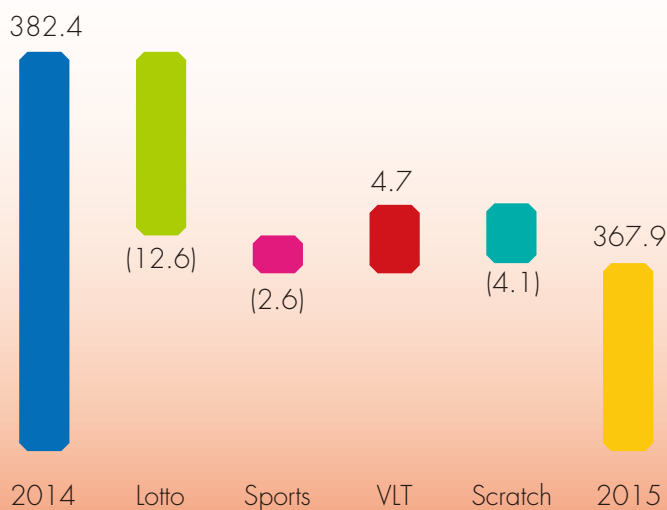


\* KENO excluded due to de minimus sales volumes

Source: MOF

With no substantial VLT contribution and a unique exposure to the product of sports betting, it is not surprising that in absolute terms the Sports Lottery posted larger declines than the Welfare Lottery in terms of both growth rates and absolute ticket values.

**Lottery Sales Bridge 2014–2015: By Product (RMB billion)**

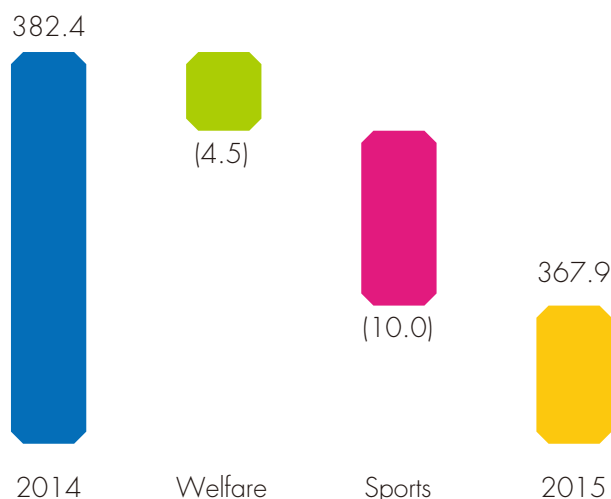


\* KENO grouped with Lotto due to de minimus sales volumes

Source: MOF



**Lottery Sales Bridge 2014–2015: By Lottery (RMB billion)**



Source: MOF

**Performance by Major Product Type (excludes KENO)**

**1. Sports**

Only the Sports Lottery is permitted to offer the Sports product.

There are two main game categories within Sports, single match betting and traditional football betting. Whilst both formats permit betting on FIFA Category A soccer matches (for example the English Premiership, European Champions League, the FIFA World Cup, etc.), single match betting differs from the traditional football betting category in two respects. Traditional football betting obliges the player to predict the outcome of every forthcoming match in a given period whereas in single match betting players can bet on just one event. In addition, single match betting players are not restricted to football betting since they can also bet on the United States' NBA basketball tournament. Within the single match betting category there are two game sub-types: Jing Cai, a product allowing pool or pari-mutuel betting on single matches or fixed odds betting on more than one match (multiples or accumulators) and Beijing single match (available in Beijing, Tianjin and Guangdong province only) where all bets (singles or accumulators) are pari-mutuel in nature.

Sales of the Sports product declined by approximately 4.2% year on year may be due to the absence of the FIFA World Cup (held in 2014) and the authorities actions to ban remote sales during the year. Considering that Sports grew by 82% in 2014, the 4.2% decline represents a relatively robust performance and over a multi-year period Sports as a category remains a high growth product.

While traditional football betting declined by 22.5% in the period, Jing Cai betting grew by approximately 13.1% and single match betting now accounts for approximately 88% of the entire Sports category. The single match product and its fixed odds prize structure is clearly particularly popular with Chinese players. Lucky Racing and e-Ball lottery also feature a fixed odds betting model and this gives us confidence that the roll-out of these virtual lottery games is likely to prove successful.



## 2. VLT

Video lottery terminals are networked self-service lottery terminals that facilitate rapid play of themed, graphically-rich lottery games that are not available for play via the other product categories. Published figures suggest that the Welfare Lottery has an installed base of approximately 40,000 such terminals in approximately 1,700 VLT halls across the PRC. Although extremely popular and growing rapidly, due to its relatively low base, the overall contribution to national lottery sales from the VLT product remains modest. Sales in 2015 were approximately RMB43 billion, representing approximately 12% of the national market.

## 3. Lotto

Lotto contributed sales of approximately RMB236 billion during the year and remains by far the largest category in the PRC market. The annual decline in sales of 12.1% marks a significant reversal in trend from the previous year's positive growth rate of approximately 17.7%. In recent years, the growth of the Lotto category has been driven by modern high (draw) frequency games (HFG). In 2015, whilst performing better than the traditional daily or weekly draw games, HFG also saw sales declines. The overall trend of decline in Lotto is likely to be related to the enforcement action with respect to the remote sales of lottery products.

We expect both the Welfare Lottery and the Sports Lottery to seek to continue to exploit the relative popularity of HFG. Since Lucky Racing, AGT's proprietary game, is classified as a high frequency game we believe that our Virtual Sports Lottery business could benefit from this trend through the planned roll-out of Lucky Racing to more province(s) in the PRC or via new to be approved distribution channels, for example.

## 4. Scratch

In 2015, sales of Scratch tickets were approximately RMB30.3 billion, a decline of approximately 4.1% from the previous year. Sales of the Scratch product are exhibiting a multi-year downward trend. Scratch accounted for approximately 8% of the total lottery market in 2015 compared to approximately 9% and approximately 11% in the preceding two years. The increase in the payout ratio of other products such as HFG has created an attractive substitutable product in the market. In addition, the paper scratch product, like traditional draw based games in the Lotto category, is a relatively mature product in the PRC lottery market.

# BUSINESS REVIEW

## Games and Systems

### The development and supply of lottery games, related software and underlying supporting systems

The Games & Systems division has a reserve of rich and attractive lottery game content in various product categories designed to fulfill the demands of the lottery market and the lottery players.

### Virtual Lottery Games

AGT, our 51%-owned joint venture with Ladbroke Group (one of the world's largest sports betting companies) supplies the country's only virtual sports lottery platform to the China Sports Lottery and has successfully launched two virtual sports games in the country. AGT's motor racing-themed virtual game Lucky Racing (“幸運賽車”) was launched in Hunan province in 2011 while its football themed game e-Ball Lottery (“e球彩”) was launched in Jiangsu province during 2013.



During 2015, the Group continued to supply its virtual sports lottery games “e-Ball Lottery” and “Lucky Racing” to the launch provinces of Jiangsu and Hunan respectively. “e-Ball Lottery” is a football-themed virtual sports lottery game with a 69% payout ratio. Like Lucky Racing, e-Ball Lottery is a NSLAC-approved and fully operational lottery game and has been launched in China's largest Sports Lottery province. E-Ball Lottery continues to operate smoothly. In close cooperation with our customer and the relevant lottery authorities in China, we are continually optimising the game and we are encouraged by the potential of this game. Like Lucky Racing, we aim to roll out e-Ball Lottery to more PRC province(s) in China in due course. Virtual sports lottery is now an established and diversified game category and is fully accepted by the PRC lottery market.

Lucky Racing and e-Ball Lottery are virtual sports lottery games that are broadcast to lottery shops via a central computer and cable television, allowing customers to bet on computer generated car races or football matches respectively. The betting options are like those typically offered for live car racing or live football matches in other countries. Lucky Racing has become a very popular lottery game in Hunan Sports Lottery. Our technical partners at the Sports Lottery have completed the technical preparation work of the national high frequency game platform and have satisfied the technical requirements necessary to carry our Lucky Racing to other provinces beyond Hunan and we target the game to be supplied to more PRC province(s).

To date, Lucky Racing and e-Ball Lottery have been successfully launched in traditional dedicated Sports Lottery shops and the games are targeted to be deployed to more province(s) via this channel. In addition, in due course, the games could be deployed in selected leisure venues (such as coffee shops and restaurants) and, as approved lottery products, the games have the potential to expand nationwide through other remote channels such as mobile and internet.

### **Other Categories**

In addition to virtual lottery games, the Group has launched a number of strategic initiatives to introduce new types of lottery games in the PRC, including a mobile smart phone lottery game and system, a high frequency numbers-based lottery game, and other game categories new to the PRC. The Group intends to introduce these new products to the market in the future, subject to the relevant regulatory approvals.

The Group plans to continue to work with international partners for research and development of various types of self-developed, creative and new lottery games that are suitable to cater for the evolving tastes of China's lottery players.

### **Hardware**

#### **The development, sale and maintenance of lottery hardware (terminals and other lottery-related equipment)**

Through its subsidiaries, GOT and the Shenzhen Subsidiary of Score Value, AGTech's hardware division supplies both the Welfare Lottery and Sports Lottery and has lottery hardware deployed in multiple provinces, cities and municipalities of the PRC. The Shenzhen Subsidiary of Score Value is a leading manufacturer and supplier of paper scratch card sales hardware (instant ticket verification terminals, “IVT(s)”) while GOT is a leading manufacturer and supplier of traditional lottery terminals as well as IVTs with international as well as domestic sales.





During 2015, GOT recorded another significant milestone by being selected as an authorised IVT supplier by the NSLAC. IVT is a handheld data collection device which is a critical component in the printed instant scratch card business. It provides various functions with respect to instant scratch cards including the collection and transmission of logistics data as well as the collection and verification of sales and rewards data. There are approximately 90,000 IVT devices deployed in the China Sports Lottery market at present. The admission test and supplier qualification evaluation for IVTs were organised by the NSLAC to, for the first time, publicly select qualified nationwide equipment suppliers for the supply of IVTs. According to the requirements of the NSLAC, any future addition and/or replacement of IVTs shall only be supplied by the selected IVT suppliers which have passed the admission test, and this requirement applies to all sports lottery administration centres in all provinces, autonomous regions and municipalities across the country. This development is of great significance in GOT's continuous effort to increase its product lines and further broaden its product diversification.

Overall, 2015 has seen relatively weak ordering in the lottery hardware market in the PRC. However, it is anticipated that the slow pace of ordering will be a temporary feature. We are continuing to pursue international opportunities for our hardware and currently the Group is in active discussions with a number of potential international customers and/or distributors and we have machines live or on trial in markets such as South Africa, Cyprus, the United Kingdom, Italy, Austria and Canada.

Thanks to the anticipated rapid technology development of the PRC, the Group believes that effective R&D activities are essential to ensure that the Groups' hardware business remains up-to-date and equipped with competitive technology. The Group's hardware division plans to continue to focus on R&D, maintain its domestic market share, grow its international sales and to broaden its product spectrum with new hardware ranges such as VLT which would be suitable for both domestic and international users.

## **Distribution**

### **The sales and distribution of lottery games**

Besides operating offline shops for the sale and distribution of lottery games, the Group continues to closely monitor policy developments with respect to the government approval of lottery sales via internet and mobile and is well positioned to actively participate in this market in various aspects.

With the Group's valuable PRC internet service provider and PRC internet content provider experience, as well as its excellent business track record and relationships, the Group has established close cooperation with the various potential domestic and international technology and distribution partners and is committed to providing a full range of support and services to localise and develop the PRC's mobile lottery systems and games.



## Services

### The provision of ancillary services

The Group has been providing ancillary services to the PRC provincial lottery authorities since early 2007. In this time, we have provided a wide range of products and services to our provincial clients to assist them in growing sales and improving operations in an efficient manner. Our services include consulting, marketing, training and channel management.

Over many years, the track record of this division as a reliable supplier of quality lottery services to the provincial Sports Lottery authorities in China has been an important enabler of the Group's strategy, cementing the Group's first class relationships and reputation across the country.

The Services business' contribution to Group revenue is currently modest. However, in light of the Group's valuable experience, solid background as well as its trusting cooperative relationships built up with various provincial lottery administration and distribution authorities over the years, together with new lottery technologies/terminals to be introduced and new developments in the new internet/mobile channel business, it is expected that new opportunities for the Services business will emerge. We are currently exploring and building new business co-operations and business models in this area.

## BUSINESS OUTLOOK

Policy development plays a crucial role in facilitating the stable development of the PRC lottery industry. The Directors expect that during 2016 the PRC lottery industry will see further significant policy developments including the introduction of relevant laws and regulations (particularly related to internet and mobile distribution) which will further regulate and professionalise lottery supervision. Thanks to many years of accurately interpreting national regulations and policies, AGTech has successfully grasped industry trends and formulated a corresponding, long-term strategy for business development. Providing full-service solutions across game software and systems, hardware and distribution, we are a fully integrated lottery technology and service provider. We have a track record of working with international lottery technology and services companies to localise and customise games for the PRC, setting us apart in a market where the demand for sophisticated technology is rising with respect to new games, systems, hardware and distribution channels. We believe that the Group is very well placed to capture opportunities arising from the evolution of PRC lottery policy.

The Group has been closely monitoring policy developments with respect to the government approval of lottery sales via internet and mobile channels for many years. In light of the proven potential of the mobile and internet channels and the reported comments of senior Lottery Agency and regulator officials at a recent annual lottery strategy meeting regarding the lottery's active pursuit of preparatory work for an internet sales pilot scheme, we believe that new online and mobile channels for lottery sales in the PRC are likely to be approved. We believe that any new games and systems that will be approved for online sales will require robust and scalable technology in order to deliver effective and efficient monitoring and control systems. We consider that the Group is well positioned to participate in these areas.

Our proprietary in-store games, Lucky Racing Game and e-Ball Lottery, remain successful. Due to the decline in national lottery sales of the traditional lottery products seen during 2015, we anticipate an increased urgency within the lottery to push new products to the stores and we believe that this may likely lead to both Lucky Racing Game and e-Ball Lottery expanding beyond their launch provinces in due course.



On the topic of hardware, we believe that developments in the PRC lottery market are likely to demand new and more sophisticated hardware solutions that can be deployed as bundled products involving the supply of hardware that is integrated with lottery games and underlying supporting systems and which would benefit from a revenue sharing model. In light of our leading positions in point of sale and handheld terminals as well as our first class international partnerships and long track-record in the PRC lottery market, we believe that AGTech is very well positioned to take advantage of such new opportunities in hardware.

Subsequent to the end of the 2015 reporting period, as disclosed in the announcement of the Company dated 4 March 2016, on 4 March 2016, the Company had entered into a subscription agreement under which Ali Fortune Investment Holding Limited ("Ali Fortune") (a company indirectly owned as to 60% by Alibaba Group Holding Limited ("Alibaba") and as to 40% by Zhejiang Ant Small and Micro Financial Services Group Co., Ltd. ("Ant Financial")) will subscribe for HK\$2,388,000,000 of new shares and convertible bonds in AGTech. Upon completion of the transaction, AGTech will become the exclusive lottery business platform of Alibaba and Ant Financial and Ali Fortune will become the Company's largest Shareholder. If completed, we believe that the transaction will enhance AGTech's ability to develop and expand our existing lottery business and in particular we expect that our mobile and internet lottery business will benefit from significant potential synergies resulting from the cooperation with Alibaba and Ant Financial.

Taken together with the continuing underlying revenue growth potential of the PRC lottery business, the numerous catalysts for strategic growth outlined above suggest a very positive outlook for the Group for 2016 and beyond.

## REVIEW OF OPERATING RESULTS

### Revenue and Profitability

Revenue of the Group for the year under review amounted to approximately HK\$301.6 million (2014: approximately HK\$211.1 million), representing an increase of approximately 42.9% over 2014. Most of the revenue was derived from lottery games and systems, hardware, distribution and ancillary services in the PRC. The increase in revenue for the year under review was mainly due to the sales of newly added hardware and technical services.

During the year under review, the Group recorded gross profit of approximately HK\$69.2 million (2014: approximately HK\$69.6 million). The gross profit margin percentage stood at approximately 22.9% (2014: approximately 33.0%). The decrease in gross profit margin percentage was mainly due to competition in the lottery hardware market.

The loss for the year from ordinary business (exclusive of the gain/loss on fair value) in 2015 was approximately HK\$93.2 million (2014: approximately HK\$187.4 million).

Loss attributable to owners of the Company for the year under review increased to approximately HK\$280.2 million (2014: approximately HK\$189.2 million), primarily due to (i) a loss on fair value of contingent consideration in relation to the acquisition of Score Value amounting to approximately HK\$191.4 million mainly as a result of the substantial increase in the closing price per Share as quoted on the Stock Exchange from HK\$0.9 as at the date of completion of such acquisition on 8 January 2015 to HK\$2.02 as at 31 December 2015, causing the aforesaid fair value to increase from approximately HK\$198.9 million as at 8 January 2015 to approximately HK\$390.3 million as at 31 December 2015; (ii) share-based payments of approximately HK\$35.2 million (2014: approximately HK\$136.3 million) as a result of share options of the Company granted to Directors, eligible employees and other eligible participants under the Share Option Scheme during the year under review; and (iii) increase in other major expenses in line with the organic growth of the Group's business.



### Liquidity and financial resources

Net bank balances and cash (defined as total bank balances and cash and pledged bank deposits less total bank borrowings) as at 31 December 2015 were approximately HK\$224.7 million (2014: approximately HK\$315.6 million). The total assets and net current assets of the Group as at 31 December 2015 were approximately HK\$1,613.9 million and approximately HK\$235.5 million respectively (2014: approximately HK\$1,335.6 million and approximately HK\$374.4 million respectively). Current liabilities of the Group as at 31 December 2015 were approximately HK\$173.0 million (2014: approximately HK\$66.4 million). As at 31 December 2015, the Group has available banking facilities denominated in HK\$ and RMB of up to approximately HK\$11.6 million and RMB30.0 million respectively. Total bank borrowings of the Group as at 31 December 2015 were approximately HK\$22.0 million (2014: Nil). The liquidity ratio (defined as current assets divided by current liabilities) of the Group as at 31 December 2015 was approximately 2.4 (2014: approximately 6.6) which continuously reflected adequacy of financial resources of the Group.

### Capital structure and foreign exchange risk

During the year under review, the Group financed its capital requirements through its equity, bank borrowings, its internally generated cash flows as well as the proceeds from the previous fund raising exercise and from the exercising by grantees of the share options granted under the Share Option Scheme. The gearing ratio (defined as bank borrowings divided by equity) of the Group as at 31 December 2015 was 0.02 (2014: nil).

As at 31 December 2015, the bank borrowings of the Group comprised:

- (a) approximately HK\$11.6 million denominated in HK\$, bearing interests at Hong Kong dollar lending prime rate plus 2.3% per annum, and was secured by the Group's pledged bank deposit of RMB10.0 million (equivalent to approximately HK\$12.0 million), with maturity date on 3 June 2016; and
- (b) RMB8.7 million (equivalent to approximately HK\$10.4 million) denominated in RMB, bearing interests at 4.35% per annum, and was secured by the property owned by a subsidiary of the Company in the PRC, with maturity date on 8 December 2016.

As at 31 December 2015, majority of the Group's bank deposits were denominated in HK\$ and RMB. Since all of its revenue-generating operations, monetary assets and liabilities of the Group are conducted or transacted substantially in HK\$ and RMB, which is not freely convertible into foreign currencies, the Group faced minimal foreign exchange risk during the year under review. The Group had neither foreign currency hedging activities nor any financial instruments for hedging purposes during the year under review.

### Contingent liabilities and capital commitment

As at 31 December 2015, the Group did not have any material contingent liabilities and capital commitment.

### Significant investments, material acquisitions and disposals during the year under review

During the year under review, the Purchaser completed the acquisition of a 100% equity interest in Score Value (the "Acquisition") on 8 January 2015 and as a result, Score Value has become a wholly-owned subsidiary of the Company and the results, assets and liabilities of the Score Value Group have been consolidated into the financial statements of the Group during the year under review. Further details of the Acquisition can be found in the Circular and on page 60 of the annual report of the Company for the year ended 31 December 2014.



**Goodwill arising from the Acquisition**

Consideration transferred and to be transferred:

	HK\$'000
(a) Initial consideration paid:	
• in cash	109,125
• by way of consideration shares (being 33,783,783 Shares valued at the published closing price of HK\$0.90 per Share as quoted on the Stock Exchange on 8 January 2015)	30,405
(b) Deferred consideration payable:	
• fair value of cash assessed as at 8 January 2015 in respect of profit guarantees provided by vendors of Score Value ("Profit Guarantees") (see Note (ii) below)	40,029
• by way of consideration shares in respect of the Profit Guarantees (being 33,783,784 Shares valued at the published closing price of HK\$0.90 per Share as quoted on the Stock Exchange on 8 January 2015)	30,405
• fair value of cash assessed as at 8 January 2015 in respect of other deferred consideration (see Note (ii) below)	45,934
• by way of consideration shares in respect of other deferred consideration (being 101,351,351 Shares valued at the published closing price of HK\$0.90 per Share as quoted on the Stock Exchange on 8 January 2015)	91,217
(c) Contingent consideration payable by way of bonus options (being the fair value of the bonus options assessed as at 8 January 2015 using the binominal model (see Note (i) below))	52,133
	399,248

Note (i):

The valuation of the bonus options has been undertaken by using the binominal model, of which significant inputs are as follows:

Number of Shares to be issued upon exercise of the bonus options in full	166,666,666
Closing price per Share as quoted on the Stock Exchange on 8 January 2015	HK\$0.90
Exercise price	HK\$1.80
Expected volatility	69.75%
Effective life of the bonus options	3.85 years
Risk-free interest rate	1.131%
Dividend yield	Nil

Note (ii)

Fair value of cash was assessed as at 8 January 2015 for the above deferred consideration payable at approximately HK\$86.0 million (after discounting the face value of the total cash deferred consideration payable of HK\$100.0 million to its present value), which is different from the face value of cash at HK\$100.0 million as reported in the Company's interim report for the six months ended 30 June 2015.



## Discussion and Analysis of the Group's Results and Business

Assets acquired and liabilities recognised at the date of acquisition (i.e. the date of completion of such acquisition on 8 January 2015) are as follows:

	HK\$'000
<b>Non-current assets</b>	
Property, plant and equipment	1,752
<b>Current assets</b>	
Inventories	30,777
Trade receivables	25
Other receivables, deposits and prepayments	1,857
Bank balances and cash	53,368
<b>Current liabilities</b>	
Trade payables	(24,671)
Accruals and other payables	(32,294)
Current tax liabilities	(1,069)
<b>Net assets</b>	29,745
<b>Goodwill arising from acquisition:</b>	
Considerations transferred and to be transferred	399,248
Less: net assets acquired	(29,745)
<b>Goodwill</b>	369,503
<b>Net cash outflow arising from acquisition:</b>	
Consideration paid in cash	109,125
Less: cash and cash equivalents acquired	(53,368)
	55,757

Save for the Acquisition disclosed above, there were no significant investments, material acquisitions and disposals that constituted "notifiable transactions" under Chapter 19 of the GEM Listing Rules during the year under review.



**(i) Downward adjustment to consideration for the Acquisition**

As disclosed in the announcement of the Company dated 8 January 2015 (the "Completion Announcement"), the Purchaser completed the Acquisition on 8 January 2015 (the "Completion"), and pursuant to a supplemental agreement dated 8 January 2015 in respect of the Acquisition, in the event that the vendors of Score Value fail to satisfy their undertaking to collect outstanding receivables totalling RMB24.3 million (the "Outstanding Receivables") of a subsidiary of Score Value on or before 1 April 2015, the Company or the Purchaser shall deduct the amount of the Outstanding Receivables which remains outstanding as of 1 April 2015 from the Fourth Tranche Initial Consideration (as defined in the Completion Announcement) of HK\$52.5 million payable in cash to the vendors on or before 30 June 2015.

As of 1 April 2015, all the Outstanding Receivables remained outstanding. Accordingly, the Company deducted RMB24.3 million (equivalent to HK\$30,375,000 at the exchange rate of RMB1 to HK\$1.25 as agreed in the aforesaid supplemental agreement) from the Fourth Tranche Initial Consideration of HK\$52.5 million, and a net amount of HK\$22,125,000 in cash was paid to the vendors of Score Value on 30 June 2015. As full impairment losses in respect of these long Outstanding Receivables had been made in the accounts of the Score Value Group before the Completion, there was no adverse financial impact of the failure to collect such receivables on the financial statements of the Group.

During the year under review, the total initial consideration for the Acquisition that was paid and issued by the Company to the vendors of Score Value comprised HK\$109,125,000 in cash and 33,783,783 Consideration Shares (as defined in the Circular).

**(ii) Performance and developments of the Score Value Group after completion of the Acquisition**

For the year ended 31 December 2015, the Score Value Group has achieved strong sales performance and contributed to the significant growth in sales of the Group during the year ended 31 December 2015. The Shenzhen Subsidiary of Score Value recorded audited net profit after taxation of approximately RMB20.6 million (equivalent to approximately HK\$24.6 million) for the year ended 31 December 2015, which exceeded the 2015 profit guarantee of not less than RMB20 million provided by the vendors of Score Value as described in the Circular.

**(iii) Status of outstanding deferred consideration for the Acquisition and fulfillment of 2015 profit guarantee**

Pursuant to the sale and purchase agreement in respect of the Acquisition (the "Acquisition Agreement"), the Company or the Purchaser shall be required to pay deferred consideration in a maximum amount of HK\$300 million to the vendors of Score Value upon fulfilment of certain pre-conditions at a later stage, including obtaining the approval of the relevant PRC government authority for the lottery game to be supplied by a subsidiary of Score Value ("Game Approval Pre-condition") and meeting the profit guarantees of an average of RMB20.0 million (equivalent to approximately HK\$23.9 million) per year provided by such vendors in respect of the Shenzhen Subsidiary of Score Value for each of the three financial years ended 31 December 2015 and ending 31 December 2016 and 2017 as described in the paragraph headed "Deferred Consideration" on pages 9 and 10 of the Circular.



As of the date hereof, the Game Approval Pre-condition has not yet been fulfilled but the parties to the Acquisition Agreement have mutually agreed to extend the deadline for fulfilment of such pre-condition to 31 March 2016. Accordingly, the First Deferred Consideration, Second Deferred Consideration and Third Deferred Consideration as described under the paragraph headed "Deferred Consideration" on page 9 of the Circular have not been paid to the vendors of Score Value.

In addition, for the year ended 31 December 2015, the Shenzhen Subsidiary of Score Value recorded audited net profit after taxation of approximately RMB20.6 million (equivalent to approximately HK\$24.6 million), which exceeded the 2015 profit guarantee of not less than RMB20 million provided by the vendors of Score Value as described in the Circular. Accordingly, the Purchaser or the Company shall pay to such vendors a further amount of HK\$30 million which shall be satisfied as to HK\$15 million in cash and as to HK\$15 million by the Company allotting and issuing 10,135,135 Consideration Shares to the vendors of Score Value within fifteen business days after the issue of the audit report of the Shenzhen Subsidiary of Score Value for the year ended 31 December 2015. Such Consideration Shares are not subject to any lock-up restriction.

The Company will make further announcement(s) in due course when the status of other outstanding deferred consideration settlements can be ascertained.

### **Employees' information and remuneration policies**

As at 31 December 2015, the Group had 239 (2014: 218) employees in Hong Kong and the PRC. Total staff costs (excluding Directors' emoluments) for the year ended 31 December 2015 amounted to approximately HK\$41.4 million (2014: approximately HK\$33.2 million).

The Group's remuneration policies are formulated on the basis of performance and experience of individual employees and are in line with local market practices. In addition to salary, the Group also offers to its employees other fringe benefits including year-end bonus, discretionary bonus, share options under the Share Option Scheme, contributory provident fund, social security fund, medical benefits and training.

### **Charges on Group's assets**

As at 31 December 2015, bank deposits of approximately HK\$15.0 million (2014: HK\$3.0 million) were held in designated bank accounts to secure bank borrowings totalling approximately HK\$22.0 million and letters of guarantee granted to the Group. The pledged bank deposits will be released upon the settlement of the relevant borrowings and the release of the relevant letters of guarantee granted to the Group.

Property owned by a subsidiary of the Company in the PRC was pledged with a PRC bank to secure bank borrowings totalling RMB8.7 million (equivalent to approximately HK\$10.4 million) as at 31 December 2015.

Save as disclosed above, as at 31 December 2015, there was no charge on the assets of the Group.

### **Future plans for material investments and acquisition of capital assets**

As at 31 December 2015, there was no specific plan for material investments and acquisition of capital assets that is required to be disclosed pursuant to Rule 17.10 of the GEM Listing Rules and the inside information provisions under Part XIVA of the SFO.





### **Significant changes to financial position**

Inventories as at 31 December 2015 was approximately HK\$56.3 million (2014: approximately HK\$25.3 million), with inventory turnover period decreased from 93 days in 2014 to 63 days in 2015. Trade receivables as at 31 December 2015 was approximately HK\$29.6 million (2014: approximately HK\$31.1 million), with debtor turnover period decreased from 59 days in 2014 to 36 days in 2015. It reflects the Group's more stringent control on working capital management.

The increase in current tax liabilities from approximately HK\$0.4 million as at 31 December 2014 to approximately HK\$2.2 million as at 31 December 2015 was due to the increase in assessable profits of certain subsidiaries of the Company in the PRC.

Goodwill of the Group significantly increased to approximately HK\$1,119.3 million as at 31 December 2015 (as at 31 December 2014: approximately HK\$793.6 million), primarily due to the additional goodwill arising from the acquisition of Score Value of approximately HK\$369.5 million as disclosed in the paragraph headed "Goodwill arising from the Acquisition" above.

For the year under review, a loss on fair value of the contingent consideration in relation to the acquisition of Score Value amounting to approximately HK\$191.4 million was recorded mainly as a result of the substantial increase in the closing price per Share as quoted on the Stock Exchange from HK\$0.9 as at the date of completion of such acquisition on 8 January 2015 to HK\$2.02 as at 31 December 2015, causing the aforesaid fair value to increase from approximately HK\$198.9 million as at 8 January 2015 to approximately HK\$390.3 million as at 31 December 2015.

### **Principal risks and uncertainties facing the Group, risk management measures and compliance with relevant laws and regulations**

Details of the principal risks and uncertainties facing the Group, the risk management measures deployed by the Group to mitigate such risks and the Group's compliance with relevant laws and regulations can be found in the Directors' Report on pages 100 to 101 of this annual report.

### **Significant events after the reporting period**

Details of significant events affecting the Group after the end of the year under review can be found in the paragraph headed "(d) Significant event after the reporting period" on pages 101 to 103 of the Directors' Report in this annual report.

### **Fund raising exercise and use of proceeds**

As disclosed in the announcements of the Company dated 6 May 2013 and 21 May 2013, the Company completed on 21 May 2013:

- (i) a placing of 406,521,739 Shares at the placing price ("Placing Price") of HK\$0.345 each under general mandate ("Placing") to not less than six independent individual, corporate, professional and/or institutional investors ("Placees"); and
- (ii) the grant of an option ("Option") under general mandate to Rainwood Resources Limited, entitling it to subscribe for up to 212,879,224 Shares at an exercise price of HK\$0.40 per Share (subject to adjustments) over an exercisable period of three years.



To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) the Placees (including Rainwood Resources Limited) and their respective ultimate beneficial owners (if any) were third parties independent of and were not connected with the Company and its connected persons (as defined in the GEM Listing Rules); and (ii) none of the Placees and their respective associates became a Substantial Shareholder (as defined in the GEM Listing Rules) of the Company immediately upon completion of the Placing.

The aggregate nominal value of the 406,521,739 Shares under the Placing was approximately HK\$813,043. The Placing Price represents a discount of approximately 19.8% to the closing price of HK\$0.43 per Share as quoted on the Stock Exchange on 3 May 2013, being the date of agreement in respect of the Placing. The net Placing Price, after taking into account the commission for and expenses of the Placing, was approximately HK\$0.34 per Share. The net proceeds of the Placing received by the Company amounted to approximately HK\$138 million ("Placing Proceeds"), and the Option was exercised in full by Rainwood Resources Limited on 16 March 2016. The Placing Proceeds together with the aggregate exercise price received by the Company as a result of the exercise of the Option in full amounted to approximately HK\$223 million.

The Group financed its operations primarily with internally generated cash flows, bank borrowings as well as the proceeds from the Placing and from the exercising by grantees of the share options granted under the Share Option Scheme. Primarily due to the Placing Proceeds raised, the bank balances and cash of the Group increased from HK\$137,666,360 as at 31 December 2012 to HK\$295,017,209 as at 30 June 2013, thus strengthening the working capital position of the Group.

As disclosed in the aforesaid announcement dated 6 May 2013, the Directors considered it beneficial for the Group to raise funds through the Placing. The Placing represented a good opportunity to raise additional general working capital for future business development of the Group, and would enhance the capital and Shareholders' base of the Company, thereby increasing the liquidity of the Shares. In addition, the Placing Proceeds were intended to be used for business development, working capital of the Group, and/or investments undertaken or to be made by the Group should suitable investment opportunities arise including, but not limited to, investment opportunities in relation to any entertainment, hotel and/or leisure related business in Macau.



The actual usage of the Placing Proceeds has been as follows:

<b>Period under review</b>	<b>Aggregate amount used during period under review</b>	<b>Purpose of usage</b>	<b>Remaining balance of Placing Proceeds as at the last date of the period under review</b>
since completion of the Placing on 21 May 2013 up to and including 31 December 2013	approximately HK\$37 million	for working capital of the Group	approximately HK\$101 million*
from 1 January 2014 up to and including 31 December 2014	approximately HK\$14 million	for working capital of the Group	approximately HK\$87 million*
from 1 January 2015 up to and including 31 December 2015	approximately HK\$87 million	for investment in 100% equity interest in Score Value Limited as disclosed in the Circular and for working capital of the Group	Nil

\* The remaining balance was placed in the bank savings account of the Company.



# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

### Mr. Sun Ho – Executive Director, Chairman & CEO

Mr. Sun Ho, aged 47, is the executive Director, chairman & CEO, authorised representative, compliance officer, member of the nomination committee, and chairman of the corporate governance committee and risk management and internal control committee of the Company. He is also the director of various subsidiaries of the Company and is responsible for the strategic planning, business development and general management of the Group.

Mr. Sun also has extensive experience in auditing and financial management of enterprises. He holds a bachelor degree in Economics from the University of Sydney in Australia and a master degree in Corporate Finance from the Hong Kong Polytechnic University. Mr. Sun is a member of CPA Australia and the Hong Kong Institute of Certified Public Accountants. Mr. Sun has been instrumental in the development of China's lottery markets over many years and has completed a number of significant research studies regarding the development and future prospects of Asia Pacific's gaming markets.

### Mr. Bai Jinmin – Executive Director

Mr. Bai Jinmin, aged 49, is the executive director of the Company. He is also the director of various subsidiaries of the Company in the PRC, responsible for their business development, strategic planning and operational supervision.

Mr. Bai has over 20 years of extensive experience in business development, investment, corporate management and strategic planning. Prior to joining the Group, Mr. Bai was the director of Louis DreFus Energy (SPEC) Pte Ltd., managing director of SPEC Overseas (Holdings) Pte Ltd., vice president of Shenzhen Petrochemical Industry (Holdings) Co., Ltd., chairman of Shenzhen GETOS Fine Silicons Co., Ltd., director of Sinoying Logistics Pte Ltd. and executive director of STAR Pharmaceutical Limited, the issued shares of which are listed on Singapore Exchange Limited.

Mr. Bai holds a bachelor degree in Engineering from 杭州電子工業學院 (the Electronics Institute of Hangzhou\*), the PRC (now known as Hangzhou Dianzi University\* (杭州電子科技大學)) and a master degree in Business Administration from the National University of Singapore.

### Mr. Liang Yu – Executive Director

Mr. Liang Yu, aged 43, is the executive director of the Company. He also acts as director of various subsidiaries of the Company in the PRC, responsible for their business development, strategic planning and operational supervision.

Mr. Liang has approximately 18 years of law practice experience. Before joining the Company, Mr. Liang was a partner with Haiwen & Partners, a law firm in the PRC. He advised clients on a variety of legal issues involving foreign direct investment and private equity investment in the PRC as well as other forms of foreign trade and economic cooperation activities. In addition, Mr. Liang has extensive experience in the area of dispute resolution in respect of international commercial transactions.

He received his LL.B degree from the University of International Business & Economics in Beijing, the PRC in 1994 and his LL.M degree from the New York University Law School in New York, the United States of America in 2003.



### **Mr. Cheng Guoming – Executive Director and Chief Financial Officer**

Mr. Cheng Guoming, aged 43, is the executive Director and chief financial officer of the Company. He is also a member of the risk management and internal control committee of the Company. Mr. Cheng has extensive experience in China lottery business, private equity investments, special opportunities (e.g. distressed assets and rescue financing), cross-border transactions and operation management of investments in China and overseas. Before joining the Company, Mr. Cheng held various major positions in other renowned or listed companies, including executive director of the global special opportunities group department of J.P. Morgan Securities (Asia Pacific) Limited; director of Greater China – Advisory of HSBC Markets (Asia) Limited; head of investment department of Shanghai Industrial Holdings Limited (a company listed on the Stock Exchange, stock code: 363); deputy chief financial officer (and chief financial officer, China region) of China LotSynergy Holdings Limited (a company listed on the Stock Exchange, stock code: 1371); and senior manager of the reorganisation services group department of Deloitte Touche Tohmatsu Hong Kong. Mr. Cheng holds a bachelor of economics degree from Fudan University in China, and is a non-practising member of the Shanghai Institute of Certified Public Accountants.

### **Mr. Ho King Fung, Eric – Non-executive Director**

Mr. Ho King Fung, Eric, aged 39, graduated from the University of New South Wales, Australia with Bachelor of Commerce (Finance) and Bachelor of Laws degrees, is a solicitor of the Hong Kong Special Administrative Region and the chairman and executive director of Ample Hope Limited. In Macau, Mr. Ho is also the chairman of P&W Money Changer Limited and Jing Yang Company Limited, and an executive director of Mascargo (Macau) Company Limited. Mr. Ho joined JP Morgan in 2000 as an analyst and worked as a trainee solicitor at Linklaters between 2003 and 2005 and an associate solicitor between 2005 and 2006. Between 2007 and 2010, Mr. Ho worked at Deutsche Bank AG, Hong Kong Branch and his last position held was vice president and the head of Hong Kong and Macau Origination. He is a committee member of the Chinese People's Political Consultative Conference of Beijing and the president of Macau Money Exchangers' Association of Macao. Mr. Ho was also the award winner of the Chinese Economics Elite Award in 2009.

From April 2011 to April 2012, Mr. Ho was the non-executive director of United Energy Group Limited (HKSE Stock Code: 467). Mr. Ho has been appointed as the independent non-executive director of Nature Home Holding Company Limited (previously known as Nature Flooring Holding Company Limited) (HKSE Stock Code: 2083) since May 2011. And, Mr. Ho has been appointed as the non-executive director of EPI (Holdings) Limited (HKSE Stock Code: 689) since April 2013 and was redesignated as non-executive chairman of EPI (Holdings) Limited on 30 July 2013.

### **Ms. Monica Maria Nunes – Independent Non-executive Director**

Ms. Monica Maria Nunes, aged 47, has been appointed as independent non-executive Director as well as chairperson of each of the audit, remuneration and nomination committees of the Company. She was first appointed as an executive director of Vodatel Networks Holdings Limited ("Vodatel"), the shares of which are listed on GEM (stock code: 8033), on 13th December 1999. She is the finance director and the Compliance Officer of Vodatel. She graduated from the University of Calgary, Canada with a bachelor degree in commerce and from the University of Hong Kong, the PRC, with a master degree in social sciences. She has over 21 years of accounting and banking experience. She holds a Certified Management Accountant Designation of Certified Management Accountants of Alberta, Canada. She is a member of the Chartered Professional Accountants of Alberta, Canada and is entitled to use the designation Chartered Professional Accountant. She is an associate of the Chartered Institute of Management Accountants and is entitled to use the description Chartered Management Accountant. She is also entitled to hold and use the designation of Chartered Global Management Accountant.



### **Mr. Feng Qing – Independent Non-executive Director**

Mr. Feng Qing, aged 62, was appointed as the independent non-executive Director of the Company on 4 May 2015. Mr. Feng Qing is the chairman of Beijing Yi Xin Tech Corporation. Mr. Feng was the author of the marketing economics book titled “Practical Market Theory (實用市場理論)” which was well received by the market, and became an instrumental reading in learning western economics. In 1983, Mr. Feng commenced study of macroeconomics in Switzerland.

After graduation, Mr. Feng stayed in Switzerland to work at Sulzer International AG, the then one of the biggest machinery manufacturers in Switzerland, for many years. Afterwards, Mr. Feng returned to China and was engaged in satellite communication and investment and finance related work. Mr. Feng graduated from the Precision Instruments faculty (精密儀器系) of Tsinghua University, the PRC, majoring in Machinery Manufacturing Technology and Equipment (機械製造工藝及設備), and was a postgraduate student in macroeconomics of the University of Zurich in Switzerland.

### **Dr. Gao Jack Qunyao – Independent Non-executive Director**

Dr. Gao Jack Qunyao, aged 57, was appointed as the independent non-executive Director of the Company on 6 May 2015. Dr. Gao has extensive experience in information technology (“IT”), media and entertainment, and venture capital. He is currently the Group Vice President and CEO of International Investments and Business Department of 北京萬達文化產業集團有限公司 (Beijing Wanda Culture Industry Group Co., Ltd.\*); Vice Chairman of Infront Sports & Media AG; founder and president of Gao Entertainment LLC; an independent director of AirMedia Group Inc. (the American depositary shares (“ADSs”) of which are listed on NASDAQ under the symbol: AMCN); and an independent director of 萬通投資控股股份有限公司 (Vantone Holdings Co., Ltd.\*). Dr. Gao was previously a director of Bona Film Group Limited (the ADSs of which are listed on NASDAQ under the symbol: BONA); and an alternate director of Phoenix Satellite Television Holdings Limited (a company listed on the Stock Exchange under stock code: 2008). Dr. Gao is also the adjunct professor (客座教授) of the Business School of The Chinese University of Hong Kong. He is the author of the book titled “體驗微軟 (Experience Microsoft)” which has a wide readership in China IT communities.

Previously, Dr. Gao held various major positions in a number of renowned companies, including senior vice president of News Corporation (a company listed on NASDAQ under the symbol: NWS); chief executive officer of News Corporation China Investments and STAR (China) Limited; chief representative of News Corporation, Beijing representative office; vice president of Autodesk China; general manager of Microsoft (China) Co., Ltd.; and general partner, executive vice president and country head (China) of Walden International, a leading venture capital firm in the United States of America. Dr. Gao holds a doctorate degree in Engineering from Harbin Institute of Technology, China.



## SENIOR MANAGEMENT

### Mr. Robert Geoffrey Ryan – Head of Gaming

Mr. Robert Geoffrey Ryan is the head of gaming of the Company. He is also the director of various subsidiaries of the Company, responsible for corporate strategic planning and business development.

Mr. Ryan brings to the Company over 23 years of experience in senior roles within the international gaming and wagering industry. Mr. Ryan has accumulated a broad range of operational, business development and implementation expertise across industry sectors including sports betting operations, on-line lottery operations, pari-mutuel and fixed odds wagering, electronic gaming machine (EGM) and video lottery terminal (VLT) operations, casino operations and gaming systems implementation/integration. Through his tenure with Australia's leading gaming companies, Tabcorp Holdings Limited (Australia's largest gaming and wagering company), Jupiters Limited (casinos and hospitality) and AWA Limited (gaming systems), Mr. Ryan has developed and/or managed gaming operations within Asia and the Asia Pacific region including India, Malaysia, Philippines, Vietnam and Thailand. In his previous role of Regional Manager with Tabcorp, Mr. Ryan was instrumental over a 3-year campaign to have Tabcorp systems, lottery game designs and operations approved in China at the central government level. Mr. Ryan provides advice and assistance to the Group with respect to gaming operations design and implementation, business development and gaming business review.

### Mr. Fu Xiaobing

Mr. Fu was appointed as the Chief Technical Officer of the Company. Mr. Fu has over 11 years of experience in the lottery industry in terms of technology business research and development. Prior to joining the Group, Mr. Fu was the chief of the Lottery Technology Security Research and Development Centre in Chinese Academic of Sciences. Mr. Fu has rich experience with lottery industry as well as system architecture technology and has been engaged in researching and developing lottery games, lottery system security, testing as well as industry standard development. Mr. Fu holds a bachelor degree in Engineering from China University of Petroleum as well as MBA from Renmin University of China.

### Mr. Liu Meng

Mr. Liu Meng is the general manager of two subsidiaries of the Company, namely 亞博泰科科技(北京)有限公司 (Asia Gaming Technologies (Beijing) Co., Ltd.\*) and a subsidiary of Score Value.

Mr. Liu has been working in the China lottery industry for many years. He has solid experience in lottery game design; research, development and operational maintenance of lottery technical systems; and team and organisational leadership. Prior to joining the Group, Mr. Liu was the Vice President and Head of Research and Development Centre of 中體彩科技發展有限公司 (China Sports Lottery Technology Group\*); and deputy general manager of 北京中體駿彩信息技術有限公司 (China Sports Lottery HKJC Infotech (Beijing) Co., Ltd\*), responsible for managing the development of lottery game related technologies, research and development of various kinds of technical systems and project management. Mr. Liu holds a Bachelor of Science degree from Nanjing University and a Master of Science degree from Peking University, the PRC.



### **Mr. Luo Shihui**

Mr. Luo Shihui is the general manager of 世紀星彩企業管理有限公司 (China Lottery Management Co., Ltd.\*) and 深圳市銀溪數碼技術有限公司 (Shenzhen Silvercreek Digital Technology Co., Ltd.\*), both being indirect wholly-owned subsidiaries of the Company.

Mr. Luo has been working in the China lottery industry for many years. Prior to joining the Group, Mr. Luo was deputy general manager of 北京太盈科技發展有限公司 (Beijing TaiYing Technology Development Co., Ltd.\*), and gained extensive experience in lottery business management, market operations and project negotiations. As a member of the Group's senior management, Mr. Luo has made significant contributions in various significant projects. Mr. Luo graduated from 南昌航空工業學院 (Nanchang Institute of Aeronautical Technology\*) (now known as 南昌航空大學 (Nanchang Hangkong University\*)) majoring in business administration and marketing.

### **Mr. Geaspar Byrne, CFA**

Mr. Geaspar Byrne is the Head of Investor Relations of the Company.

Before joining the Company, Mr. Byrne was a director of Deutsche Bank. Mr. Byrne worked for Deutsche Bank for more than a decade as a Corporate Finance professional in London and New York, specialising in the Gaming & Leisure industry. In this capacity, Mr. Byrne gained extensive experience of multi-jurisdictional mergers and acquisitions as well as capital raisings of all types and was directly involved in many of the global gaming industry's most significant transactions.

Mr. Byrne holds a bachelor degree (Hons) in Financial & Business Economics from Newcastle University and is a Chartered Financial Analyst (CFA) charterholder.

### **Ms. Lo Kei Chi**

Ms. Lo Kei Chi is the company secretary, authorised representative and member of the corporate governance committee and the risk management and internal control committee of the Company.

In addition, Ms. Lo has been the financial controller of the Company since November 2006, responsible for the financial reporting, internal controls, preparation of quarterly/interim/annual results announcements and reports, and various aspects of corporate governance matters of the Group. She holds a bachelor degree in Arts from the University of Hong Kong. Ms. Lo is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia and has over 20 years of experience in accounting and finance.





### **Mr. Adam Greenblatt**

Mr. Adam Greenblatt is a director of three of the Company's subsidiaries, namely Asia Gaming Technologies Limited, 亞博泰科科技(北京)有限公司 (Asia Gaming Technologies (Beijing) Co., Ltd.\*), and 亞博泰科科技(天津)有限公司 (Asia Gaming Technologies (Tianjin) Co., Ltd.\*). Mr. Greenblatt has previously been appointed in 2010 as Director of Corporate Development at Ladbrokes, a major UK-listed international betting and gaming company. Mr. Greenblatt began his career as a Chartered Accountant in the UK with Arthur Anderson before moving into mergers and acquisitions at renowned international investment bank Rothschild, specialising in betting and gaming. Mr. Greenblatt left his role as Director of European Investment Banking in 2008 to effect the successful turnaround of a manufacturing business. He then launched a European internet business focusing on the online recruitment market, before most recently moving back into the betting and gaming sector to join Ladbrokes.

### **Mr. Andy Wilson**

Mr. Andy Wilson is a director of three of the Company's subsidiaries, namely; Asia Gaming Technologies Limited, 亞博泰科科技(北京)有限公司 (Asia Gaming Technologies (Beijing) Co., Ltd.\*), and 亞博泰科科技(天津)有限公司 (Asia Gaming Technologies (Tianjin) Co., Ltd.\*). Mr. Wilson joined Hilton Group plc as Financial Analyst in 1999 and moved to the Group Consolidation Accountant role two years later. By 2002, Mr. Wilson moved to the role of Head of Management Reporting for Ladbrokes plc and then in 2006, Mr. Wilson was appointed as Head of Group Financial Reporting, and then appointed as Group Financial Controller for Ladbrokes plc in 2009. In 2015, Mr. Wilson was appointed into his current role as Corporate Finance Director. Prior to this, Andy worked at KPMG in the Travel, Leisure and Tourism practice. Andy holds a degree in Mathematics and Accounting from the University of Kent and is a member of the Institute of Chartered Accountants in England and Wales.

### **Mr. Michael Charlton**

Mr. Michael Charlton is a director of three of the Company's subsidiaries, namely; Asia Gaming Technologies Limited, 亞博泰科科技(北京)有限公司 (Asia Gaming Technologies (Beijing) Co., Ltd.\*) and 亞博泰科科技(天津)有限公司 (Asia Gaming Technologies (Tianjin) Co., Ltd.\*). Mr. Charlton has over 17 years' experience in the Leisure & Gaming industry and is currently responsible for developing Ladbrokes plc's international business in the Asian region. Mr. Charlton joined Ladbrokes plc following his graduation from Glasgow University in 1995. During his time with Ladbrokes plc he has held various senior management positions, initially within the Retail sector of the business before joining the International Department in 2005. Mr. Charlton is currently China General Manager for Ladbrokes plc and serving as a director of Ladbrokes Lottery (Asia) Co. Limited.

\* The English translation of the Chinese company names in this report are included for reference only and should not be regarded as the official English translation of such Chinese company names.



# DIRECTORS' REPORT

The Directors present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2015.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 38 to the consolidated financial statements.

## RESULTS

The results of the Group for the year ended 31 December 2015 are set out in the consolidated statement of profit or loss and other comprehensive income on page 114.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year under review are set out in note 16 to the consolidated financial statements.

## SHARE CAPITAL

Details of the Company's share capital are set out in note 33 to the consolidated financial statements.

## RESERVES

Details of movements in the reserves of the Group for the year under review are set out in the consolidated statement of changes in equity.

The Company has no reserves available for distribution to the Shareholders at both balance sheet dates.

## DIVIDEND

The Board does not recommend the payment of a final dividend for the year under review (2014: Nil).

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.



## FINANCIAL SUMMARY

A summary of the results of the Group and of the assets and liabilities of the Group for the past 5 years ended 31 December 2015 is set out on page 110.

## DIRECTORS

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

### Executive Directors:

Mr. Sun Ho	(appointed on 19 July 2006)
Mr. Robert Geoffrey Ryan	(appointed on 21 May 2007 and resigned on 1 May 2015)
Mr. Bai Jinmin	(appointed on 19 September 2007)
Mr. Liang Yu	(appointed on 23 April 2008)
Mr. Cheng Guoming	(appointed on 6 May 2015)

### Non-executive Director:

Mr. Ho King Fung, Eric	(appointed on 23 May 2013)
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### Independent non-executive Directors:

Ms. Monica Maria Nunes	(appointed on 20 June 2013)
Mr. Wang Ronghua	(appointed on 19 July 2006 and retired on 5 May 2015)
Mr. Hua Fengmao	(appointed on 19 July 2006 and retired on 5 May 2015)
Mr. Feng Qing	(appointed on 4 May 2015)
Dr. Gao Jack Qunyao	(appointed on 6 May 2015)



### Reasons for Directors' resignation or retirement:

Name of Director	Reasons for resignation or retirement from the Board
Mr. Robert Geoffrey Ryan	Mr. Ryan remains as Head of Gaming of the Group. He resigned from the Board in order to devote more time and focus on the business development activities of various subsidiaries of the Company.
Mr. Wang Ronghua	Mr. Wang had been independent non-executive Director for over 8 years since 19 July 2006 and serving the Board for more than 9 years could be relevant to the determination of a non-executive Director's independence according to the code provision A.4.3 in Appendix 15 of the GEM Listing Rules. Accordingly, Mr. Wang decided to retire from the Board following the conclusion of the annual general meeting of the Company held on 5 May 2015 and did not offer himself for re-election as independent non-executive Director.
Mr. Hua Fengmao	Mr. Hua had been independent non-executive Director for over 8 years since 19 July 2006 and serving the Board for more than 9 years could be relevant to the determination of a non-executive Director's independence according to the code provision A.4.3 in Appendix 15 of the GEM Listing Rules. Accordingly, Mr. Hua decided to retire from the Board following the conclusion of the annual general meeting of the Company held on 5 May 2015 and did not offer himself for re-election as independent non-executive Director.

### DIRECTORS' SERVICE AGREEMENTS

Mr. Sun Ho was appointed as an executive Director under a service agreement with no fixed term of service commencing from 19 July 2006. The service agreement shall continue thereafter until terminated by either party thereto giving the other party not less than one month's notice in writing.

Mr. Robert Geoffrey Ryan (resigned on 1 May 2015) was appointed as an executive Director under a renewed service agreement for a term of two years which expired on 30 April 2015, and during the said two-year period, the agreement may be terminated by either party thereto giving the other party not less than three months' notice in writing. Mr. Ryan remains as Head of Gaming of the Group and was also appointed as director of various subsidiaries of the Company.

Mr. Bai Jinmin was appointed as an executive Director under a renewed service agreement for a term commencing from 19 September 2014 and ending upon the conclusion of the 2017 annual general meeting of the Company to be held in May 2017, and during such period, the agreement may be terminated by either party thereto giving the other party not less than three months' notice in writing. Mr. Bai was appointed as director of various subsidiaries of the Company.



Mr. Liang Yu was appointed as an executive Director under a renewed service agreement for a term commencing from 23 April 2014 and ending on 31 December 2016, and during such period, the agreement may be terminated by either party thereto giving the other party not less than three months' notice in writing. Mr. Liang also entered into an employment contract with a wholly-owned subsidiary of the Company in the PRC with no fixed term of service and was appointed as director of various subsidiaries of the Company.

Mr. Cheng Guoming was appointed as executive Director under a service agreement for an initial term of 2 years commencing from 6 May 2015, and during such period, the agreement may be terminated by either party thereto giving the other party not less than three months' notice in writing. Mr. Cheng was also appointed as director of various subsidiaries of the Company.

Mr. Ho King Fung, Eric was appointed as a non-executive Director under a renewed service agreement for a term commencing from 23 May 2015 and ending upon the conclusion of the 2017 annual general meeting of the Company to be held in May 2017, and during such period, the agreement may be terminated by either party thereto giving the other party not less than one month's notice in writing.

Each of Mr. Wang Ronghua and Mr. Hua Fengmao (both retired on 5 May 2015) was appointed as independent non-executive Director under a renewed service agreement for a term which commenced from 19 July 2014 and ended upon the conclusion of the annual general meeting of the Company held on 5 May 2015.

Ms. Monica Maria Nunes was appointed as independent non-executive Director under a renewed service agreement for a term commencing from 20 June 2015 and ending upon the conclusion of the 2017 annual general meeting of the Company to be held in May 2017.

Mr. Feng Qing was appointed as independent non-executive Director under a service agreement for an initial term of 2 years commencing from 4 May 2015.

Dr. Gao Jack Qunyao was appointed as independent non-executive Director under a service agreement for an initial term of 2 years commencing from 6 May 2015.

During the tenures of the aforesaid service agreements for all of the existing or former independent non-executive Directors, such agreements may be terminated by either party thereto giving the other party not less than one month's notice in writing.

All the Directors have a service agreement which is determinable by the Group within one year without payment of compensation other than statutory compensation.



## **DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS**

No transaction, arrangement or contract of significance to which the Company, any of its holding company, subsidiaries or fellow subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year under review or at any time during the year under review.

## **PERMITTED INDEMNITY PROVISION**

Pursuant to the Company's Bye-laws, every Director shall be indemnified out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which he/she may incur or sustain in or about the execution of his/her duty, or supposed duty, in his/her office or otherwise in relation thereto, PROVIDED THAT such indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to such Director. The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against Directors of the Group.

## **CHANGE OF INDEPENDENT NON-EXECUTIVE DIRECTORS**

During the year under review, Mr. Wang Ronghua and Mr. Hua Fengmao retired as independent non-executive Directors with effect from the conclusion of the Company's 2015 annual general meeting which was held on 5 May 2015. The Company appointed Mr. Feng Qing and Dr. Gao Jack Qunyao as independent non-executive Directors and members of the audit, nomination and remuneration committees of the Company with effect from 4 May 2015 and 6 May 2015 respectively.

## **CHANGE OF EXECUTIVE DIRECTORS**

During the year under review, Mr. Robert Geoffrey Ryan resigned as executive Director with effect from 1 May 2015, but remained as Head of Gaming of the Group. The Company appointed Mr. Cheng Guoming as executive Director and Chief Financial Officer of the Company with effect from 6 May 2015.

## **CHANGE OF COMPANY SECRETARY, AUTHORISED REPRESENTATIVE AND MEMBER OF THE CORPORATE GOVERNANCE COMMITTEE**

During the year under review, Mr. Lai Yick Fung resigned on 1 April 2015, and Ms. Lo Kei Chi was appointed with effect from 12 May 2015, as the company secretary, authorised representative, and member of the corporate governance committee of the Company.

## **CONNECTED TRANSACTIONS**

During the year ended 31 December 2015, the Company reviewed its related party transactions and confirmed that there was no connected transaction or continuing connected transaction of the Company which is required to be disclosed pursuant to Chapter 20 of the GEM Listing Rules. None of the related party transactions set out in note 37 to the consolidated financial statements are such transactions required to be disclosed pursuant to Chapter 20 of the GEM Listing Rules.



## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2015, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows:

### a. Interests in ordinary Shares:

Name of Director	Number of Shares			Approximate percentage of the Company's issued share capital
	Personal interest	Corporate interest	Total	
Mr. Sun Ho	27,078,000	2,006,250,000 (Note 1)	2,033,328,000	44.14%
Mr. Bai Jinmin	19,382,000	44,876,600 (Note 2)	64,258,600	1.40%
Mr. Liang Yu	22,420,250	–	22,420,250	0.49%
Mr. Cheng Guoming (appointed on 6 May 2015)	–	–	–	0%
Mr. Ho King Fung, Eric	10,643,961	–	10,643,961	0.23%
Ms. Monica Maria Nunes	375,000	–	375,000	0.01%
Mr. Feng Qing (appointed on 4 May 2015)	–	–	–	0%
Dr. Gao Jack Qun Yao (appointed on 6 May 2015)	–	–	–	0%

Notes:

- These 2,006,250,000 Shares were held in the name of MAXPROFIT GLOBAL INC. As MAXPROFIT GLOBAL INC is beneficially and wholly-owned by Mr. Sun Ho, an executive Director and chairman of the Company, Mr. Sun was deemed to be interested in such Shares.
- These 44,876,600 Shares were held in the name of Fine Bridge International Limited. Fine Bridge International Limited is beneficially and wholly-owned by HB Resources Investment Limited, which in turn is beneficially and wholly-owned by Mr. Bai Jinmin, an executive Director of the Company. Accordingly, HB Resources Investment Limited and Mr. Bai were deemed to be interested in such Shares.



**b. Long position in the underlying Shares in respect of the share options of the Company (which were regarded as unlisted physically settled equity derivatives):**

Name of Director	Date of grant	Exercise price per Share	Exercisable period	Outstanding as at 1 January 2015	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2015
Mr. Bai Jinmin	21 December 2011	0.2900	21 December 2014 – 20 December 2015	5,316,000	-	(5,316,000)	-	-
		0.2900	21 December 2015 – 20 December 2016	5,316,000	-	-	-	5,316,000
	17 August 2012	0.1006	17 August 2014 – 16 August 2015	875,000	-	(875,000)	-	-
		0.1006	17 August 2015 – 16 August 2016	875,000	-	(875,000)	-	-
		0.1006	17 August 2016 – 16 August 2017	875,000	-	-	-	875,000
	9 January 2013	0.4250	9 January 2015 – 8 January 2016	2,000,000	-	(2,000,000)	-	-
		0.4250	9 January 2016 – 8 January 2017	2,000,000	-	-	-	2,000,000
		0.4250	9 January 2017 – 8 January 2018	2,000,000	-	-	-	2,000,000
	21 January 2014	1.3100	21 January 2015 – 20 January 2016	2,500,000	-	-	-	2,500,000
		1.3100	21 January 2016 – 20 January 2017	2,500,000	-	-	-	2,500,000
		1.3100	21 January 2017 – 20 January 2018	2,500,000	-	-	-	2,500,000
		1.3100	21 January 2018 – 20 January 2019	2,500,000	-	-	-	2,500,000
	Mr. Liang Yu	21 December 2011	0.2900	21 December 2014 – 20 December 2015	5,316,000	-	(5,316,000)	-
0.2900			21 December 2015 – 20 December 2016	5,316,000	-	(5,316,000)	-	-
17 August 2012		0.1006	17 August 2014 – 16 August 2015	875,000	-	(875,000)	-	-
		0.1006	17 August 2015 – 16 August 2016	875,000	-	(875,000)	-	-
		0.1006	17 August 2016 – 16 August 2017	875,000	-	-	-	875,000
9 January 2013		0.4250	9 January 2015 – 8 January 2016	2,000,000	-	(2,000,000)	-	-
		0.4250	9 January 2016 – 8 January 2017	2,000,000	-	-	-	2,000,000
		0.4250	9 January 2017 – 8 January 2018	2,000,000	-	-	-	2,000,000
21 January 2014		1.3100	21 January 2015 – 20 January 2016	1,250,000	-	-	-	1,250,000
		1.3100	21 January 2016 – 20 January 2017	1,250,000	-	-	-	1,250,000
		1.3100	21 January 2017 – 20 January 2018	1,250,000	-	-	-	1,250,000
		1.3100	21 January 2018 – 20 January 2019	1,250,000	-	-	-	1,250,000





Name of Director	Date of grant	Exercise price per Share	Exercisable period	Outstanding as at 1 January 2015	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2015	
Mr. Cheng Guoming (appointed on 6 May 2015)	1 June 2015	0.8580	1 June 2016 – 31 May 2017	-	11,236,200	-	-	11,236,200	
		0.8580	1 June 2017 – 31 May 2018	-	11,236,200	-	-	11,236,200	
		0.8580	1 June 2018 – 31 May 2019	-	11,236,200	-	-	11,236,200	
		0.8580	1 June 2019 – 31 May 2020	-	11,236,200	-	-	11,236,200	
Mr. Ho King Fung, Eric	23 May 2013	0.4890	23 May 2014 – 22 May 2015	10,643,961	-	(10,643,961)	-	-	
		0.4890	23 May 2015 – 22 May 2016	10,643,961	-	-	-	10,643,961	
		0.4890	23 May 2016 – 22 May 2017	10,643,961	-	-	-	10,643,961	
		0.4890	23 May 2017 – 22 May 2018	10,643,961	-	-	-	10,643,961	
Mr. Wang Ronghua (retired on 5 May 2015)	21 December 2011	0.2900	21 December 2014 – 20 December 2015	500,000	-	(500,000)	-	-	
		0.2900	21 December 2015 – 20 December 2016	500,000	-	-	(500,000)	-	
	9 January 2013	0.4250	9 January 2014 – 8 January 2015	250,000	-	-	(250,000)	-	
		0.4250	9 January 2015 – 8 January 2016	250,000	-	-	(250,000)	-	
		0.4250	9 January 2016 – 8 January 2017	250,000	-	-	(250,000)	-	
		0.4250	9 January 2017 – 8 January 2018	250,000	-	-	(250,000)	-	
	21 January 2014	1.3100	21 January 2015 – 20 January 2016	125,000	-	-	(125,000)	-	
		1.3100	21 January 2016 – 20 January 2017	125,000	-	-	(125,000)	-	
		1.3100	21 January 2017 – 20 January 2018	125,000	-	-	(125,000)	-	
		1.3100	21 January 2018 – 20 January 2019	125,000	-	-	(125,000)	-	
	Mr. Hua Fengmao (retired on 5 May 2015)	21 December 2011	0.2900	21 December 2014 – 20 December 2015	500,000	-	(500,000)	-	-
			0.2900	21 December 2015 – 20 December 2016	500,000	-	-	(500,000)	-
9 January 2013		0.4250	9 January 2015 – 8 January 2016	250,000	-	(250,000)	-	-	
		0.4250	9 January 2016 – 8 January 2017	250,000	-	-	(250,000)	-	
		0.4250	9 January 2017 – 8 January 2018	250,000	-	-	(250,000)	-	
21 January 2014		1.3100	21 January 2015 – 20 January 2016	125,000	-	-	(125,000)	-	
		1.3100	21 January 2016 – 20 January 2017	125,000	-	-	(125,000)	-	
		1.3100	21 January 2017 – 20 January 2018	125,000	-	-	(125,000)	-	
		1.3100	21 January 2018 – 20 January 2019	125,000	-	-	(125,000)	-	



Name of Director	Date of grant	Exercise price per Share	Exercisable period	Outstanding as at 1 January 2015	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2015
Ms. Monica Maria Nunes	20 June 2013	0.4740	20 June 2015 – 19 June 2016	375,000	-	-	-	375,000
		0.4740	20 June 2016 – 19 June 2017	375,000	-	-	-	375,000
		0.4740	20 June 2017 – 19 June 2018	375,000	-	-	-	375,000
	21 January 2014	1.3100	21 January 2015 – 20 January 2016	125,000	-	-	-	125,000
		1.3100	21 January 2016 – 20 January 2017	125,000	-	-	-	125,000
		1.3100	21 January 2017 – 20 January 2018	125,000	-	-	-	125,000
		1.3100	21 January 2018 – 20 January 2019	125,000	-	-	-	125,000
Mr. Feng Qing (appointed on 4 May 2015)	1 June 2015	0.8580	1 June 2016 – 31 May 2017	-	375,000	-	-	375,000
		0.8580	1 June 2017 – 31 May 2018	-	375,000	-	-	375,000
		0.8580	1 June 2018 – 31 May 2019	-	375,000	-	-	375,000
		0.8580	1 June 2019 – 31 May 2020	-	375,000	-	-	375,000
Dr. Gao Jack Qun Yao (appointed on 6 May 2015)	1 June 2015	0.8580	1 June 2016 – 31 May 2017	-	375,000	-	-	375,000
		0.8580	1 June 2017 – 31 May 2018	-	375,000	-	-	375,000
		0.8580	1 June 2018 – 31 May 2019	-	375,000	-	-	375,000
		0.8580	1 June 2019 – 31 May 2020	-	375,000	-	-	375,000

Note: A portion of the option representing 25% of the total underlying Shares entitled under such option shall be vested in the grantee of the option in each of the 4 years during the exercisable period. If the grantee does not exercise such portion of the option within one year after it has been vested in him/her, such portion of the option will lapse.

Save as disclosed above, as at 31 December 2015, none of the Directors and chief executives of the Company had any interests or short positions in the Shares, underlying Shares (in respect of share options of the Company which were regarded as unlisted physically settled equity derivatives) and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.



## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year under review was the Company, any of its holding company, 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.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31 December 2015, so far as was known to the Directors or chief executives of the Company, the following persons (not being Directors or chief executives of the Company) had, or were deemed to have, interests and long positions in the Shares or underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or, were expected, directly or indirectly, to be interested in 5% or more of the issued voting shares of any other member of the Group or held any option in respect of such shares and recorded in the register kept by the Company pursuant to section 336 of the SFO:

### a. Interests in the Shares:

Name of Shareholder	Capacity	Number of Shares held	Approximate percentage of the Company's issued share capital
MAXPROFIT GLOBAL INC	Beneficial owner	2,006,250,000 (Note 1)	43.55%
Rainwood Resources Limited	Beneficial owner	332,636,000 (Note 2)	7.22%
Mr. Cheung Lup Kwan, Vitor	Interest of controlled corporation	332,636,000	7.22%

Notes:

- As disclosed above, Mr. Sun Ho was deemed to be interested in those 2,006,250,000 Shares by virtue of his interest in MAXPROFIT GLOBAL INC.
- These 332,636,000 Shares were held in the name of Rainwood Resources Limited, which is beneficially and wholly-owned by Mr. Cheung Lup Kwan, Vitor. Accordingly, Mr. Cheung was deemed to be interested in such Shares.



**b. Long position in the underlying Shares in respect of the share option granted under general mandate by the Company (which was regarded as an unlisted physically settled equity derivative):**

Name of Shareholder	Capacity	Number of underlying Shares held	Approximate percentage of the Company's issued share capital
Rainwood Resources Limited	Beneficial owner	212,879,224	4.62%
Mr. Cheung Lup Kwan, Vitor	Interest of controlled corporation	212,879,224 (Note)	4.62%

Note: On 21 May 2013, Rainwood Resources Limited was granted a share option under general mandate by the Company entitling it to subscribe for up to 212,879,224 Shares at an exercise price of HK\$0.40 per Share (subject to adjustments) exercisable within a period of three years. The option was vested in the grantee on the date of grant and is exercisable at any time during the exercisable period. Such option had been exercised in full on 16 March 2016, and the Company had received cash consideration amounting to approximately HK\$85.2 million from Rainwood Resources Limited. As disclosed above, Mr. Cheung Lup Kwan, Vitor was deemed to be interested in this share option by virtue of his interest in Rainwood Resources Limited.

Save as disclosed above, as at 31 December 2015, the Directors or chief executives of the Company were not aware of any other substantial Shareholder (not being a Director or chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares, underlying Shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or who was expected, directly or indirectly, to be interested in 5% or more of the issued voting shares of any other member of the Group or held any option in respect of such shares and recorded in the register kept by the Company pursuant to section 336 of the SFO.

## INTERESTS OF OTHER PERSONS

As at 31 December 2015, apart from the interests in the Shares, underlying Shares and debentures of the Company and its associated corporations held by the Directors, chief executives and substantial Shareholders of the Company stated above, there were no other persons with interests recorded in the register of the Company required to be kept under section 336 of the SFO.

## SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, based on information that is publicly available to the Company and within the knowledge of the Directors, the Company maintained sufficient public float of the Shares, representing no less than 25% of the total issued Shares as required under the GEM Listing Rules.



## SHARE OPTIONS

A new share option scheme of the Company was approved by the Shareholders at the special general meeting held on 23 December 2014 and was adopted by the Company on the same date in place of the former share option scheme of the Company adopted on 18 November 2004 (which had expired on 17 November 2014). Particulars of the Company's Share Option Scheme and details of movements in the share options under such scheme during the year under review are set out in note 36 to the consolidated financial statements.

Under the Share Option Scheme adopted by the Company on 23 December 2014, the total number of Shares which may be issued upon exercise of all options granted under such scheme (and other share option schemes of the Company, if any) shall not exceed the "scheme mandate limit" of 443,431,786 Shares (being 10% of the Shares in issue on the date of the special general meeting of the Company held on 23 December 2014 for the purpose of, among other things, approving such scheme).

During the year ended 31 December 2015, options in respect of 52,200,000 Shares, 72,944,800 Shares and 300,312,280 Shares (totalling 425,457,080 Shares) were granted on 20 January 2015, 1 June 2015 and 7 July 2015 respectively to Directors, eligible employees and other eligible participants under the Share Option Scheme. Closing prices of the Shares immediately before 20 January 2015, 1 June 2015 and 7 July 2015 were HK\$0.92 per Share, HK\$0.87 per Share and HK\$1.03 per Share respectively. No options were cancelled but options in respect of 321,776,500 Shares were lapsed during the year ended 31 December 2015. As at 31 December 2015, the total number of Shares still available for issue under the Share Option Scheme (excluding, for the purpose of calculating the "scheme mandate limit", any options granted under the Share Option Scheme adopted on 23 December 2014 but lapsed in accordance with the terms of such scheme) shall be 19,774,706 Shares, representing approximately 0.4% (2014: 10.0%) of the Company's issued share capital as at that date.

As a result of the options exercised during the year ended 31 December 2015, 132,350,981 Shares were issued by the Company, and the Company received a total cash consideration of approximately HK\$58.8 million in respect of such option exercises. The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK\$1.3265 per Share.

As at 31 December 2015, the number of Shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was 702,099,025 (2014: 730,769,426), representing approximately 15.2% (2014: 16.5%) of the Company's issued share capital as at that date.

## EQUITY-LINKED AGREEMENTS

Save as disclosed in the sections headed "SHARE OPTIONS", "SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES AND DEBENTURES" and "SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS DURING THE YEAR UNDER REVIEW" in this Directors' Report, no equity-linked agreements were entered into by the Group during the year under review or subsisted at the end of the year.



## MANAGEMENT CONTRACT

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year under review.

## MAJOR CUSTOMERS AND SUPPLIERS

The percentages of revenue from sales of goods or rendering of services for the year under review attributable to the Group's major customers were as follows:

	2015	2014
– the largest customer	<b>27.3%</b>	20.6%
– five largest customers combined	<b>53.6%</b>	56.7%

The percentages of purchases for the year under review attributable to the Group's major suppliers were as follows:

	2015	2014
– the largest supplier	<b>23.6%</b>	45.4%
– five largest suppliers combined	<b>75.9%</b>	88.4%

At no time during the year under review did the Directors, their close associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the total number of issued Shares) have an interest in any of the Group's five largest customers or suppliers.

As no single customer accounted for more than 28.0% of the Group's total revenue from sales of goods or rendering of services for the year under review, we do not consider that the relationships with our customers expose the Group's business to any substantial risks.

## INTERESTS IN COMPETING BUSINESS

None of the Directors, controlling shareholder of the Company and their respective associates had an interest in a business, which competes or may compete with the businesses of the Group.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.



## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has confirmed his/her independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all independent non-executive Directors are independent.

## EMOLUMENT POLICY

As incentives for their contributions to the Group, the employees of the Group and all the Directors (including the independent non-executive Directors and non-executive Directors) may be granted share options by the Company from time to time pursuant to the Share Option Scheme.

The remuneration committee reviews and recommends to the Board for approval of the emoluments of the Directors, having regard to the Group's operating results, individual performance, time commitment and responsibilities, and comparable market remuneration packages for executive and non-executive directors of listed issuers in Hong Kong. The remuneration committee of the Company has delegated the responsibility to the executive Directors to approve specific remuneration packages of senior management since the executive Directors have a better understanding of the level of expertise, experience and performance expected of the senior management in the daily business operations.

## RETIREMENT AND PENSION PLAN

To comply with the statutory requirements of the Mandatory Provident Fund ("MPF") Schemes Ordinance (Chapter 485 of the Laws of Hong Kong), the Group has set up the MPF Scheme. Mandatory contributions to the scheme are made by both the employers and employees at 5% of the employees' monthly relevant income capped at HK\$30,000. The employees employed by the PRC subsidiaries are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes. During the year, the Group made contributions to the MPF Scheme amounted to approximately HK\$0.1 million (2014: approximately HK\$0.1 million).

## LOANS TO OFFICERS

No loans to the Company's officers were made or outstanding at any time during the year under review or at the end of the year.

## DONATIONS

During the year under review, the Group donated a total of RMB1.1 million (approximately HK\$1.3 million) for charitable or other purposes.



## **CONTROL AGREEMENTS ADOPTED BY THE GROUP TO INDIRECTLY CONTROL AN OPERATING SUBSIDIARY OF THE COMPANY (NAMELY, SILVERCREEK) IN CHINA**

A wholly-owned subsidiary of the Company, AGTech iGaming Limited, completed the acquisition of the entire issued share capital of Fortune Happy Investment Limited (the "Target Company") in December 2011.

The Target Company is a company incorporated in Hong Kong with limited liability and is an investment holding company holding a 100% equity interest in 深圳市福悦信息諮詢有限公司 (Shenzhen Fortune Happy Information Advisory Co., Ltd.) (the "WFOE") which is a wholly foreign owned enterprise established under the laws of the PRC. The WFOE, in turn, controls a 100% equity interest in an operating subsidiary, Silvercreek, through a set of control agreements (the "Control Agreements") entered into between the WFOE and two individual shareholders of Silvercreek (the "Nominee Shareholders") who are PRC nationals acting as nominees to together hold the entire equity interest in Silvercreek on behalf of the WFOE. During the year under review, the Nominee Shareholders were Mr. Shen Weihong (who was a director of certain subsidiaries within the Group and held a 95% equity interest in Silvercreek as at 31 December 2015) and Mr. Yao Jinhua (who was the general manager of a subsidiary of the Company and held a 5% equity interest in Silvercreek as at 31 December 2015).

Silvercreek is a limited liability company established under the laws of the PRC and is principally engaged in (i) the provision of comprehensive phone and mobile betting solutions in the PRC which include: development of an intermediate platform between lottery organisations and telecom operators; provision of fund settlement services such as lottery bets investment, withdrawal and lottery prize distribution; provision of lottery information publication services; and phone and mobile betting promotion services (collectively referred to as the "Restricted Business"); and (ii) the provision of consultancy services.

Silvercreek holds the necessary PRC internet content provider and PRC telecom service provider licences to operate the Restricted Business in the PRC which is subject to foreign investment restrictions. Accordingly, the Control Agreements were adopted so as to allow the WFOE (being a wholly-owned subsidiary of a foreign company, namely, the Target Company) to gain full effective control over the management and financial operation of Silvercreek and enable the economic benefits of Silvercreek to be consolidated into the consolidated financial statements of the Group. The Control Agreements were not adopted for reasons or requirements other than the aforesaid foreign investment restrictions in respect of the Restricted Business in the PRC. For the year ended 31 December 2015, revenue totalling approximately HK\$3.1 million and net assets totalling approximately HK\$1.4 million of Silvercreek were consolidated into the consolidated financial statements of the Group via the Control Agreements.





Set out below is a summary of the Control Agreements and their key terms which serve to protect the interests of the WFOE as the beneficial owner of Silvercreek:

- (i) *under a loan agreement (貸款協議)* between the WFOE and the Nominee Shareholders, the WFOE (as the lender) agreed to lend a loan amounting to RMB50 million (equivalent to approximately HK\$59.7 million) to the Nominee Shareholders (as the borrowers) for their onward investment in Silvercreek such that they will together have 100% equity interest in Silvercreek. The loan must only be repaid by way of the Nominee Shareholders transferring their equity interests in Silvercreek to the WFOE or its nominee and may only be used by the Nominee Shareholders for the purpose of investing in Silvercreek as its increased registered capital. The Nominee Shareholders shall pay any dividends, interests or benefits received from Silvercreek to the WFOE. Where permissible under the PRC law, the WFOE has the right to acquire from the Nominee Shareholders their entire equity interests in Silvercreek or all the assets of Silvercreek and use the outstanding loan owed by the Nominee Shareholders to the WFOE as settlement of the consideration for the acquisition;
- (ii) *under an equity pledge agreement (股權質押合同)* between the WFOE and the Nominee Shareholders, the Nominee Shareholders agreed to pledge their respective equity interests in Silvercreek (together with any dividends, interests, investment return or other benefits generated from such equity interests) to the WFOE to secure the due performance of their obligations under the loan agreement mentioned in (i) above. The equity pledge agreement ensures that the Nominee Shareholders cannot transfer their respective equity interests in Silvercreek to other parties;
- (iii) *under a call option agreement (購買選擇權協議)* between the WFOE, the Nominee Shareholders and Silvercreek, where permissible under the PRC law, the WFOE or its nominee shall be entitled to exercise an exclusive and irrevocable option (granted by the Nominee Shareholders) to acquire part or all of the Nominee Shareholders' equity interests in Silvercreek or its assets. The consideration for such acquisition shall be settled with and offset against the outstanding loan owed by the Nominee Shareholders to the WFOE under the loan agreement mentioned in (i) above, provided that such consideration shall be adjusted on a pro rata basis if the aforesaid option is partially exercised only. In the event that the WFOE exercises the aforesaid option, the Nominee Shareholders and Silvercreek shall unconditionally assist the WFOE in respect of all necessary procedures for the equity transfer such as obtaining government approval and consent, and handling registration and filing matters. The call option agreement allows the WFOE to directly hold the entire equity interests or assets in Silvercreek when the PRC law lifts the foreign investment restrictions in respect of the Restricted Business in the PRC; and



- (iv) *under a declaration of trust (信託承諾及聲明書)* between the WFOE and the Nominee Shareholders, the Nominee Shareholders declared that they are only holding the equity interests in Silvercreek on trust for the WFOE and do not possess any shareholders' rights in respect of such equity interests. The Nominee Shareholders shall vote at shareholders' meetings in accordance with the written instructions of the WFOE or shall sign any power of attorney or other document(s) requested by the WFOE in order to allow the authorised representative of the WFOE to participate and vote at the shareholders' meeting of Silvercreek or exercise all the rights entitled by the board of directors of Silvercreek. In the event of bankruptcy or death of the Nominee Shareholders or that the Nominee Shareholders refuse, are unable or it is otherwise inappropriate for them, to act as nominees to hold the equity interests in Silvercreek, the WFOE shall be entitled to, at its sole discretion, authorise other nominees to replace the Nominee Shareholders to hold the equity interests in Silvercreek on trust for the WFOE. Under those circumstances, the Nominee Shareholders, the official receiver, the personal representative(s) of the deceased Nominee Shareholder(s) and/or other persons acting in the name or on behalf of the Nominee Shareholders shall immediately transfer the equity interests in Silvercreek to the person(s) designated by the WFOE in writing in accordance with the declaration of trust. The declaration of trust grants the WFOE voting rights in respect of the equity interests in Silvercreek held on trust by the Nominee Shareholders so that the WFOE can have effective control over Silvercreek.

All the above-mentioned Control Agreements provide for dispute resolution via arbitration in China. The PRC counsel of the Company is of the view that the Control Agreements do not violate the relevant PRC laws, have proper authorisation for their execution and are valid, legal and enforceable.

While there will be risks associated with this kind of shareholding arrangement which may affect the legal position of the Group as the beneficial owner of Silvercreek (such as in the event of death, bankruptcy or divorce of the Nominee Shareholders involved), the adoption of a combination of the Control Agreements (containing key terms as mentioned above) shall enable the Group to enforce its rights as the beneficial owner of Silvercreek in the event that such risks arise in the future. In addition, all the existing directors of Silvercreek are indeed senior management personnel nominated by the Company, who together have taken effective control over the day-to-day operations and management of Silvercreek.

During the year under review, there had been no material change in the Control Agreements and/or the circumstances under which they were adopted.

The Group has not unwound any of the Control Agreements as the foreign investment restrictions that led to the adoption of the Control Agreements have not been removed in the PRC.



The Group shall continue to closely monitor the policy development of the PRC government with respect to lottery sales via internet and mobile. With its valuable licenses and its established relationships in the PRC lottery industry, Silvercreek is well-equipped to enable the Group to participate in and bid for customer contracts in pursuit of any potential mobile and/or internet lottery distribution business opportunities as and when they arise and are permissible in the PRC.

## AUDIT COMMITTEE

The audit committee of the Company comprises three independent non-executive Directors, namely, Ms. Monica Maria Nunes, Mr. Feng Qing and Dr. Gao Jack Qunyao. The audited consolidated financial statements of the Group for the year ended 31 December 2015 have been reviewed and commented on by the audit committee.

## AUDITORS

HLB Hodgson Impey Cheng Limited, the auditors of the Company, will retire and the Company shall determine and propose the appointment or reappointment of the auditors of the Company at the forthcoming annual general meeting.

## SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS DURING THE YEAR UNDER REVIEW

As disclosed in the Circular, an agreement dated 17 November 2014 (the "Sale and Purchase Agreement") was entered into between the Company, Silvercreek Technology Holdings Limited (being a wholly-owned subsidiary of the Company, as purchaser (the "Purchaser")), Immense Wisdom Limited ("IWL"), King Achieve Limited ("KAL") (with IWL and KAL together as vendors (the "Vendors")) and Score Value in relation to the acquisition by the Purchaser of a 100% equity interest in Score Value (the "Acquisition") for a maximum consideration of HK\$489.5 million (subject to downward adjustments). The maximum consideration is to be satisfied as to HK\$239.5 million in cash and as to HK\$250.0 million by way of the allotment and issue of a maximum of 168,918,918 Consideration Shares (as defined in the Circular) at the issue price of HK\$1.48 per Share. Subject to the Score Value Group meeting certain operational targets (namely, launching the sales of a lottery game through mobile smart phone channel in prescribed number of provinces in the PRC) as set out in the section headed "Bonus Options" on page 11 of the Circular, the Company shall also grant the Bonus Options (as defined in the Circular) to the Vendors which shall entitle the Vendors to subscribe for a maximum of 166,666,666 Bonus Option Shares (as defined in the Circular) at a subscription price of HK\$1.8 per Bonus Option Share (for a maximum total amount of approximately HK\$300 million receivable by the Company).

As of the date of this report, initial consideration in respect of the Acquisition comprising HK\$109,125,000 in cash and 33,783,783 Consideration Shares has been paid and issued by the Company to the Vendors.



Pursuant to the Sale and Purchase Agreement in respect of the Acquisition, the Company or the Purchaser shall be required to pay deferred consideration in a maximum amount of HK\$300 million (comprising HK\$100 million in cash and 135,135,135 Consideration Shares) to the Vendors upon fulfilment of certain pre-conditions at a later stage, including obtaining the approval of the relevant PRC government authority for the lottery game to be supplied by a subsidiary of Score Value and profit guarantees of an average of RMB20 million (equivalent to approximately HK\$23.9 million) per year provided by the Vendors in respect of the Shenzhen Subsidiary of Score Value for each of the three financial years ended 31 December 2015 and ending 31 December 2016 and 2017 as described in the paragraph headed "Deferred Consideration" on pages 9 and 10 of the Circular. As of the date of this report, except for the fact that the Shenzhen Subsidiary of Score Value has met the profit guarantee of RMB20 million for the year ended 31 December 2015 as disclosed in the paragraph headed "(iii) Status of outstanding deferred consideration for the Acquisition and fulfillment of 2015 profit guarantee" on page 69 of this annual report, the other pre-conditions for the payment of the other tranches of deferred consideration and for the grant of the Bonus Options have not yet been fulfilled.

The Score Value Group is principally engaged in the research and development, quality assurance and sale of handheld lottery sales equipment, provision of aftersales maintenance of such devices, and design of lottery games and system development in the PRC.

The Acquisition constitutes a major transaction for the Company under the GEM Listing Rules and was approved by the Shareholders at the special general meeting of the Company held on 23 December 2014. The Acquisition was completed on 8 January 2015 and as a result, Score Value has become a wholly-owned subsidiary of the Company and the results, assets and liabilities of the Score Value Group have been consolidated into the financial statements of the Group.

Save for the Acquisition disclosed above, there were no significant investments, material acquisitions and disposals that constituted "notifiable transactions" under Chapter 19 of the GEM Listing Rules during the year ended 31 December 2015.



## BUSINESS REVIEW

### (a) Review of the Group's business:

Detailed discussion and analysis of the industry in which the Group operates, and the Group's business and performance for the year ended 31 December 2015 are set out in the "Discussion and Analysis of the Group's Results and Business" section on pages 56 to 73 of this annual report.

### (b) Principal risks and uncertainties facing the Group:

#### (i) Risks relating to lottery games under development or pending approval

- The Group does not receive any revenue for the development of lottery games, game software, related supporting systems or lottery hardware. Income is only generated after the entering into of relevant technical services agreement with the customers (which are governmental lottery authorities or operators authorised by such authorities) and upon the launch of a lottery game. As the launch of a lottery game is subject to the approval of the MOF, there is no assurance that the new lottery games that the Group is currently developing or that have been submitted to the MOF for approval will be accepted and approved by the MOF. Without the prior approvals and consents from the necessary authorities, including the MOF's approval, there is no assurance that the new lottery games that are currently being developed by the Group or that have been submitted to the MOF for approval will be launched to the market. Accordingly, the Group may not be able to recover its costs and expenses incurred for the development of these lottery games and the Group may not be able to realise the revenues it is aiming to realise through these newly developed lottery games.
- The Group acts as a technology supplier to our customers and receives service fees on and subject to the terms and conditions of the relevant technical service agreements between the Group and the customers. Accordingly, the terms and conditions of such technical service agreements are critical to the Group. The terms of the technical service agreements that the Group may enter in the future in respect of lottery games that are currently under development or that have been submitted to the MOF for approval may not be as favourable as the terms that the Group is expecting. There is also no assurance that such service agreements can be entered into by the Group at all.

#### (ii) Uncertainties for the Group resulting from the PRC regulatory regime

- Under the current PRC regulatory regime, lottery products offered by provincial lottery administration centres may be discontinued or subject to restriction and regulations by the relevant national lottery administration centres. There is no assurance that the lottery products underlying the system and technology supplied by the Group will be maintained, and if such lottery products are discontinued or restricted, there may be an adverse effect on the revenue, financial condition and results of operations of the Group.



- The Group's business model in respect of the Group's existing supply of lottery games and the underlying supporting systems is largely based on revenue sharing of the sales of lotteries in certain provinces. There are risks that the administrative authorities might adjust the percentage of issue fees of sales of lotteries. In the case of decrease of issue fees, the technology providers receiving service fees on revenue-sharing basis may be requested to decrease their fees proportionally.
- While the Group believes that the potential of the mobile and internet distribution channels in the PRC lottery markets is huge, there is uncertainty as to when such channels will be approved by the relevant lottery authorities and whether the Group will obtain the requisite licenses or acquire the right target companies with such license to conduct online sales and distribution of lottery products, as the relevant laws and regulations are relatively new.

**(c) Risk management measures and compliance with relevant laws and regulations:**

While the above-mentioned risks and uncertainties facing the Group are often beyond the reasonable control of the Group as they relate to the decisions and policies of the governmental authorities and the regulatory regime of the PRC in general, we do have risk management measures in place to somewhat mitigate such risks. In particular, our Risk Management and Internal Control Committee (which was established with effect from 1 January 2016) will consult and confirm with the Legal Department of the Group on a regular basis as to whether:

- there are any new policies, rules and/or regulations in the PRC (or in any jurisdiction where the Group has operations) which may have a material impact on the business or trading prospect of the Group;
- the Group has complied with the relevant environmental, gaming or lottery related laws and regulations in the PRC (or in any jurisdiction where the Group has operations);
- commercial contracts with customers and/or suppliers/subcontractors, and/or business cooperation agreements with business partners entered into by the Group have incorporated terms that have addressed anti-corruption, environmental protection and responsible lottery gaming concerns as appropriate; and
- counterparties of commercial contracts entered into by the Group are customers which are either governmental lottery authorities or operators authorised by such authorities, or suppliers/subcontractors which have met the Group's "supplier/subcontractor selection standards" for the purpose of addressing environmental protection concerns in their production process.

We believe that, through ensuring the Group's ongoing legal compliance especially in relation to gaming or lottery related laws and regulations in the PRC, it will enhance our chance of winning any contracts or obtaining any game approval in the PRC lottery markets should such business opportunities come along. By keeping posted of the latest development in respect of any new policies, rules and/or regulations in the PRC, it will also help the Group adjust its business development initiatives in a timely manner to meet any new requirements of the governmental authorities, thus allowing us to shift our efforts and resources in the right direction and in a more effective manner accordingly.



The Group has been complying with the lottery gaming related laws and regulations in the PRC (including but not limited to Lottery Management Regulations (彩票管理條例); The Detailed Rules for the Implementation of Lottery Management Regulations (彩票管理條例實施細則); Measures for Lottery Issuance and Sales Management (彩票發行銷售管理辦法); The Interim Measures for the Administration of Internet Sales of Lottery (互聯網銷售彩票管理暫行辦法); and The Interim Measures for the Administration of Telephone Sales of Lottery (電話銷售彩票管理暫行辦法), and there is no incidence of non-compliance with any other relevant laws and regulations affecting the Group (including but not limited to Employment Ordinance of Hong Kong (Chapter 57 of the Laws of Hong Kong); Labour Law of the PRC (中華人民共和國勞動法), The Labour Contract Law of the PRC (中華人民共和國勞動合同法); Regulations of Paid Annual Leave of Employees (職工帶薪年休假條例); PRC Criminal Law (中華人民共和國刑法); PRC Anti-Unfair Competition Law (中華人民共和國反不正當競爭法); PRC Interim Provisions on Prohibiting Commercial Bribery (禁止商業賄賂行為的暫行規定); The Company Law of the PRC (中華人民共和國公司法); Hong Kong Prevention of Bribery Ordinance (Chapter 201 of the Laws of Hong Kong)) that has come to the knowledge of the Directors.

**(d) Significant event after the reporting period:**

As disclosed in the announcement of the Company dated 4 March 2016 (the "Subscription Announcement") and the announcement of the Company dated 16 March 2016, on 4 March 2016, the Company entered into a subscription agreement ("Subscription Agreement") with, among others, Ali Fortune Investment Holding Limited (the "Subscriber"), which is indirectly owned as to 60% by Alibaba Group Holding Limited and as to 40% by Zhejiang Ant Small and Micro Financial Services Group Co., Ltd.. Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue to the Subscriber, and the Subscriber has conditionally agreed to subscribe for:

- (i) an aggregate of 4,817,399,245 new Shares (the "Subscription Shares") (representing approximately 98.4% of the issued share capital of the Company as at the date hereof and approximately 49.6% of the issued share capital of the Company as enlarged by the allotment and issuance of the Subscription Shares) at a subscription price of HK\$0.3478 per Share; and
- (ii) convertible bonds of the Company in the aggregate principal amount of HK\$712,582,483 (the "Convertible Bonds"), which shall entitle the bondholders to subscribe for up to 2,346,908,765 Shares (the "Conversion Shares") at an adjusted initial conversion price of HK\$0.3036 per Share (subject to adjustments pursuant to the terms of the Convertible Bonds).

(The subscription for the Subscription Shares and the Convertible Bonds is referred to as the "Subscription" hereinafter.)

The Company will allot and issue the Subscription Shares and, upon conversion of the Convertible Bonds, the Conversion Shares under a specific mandate to be approved by the independent Shareholders at a special general meeting of the Company ("SGM").

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Subscriber and its ultimate beneficial owners are parties independent of the Company and the connected persons (as defined under the GEM Listing Rules) of the Company.



The Convertible Bonds bear no interest on the principal amount. However, if the Company shall pay any dividend in cash or scrip to the Shareholders, each bondholder shall be entitled to be paid interest in respect of that dividend as if the Convertible Bonds held by such bondholder have been converted into Shares in full at the applicable conversion price.

The Convertible Bonds may be converted by the Subscriber in full or in part at any time during the period on or after the issuance date of the Convertible Bonds and up to the maturity date (which is the third anniversary of the date of issuance of such bonds), provided that, following such conversion, (i) at least 25% of the Company's total number of issued Shares are held by the public (as defined under the GEM Listing Rules); and (ii) the Company is otherwise in compliance with the public float requirements under Rule 11.23(7) of the GEM Listing Rules.

On the other hand, the Company may, by giving prior written notice to the bondholders, require all (but not any one) of the bondholders to convert their Convertible Bonds into Shares in full at any time on or after the issuance date of the Convertible Bonds and up to a date no later than five business days prior to the aforesaid maturity date, provided that, following such conversion, (i) at least 25% of the Company's total number of issued Shares are held by the public (as defined under the GEM Listing Rules); and (ii) the Company is otherwise in compliance with the public float requirements under Rule 11.23(7) of the GEM Listing Rules.

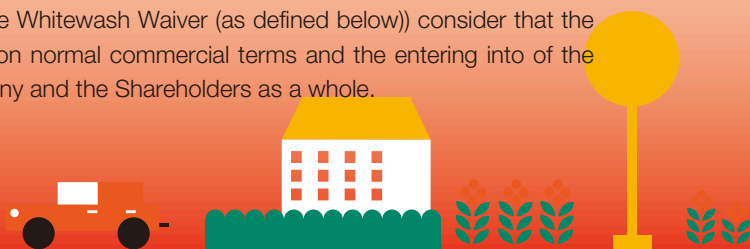
Following the occurrence of a special event as set out in the bond instrument in respect of the Convertible Bonds, such as change of control, each bondholder will have the right to require the Company to redeem in whole but not in part such bondholder's Convertible Bonds at 112 per cent. of the principal amount of such Convertible Bonds.

The aggregate nominal value of the 4,817,399,245 Subscription Shares to be issued under the Subscription Agreement is approximately HK\$9,634,798. The subscription price of HK\$0.3478 per Share and the conversion price of HK\$0.3036 per Share under the Subscription represents a discount of approximately 82.5% and approximately 84.7% respectively to the closing price of HK\$1.99 per Share as quoted on the Stock Exchange on 4 March 2016, being the date of the Subscription Agreement.

The aggregate amount of the consideration for the Subscription Shares and the Convertible Bonds receivable by the Company are HK\$1,675,417,517 and HK\$712,582,483, respectively, totalling HK\$2,388,000,000 which shall be payable by the Subscriber in cash at completion of the Subscription ("Completion"). The net proceeds, after taking into account the estimated expenses in relation to the Subscription, would be approximately HK\$2,380,000,000, representing a net price of approximately HK\$0.3322 per Subscription Share.

The net proceeds from the Subscription will be used to fund the existing operations and future development of the Company's existing principal businesses. In particular, the proceeds of the Subscription are intended to be allocated for each of the business segments and for general corporate purposes as stated in the section headed "USE OF PROCEEDS" in the Subscription Announcement.

Having considered the various factors stated in the section headed "REASONS FOR THE SUBSCRIPTION" in the Subscription Announcement, the Directors (excluding the members of the independent board committee who will express their opinion after considering the advice of the independent financial adviser as to the fairness and reasonableness of the terms of the Subscription and the Whitewash Waiver (as defined below)) consider that the terms of the Subscription are fair and reasonable and on normal commercial terms and the entering into of the Subscription Agreement is in the interests of the Company and the Shareholders as a whole.





The Group financed its operations primarily with internally generated cash flows, bank borrowings as well as the proceeds from the fund raising exercise and from the exercising by grantees of the share options granted under the Share Option Scheme. Assuming Completion will take place, the cash position of the Group will be substantially strengthened by approximately HK\$2,380,000,000 immediately upon Completion.

In order for the Company to carry out the Subscription and to fulfill its pre-existing obligations involving the issue of Shares, the Board proposes to increase the Company's authorised share capital from HK\$20,000,000 (divided into 10,000,000,000 Shares) to HK\$40,000,000 (divided into 20,000,000,000 Shares) by the creation of an additional 10,000,000,000 Shares, subject to the approval of the Shareholders at the SGM.

Immediately upon Completion, assuming that the Convertible Bonds are not converted and there is no other change in the issued share capital of the Company, the Subscriber (together with parties acting in concert with it (as defined in the Hong Kong Code on Takeovers and Mergers ("Takeovers Code"))) will hold 4,817,399,245 Shares, representing approximately 98.4% of the issued share capital of the Company as at the date hereof and approximately 49.6% of the issued share capital of the Company as enlarged by the allotment and issuance of the Subscription Shares.

Immediately upon Completion, assuming that the Convertible Bonds are converted in full at the adjusted initial conversion price of HK\$0.3036 per Conversion Share and there is no other change in the issued share capital of the Company, the Subscriber (together with parties acting in concert with it (as defined in the Takeovers Code)) will in aggregate be interested in 7,164,308,010 Shares, representing approximately 146.3% of the issued share capital of the Company as at the date hereof and approximately 59.4% of the issued share capital of the Company as enlarged by the allotment and issuance of the Subscription Shares and the Conversion Shares.

In respect of both the Subscription Shares and the Conversion Shares, the Subscriber will make an application to the Executive Director of the Corporate Finance Division of the Securities and Futures Commission (or any delegate of such Executive Director)(the "Executive") for a waiver from its obligation under Rule 26.1 of the Takeovers Code to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by the Subscriber and parties acting in concert with it (the "Whitewash Waiver"). The Whitewash Waiver (in respect of both the Subscription Shares and the Conversion Shares), if granted by the Executive, will be subject to, among other things, approval by the independent Shareholders at the SGM by way of a poll.

As at the date hereof, Completion has not taken place yet and is still subject to fulfilment or waiver (as the case may be) of a number of conditions precedent as set out in the section headed "Conditions of the Subscription" in the Subscription Announcement, including approval by independent Shareholders at the SGM for the Subscription and the Whitewash Waiver, and the granting of the Whitewash Waiver by the Executive. As such, the Subscription may or may not proceed. Further announcement(s) will be made by the Company to update Shareholders on the progress of the Subscription.



**(e) Business outlook of the Group:**

Details of the likely future development in the Group's business can be found in the section headed "Business Outlook" on page 64 of this annual report.

**(f) Analysis of financial key performance indicators ("KPIs"):**

KPIs	Financial Year 2015	Financial Year 2014	Variance
Revenue (HK\$'000)	301,630	211,051	↑42.9%
Gross profit (HK\$'000)	69,197	69,582	↓0.6%
Gross profit margin percentage (%)	22.9	33.0	↓30.6%
Loss for the year attributable to owners of the Company (HK\$'000)	280,222	189,184	↑48.1%
Liquidity ratio (defined as current assets divided by current liabilities)	2.4	6.6	↓4.2 times
Gearing ratio (defined as bank borrowings divided by equity)	0.02	–	negligible
Inventory turnover period (days)	63	93	↓30 days
Debtor turnover period (days)	36	59	↓23 days

**(g) Information on environmental matters of the Group:**

The Group is committed to minimising our impact on the environment by implementing policies for the responsible use of resources.

As we do not run any factories but outsource the manufacturing functions to outside suppliers/subcontractors to help produce our lottery hardware products, we do not anticipate any material risks in our operations in respect of environmental protection concerns, and the environmental related laws and regulations do not apply to our operations. Having said that, as part of our sustainability management strategy, we have the following policies and business practices in place to help minimise the impact of our operations on the environment:

- (i) we request our suppliers/subcontractors to adopt minimal packaging for our finished hardware products in order to save on costs of packaging materials and delivery, as well as to reduce the use of paper and make it easier for storage and recycling;



- (ii) the Group has its own “supplier/subcontractor selection standards” for selecting suppliers/subcontractors which can demonstrate that their production process has adequately addressed environmental protection concerns; and
- (iii) the Group has made continuous effort to support low-carbon offices, in that employees are encouraged to observe our policies and business practices on energy and resource savings, such as:

- **Electricity savings:**  
Computers should be turned off completely when employees leave office or when not in use, and lights should be switched off in unoccupied space.
- **Use of recycled paper:**  
Recycled paper is used for printing emails and other documents for internal usage.
- **Increased use of soft copies:**  
As email has become an increasingly popular channel for employees to share information and communicate, a lot of the documents and information can now be distributed to, and circulated among, employees in soft copies via our corporate email accounts. This has immensely reduced the use of paper in our office.
- **5-day work week:**  
Employees in Hong Kong are in general required to work 5 days a week only in order to save them on time and costs to commute between their homes and the workplace on Saturdays, and also help save electricity in the office on Saturdays as well as improve the air pollution condition in the city by reducing traffic. We believe that employees can still satisfactorily fulfill their job duties within a 5-day work week if they work efficiently and with proper time management. On the other hand, employees in the PRC are already not required to work on Saturdays by PRC law.

**(h) Relationships with our stakeholders:**

We believe that the success of our operations depends largely on our long-term relationships with our stakeholders. By engaging with our key stakeholders (including our Shareholders, business partners, employees, suppliers/sub-contractors, customers and the community) on an ongoing basis, it provides an opportunity for the Group to listen to their concerns and build on common goals. This will in turn drive our business development initiatives in the right direction and make our operations sustainable.



Set out below is a table summarising the Group's relationships with its key stakeholders:

Stakeholders of the Group	Relationships with the Group
Shareholders	<p>The Group strives to not only maximise the Shareholders' return through continuous business development, but also to maintain a high level of transparency and accountability to the Shareholders in various ways, such as:</p> <ul style="list-style-type: none"> <li>• maintaining and employing a policy of open and timely disclosure of relevant information to the Shareholders through announcements, circulars, quarterly, interim and annual reports;</li> <li>• maintaining effective communications with the Shareholders through annual general meeting and the official website of the Company;</li> <li>• implementing policies of the Group in respect of sustainability management of its operations so as to reduce their impact on the environment but create a positive social impact on the community where the Group operates; and</li> <li>• setting up a Risk Management and Internal Control Committee of the Company with effect from 1 January 2016 to help detect risks associated with our operations and minimise their impact.</li> </ul>
Business partners	<p>The Group places emphasis on research and development of its products and continues to work closely with our business partners (which are leading international gaming and/or gaming technology companies) with an aim to introducing innovative lottery products and services to the PRC lottery markets and enabling responsible lottery gaming.</p>
Employees	<p>Apart from salaries, the Group offers to its employees other fringe benefits including year-end bonus, discretionary bonus, share options under the Share Option Scheme, contributory provident fund, social security fund and medical benefits.</p>



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**Stakeholders of the Group****Relationships with the Group**

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In addition, the Group offers valuable opportunities for our employees to enhance their professional knowledge and skills through (i) on-the-job training, and (ii) other training activities sponsored by the Group.

(i) On-the-job training:

The research and development team of the Group comprises veteran professionals in the PRC lottery industry. Through working with these professionals and other business partners (which are leading international gaming and/or gaming technology companies), employees can share knowledge base and learn state-of-the-art technology and business practices from other renowned companies.

(ii) Other training activities:

In-house briefing materials on latest corporate governance and listing rule requirements are provided to Directors and company secretary. Directors and employees also attend in-house and outside training seminars on job-related topics, or participate in industry-specific seminars and conferences from time to time. Examples of in-house and outside training seminars offered by the Group to employees include the following:

- Basic knowledge of information security
- Web security testing
- Information technology infrastructure library
- Advanced project management of information system
- Basic knowledge of EXCEL
- Corporate financial analysis and risks detection
- Human resources management
- Labour dispute resolutions
- Fire safety measures
- Marketing strategy for major customers
- International trade practice



Stakeholders of the Group	Relationships with the Group
Suppliers/sub-contractors	<p>The Group does not run any factories but outsources the manufacturing functions to outside suppliers/subcontractors to help produce our lottery hardware products. As part of our sustainability management strategy, we request our suppliers/subcontractors to adopt minimal packaging for our finished hardware products in order to save on costs of packaging materials and delivery, as well as to reduce the use of paper and make it easier for storage and recycling. Furthermore, the Group has its own “supplier/subcontractor selection standards” for selecting suppliers/subcontractors which can demonstrate that their production process has adequately addressed environmental protection concerns.</p>
Customers (being governmental lottery authorities or operators authorised by such authorities)	<p>The Group works closely with its customers to implement responsible lottery measures and prevent problem gaming in various ways:</p> <ul style="list-style-type: none"><li data-bbox="608 972 1410 1101">• we provide our products and services only to customers which are governmental lottery authorities or operators authorised by such authorities in order to preclude from involvement in any possible illegal gaming activities in any jurisdiction where the Group has business;</li><li data-bbox="608 1144 1410 1274">• where we are engaged by our customers to provide consultancy services, we shall advise our customers as to how to educate lottery players in order to avoid problem gaming issues of the players, where appropriate;</li><li data-bbox="608 1317 1410 1381">• our lottery games are launched only after obtaining all necessary approval from PRC governmental lottery authorities;</li><li data-bbox="608 1425 1410 1554">• our lottery games are played in lottery shops where betting by underage players and credit betting are prohibited, and where players can have access to responsible lottery information contained in product promotion materials; and</li><li data-bbox="608 1597 1410 1754">• to the extent possible, anti-addiction features are embedded in our lottery game design (in collaboration with our business partners), such as setting limit on the maximum amount per bet that can be placed by a player, the frequency and maximum number of draws of the games per day.</li></ul>



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Stakeholders of the Group	Relationships with the Group
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## Community

We strive to actively contribute to the development of a responsible lottery gaming industry which will raise important public funds for charity, welfare and sports development projects in China. We are actively involved in sports development and charity events, and we have been the sponsor of a wide range of sports events.

We liaise closely with the PRC lottery authorities and strive to help them develop healthy lottery markets for the community. We not only introduce new lottery types to the PRC lottery markets, but also propose to the PRC lottery authorities to evaluate new forms of legal and regulated lottery distribution channels with a view to cracking down on the illegal gambling market in China.

The footprint of our lottery business covers multiple provinces and municipalities across China. We employ over 200 employees and help create job opportunities in the communities where we operate.

On behalf of the Board

**Sun Ho**

*Chairman & CEO*

18 March 2016



# FINANCIAL SUMMARY

## RESULTS

	For the year ended 31 December				
	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000
Revenue	<b>301,630</b>	211,051	208,360	229,329	111,340
Gross profit	<b>69,197</b>	69,582	91,268	101,635	73,451
Loss for the year attributable to owners of the Company	<b>(280,222)</b>	(189,184)	(82,940)	(32,862)	(43,249)

## ASSETS AND LIABILITIES

	As at 31 December				
	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000
Total assets	<b>1,613,920</b>	1,335,556	1,314,398	1,152,177	1,218,157
Total liabilities	<b>(555,397)</b>	(113,649)	(79,019)	(86,826)	(137,549)
	<b>1,058,523</b>	1,221,907	1,235,379	1,065,351	1,080,608
Equity attributable to owners of the Company	<b>1,059,205</b>	1,218,840	1,234,088	1,063,224	1,080,007
Non-controlling interests	<b>(682)</b>	3,067	1,291	2,127	601
	<b>1,058,523</b>	1,221,907	1,235,379	1,065,351	1,080,608







# AGTech Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 8279

## FINANCIAL REPORT 2015

FORTUNE

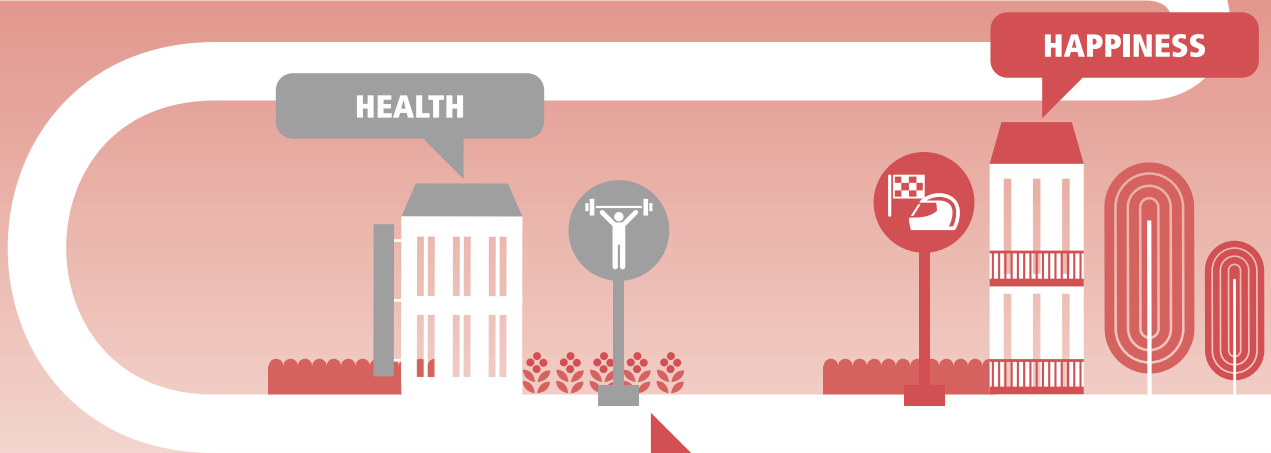
HAPPINESS

HEALTH

LUCK

RESPONSIBILITY





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# INDEPENDENT AUDITORS' REPORT



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

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

## TO THE SHAREHOLDERS OF AGTECH HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of AGTech Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 114 to 204, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITORS' RESPONSIBILITY

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

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

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



## OPINION

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

### **HLB Hodgson Impey Cheng Limited**

*Certified Public Accountants*

#### **Hui Chun Keung, David**

Practising Certificate Number: P05447

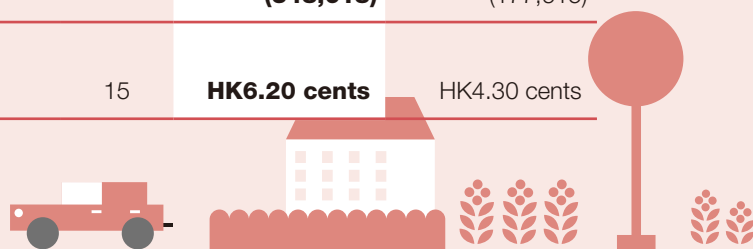
Hong Kong, 18 March 2016



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
Revenue	7	<b>301,630</b>	211,051
Cost of sales and services		<b>(232,433)</b>	(141,469)
Gross profit		<b>69,197</b>	69,582
Investment and other income	9	<b>4,540</b>	4,549
Selling and administrative expenses		<b>(128,483)</b>	(124,150)
Share of losses of a joint venture		<b>(1)</b>	(1)
Loss from business operations		<b>(54,747)</b>	(50,020)
Share-based payments		<b>(35,192)</b>	(136,279)
Net foreign exchange gain		<b>434</b>	4
Amortisation of other intangible assets	20	<b>(454)</b>	(478)
Gain from changes in fair value of investment properties	17	<b>1,202</b>	–
Loss from changes in fair value of contingent consideration payables		<b>(191,402)</b>	–
Finance costs	10	<b>(195)</b>	–
Loss before tax		<b>(280,354)</b>	(186,773)
Income tax expense	11	<b>(3,064)</b>	(599)
<b>Loss for the year</b>	12	<b>(283,418)</b>	(187,372)
<b>Other comprehensive income, net of income tax</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Gain arising on revaluation of property transferred to investment property		–	14,402
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Translation differences on translating foreign operations		<b>(65,200)</b>	(4,645)
Other comprehensive income for the year, net of income tax		<b>(65,200)</b>	9,757
<b>Total comprehensive income for the year</b>		<b>(348,618)</b>	(177,615)
Loss attributable to:			
Owners of the Company		<b>(280,222)</b>	(189,184)
Non-controlling interests		<b>(3,196)</b>	1,812
		<b>(283,418)</b>	(187,372)
Total comprehensive income attributable to:			
Owners of the Company		<b>(344,869)</b>	(179,391)
Non-controlling interests		<b>(3,749)</b>	1,776
		<b>(348,618)</b>	(177,615)
<b>Loss per Share</b>			
Basic and diluted	15	<b>HK6.20 cents</b>	HK4.30 cents



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	16	<b>11,814</b>	15,182
Investment properties	17	<b>52,536</b>	54,343
Goodwill	18	<b>1,119,289</b>	793,618
Other intangible assets	20	<b>1,742</b>	2,219
Investment in a joint venture	21	<b>645</b>	646
Available-for-sale investment	22	<b>–</b>	–
Deposits and prepayments	26	<b>10,204</b>	20,746
Other assets		<b>1,695</b>	1,795
Deferred tax assets	23	<b>7,500</b>	6,227
		<b>1,205,425</b>	894,776
<b>Current assets</b>			
Inventories	24	<b>56,306</b>	25,291
Trade receivables	25	<b>29,597</b>	31,071
Other receivables, deposits and prepayments	26	<b>75,892</b>	68,810
Amount due from a joint venture	21	<b>11</b>	8
Fixed deposit held at bank with original maturity over three months	27	<b>–</b>	37,914
Pledged bank deposits	27	<b>15,042</b>	2,976
Bank balances and cash	27	<b>231,647</b>	274,710
		<b>408,495</b>	440,780
<b>Current liabilities</b>			
Trade payables	28	<b>36,664</b>	26,082
Accruals and other payables	29	<b>47,950</b>	39,283
Amount due to a joint venture	21	<b>650</b>	650
Secured bank borrowings	30	<b>21,982</b>	–
Contingent consideration payables	31	<b>63,503</b>	–
Current tax liabilities		<b>2,264</b>	414
		<b>173,013</b>	66,429
<b>Net current assets</b>		<b>235,482</b>	374,351
<b>Total assets less current liabilities</b>		<b>1,440,907</b>	1,269,127



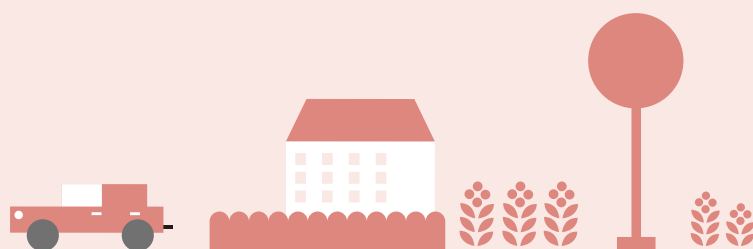
Consolidated Statement of Financial Position  
At 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
Non-current liabilities			
Provision for warranties	32	50,002	41,514
Deferred tax liabilities	23	5,576	5,706
Contingent consideration payables	31	326,806	–
		<b>382,384</b>	47,220
Net assets		<b>1,058,523</b>	1,221,907
Capital and reserves			
Share capital	33	9,213	8,880
Reserves		1,049,992	1,209,960
Equity attributable to owners of the Company		<b>1,059,205</b>	1,218,840
Non-controlling interests		(682)	3,067
Total equity		<b>1,058,523</b>	1,221,907

The consolidated financial statements were approved and authorised for issue by the Board on 18 March 2016 and are signed on its behalf by:

**Sun Ho**  
Director

**Cheng Guoming**  
Director



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Attributable to owners of the Company										Attributable to non-controlling interests	Total
	Share capital	Share premium	Share options reserve	Statutory reserve	Exchange reserve	Contributed surplus	Property revaluation reserve	Other reserve	Accumulated losses	Subtotal		
	HK\$'000 (Note 33)	HK\$'000	HK\$'000	HK\$'000 (Note (a))	HK\$'000	HK\$'000 (Note (b))	HK\$'000 (Note (c))	HK\$'000 (Note (d))	HK\$'000	HK'000\$	HK\$'000	HK\$'000
Balance at 1 January 2014	8,697	1,390,983	66,696	13,864	197,591	47,191	-	-	(490,934)	1,234,088	1,291	1,235,379
Loss for the year	-	-	-	-	-	-	-	-	(189,184)	(189,184)	1,812	(187,372)
Other comprehensive income for the year	-	-	-	-	(4,609)	-	14,402	-	-	9,793	(36)	9,757
Total comprehensive income for the year	-	-	-	-	(4,609)	-	14,402	-	(189,184)	(179,391)	1,776	(177,615)
Recognition of equity-settled share-based payments	-	-	136,279	-	-	-	-	-	-	136,279	-	136,279
Lapse of share options	-	-	(407)	-	-	-	-	-	407	-	-	-
Shares issued on exercise of part of share options	183	37,105	(9,424)	-	-	-	-	-	-	27,864	-	27,864
Transfer from accumulated losses	-	-	-	1,398	-	-	-	-	(1,398)	-	-	-
Balance at 31 December 2014	8,880	1,428,088	193,144	15,262	192,982	47,191	14,402	-	(681,109)	1,218,840	3,067	1,221,907
Balance at 1 January 2015	<b>8,880</b>	<b>1,428,088</b>	<b>193,144</b>	<b>15,262</b>	<b>192,982</b>	<b>47,191</b>	<b>14,402</b>	<b>-</b>	<b>(681,109)</b>	<b>1,218,840</b>	<b>3,067</b>	<b>1,221,907</b>
Loss for the year	-	-	-	-	-	-	-	-	(280,222)	(280,222)	(3,196)	(283,418)
Other comprehensive income for the year	-	-	-	-	(64,647)	-	-	-	-	(64,647)	(553)	(65,200)
Total comprehensive income for the year	-	-	-	-	(64,647)	-	-	-	(280,222)	(344,869)	(3,749)	(348,618)
Recognition of equity-settled share-based payments	-	-	35,192	-	-	-	-	-	-	35,192	-	35,192
Lapse of share options	-	-	(36,176)	-	-	-	-	-	36,176	-	-	-
Issue of ordinary shares arising from acquisition	68	30,337	-	-	-	-	-	-	-	30,405	-	30,405
Contingent consideration-shares arising from acquisition	-	-	-	-	-	-	-	60,811	-	60,811	-	60,811
Shares issued on exercise of part of share options	265	82,172	(23,611)	-	-	-	-	-	-	58,826	-	58,826
Transfer from accumulated losses	-	-	-	2,927	-	-	-	-	(2,927)	-	-	-
Balance at 31 December 2015	<b>9,213</b>	<b>1,540,597</b>	<b>168,549</b>	<b>18,189</b>	<b>128,335</b>	<b>47,191</b>	<b>14,402</b>	<b>60,811</b>	<b>(928,082)</b>	<b>1,059,205</b>	<b>(682)</b>	<b>1,058,523</b>

## Notes:

- In accordance with the statutory requirements in the PRC, subsidiaries of the Company registered in the PRC are required to transfer a certain percentage of their annual net income from retained profits to statutory reserve. The statutory reserve is not distributable.
- The contributed surplus of the Group represents the transfer from the share premium account in prior years.
- The property revaluation reserve represents cumulative gains arising from the revaluation of property, plant and equipment that have been transferred to investment properties. Items included in the property revaluation reserve will not be reclassified subsequently to profit or loss.
- The other reserve of the Group represents the aggregate amounts of contingent consideration-shares arising from the acquisition of Score Value Group during the year.

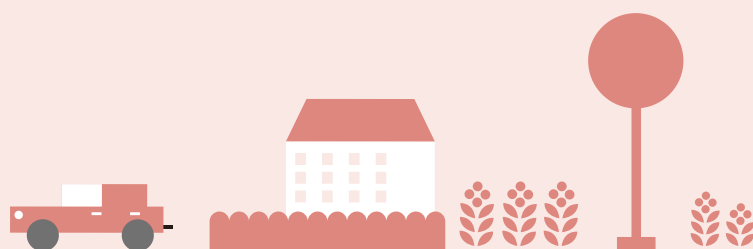




# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before tax	<b>(280,354)</b>	(186,773)
Adjustments for:		
Share of losses of a joint venture	<b>1</b>	1
Expenses recognised in respect of equity-settled share-based payments	<b>35,192</b>	136,279
Depreciation of property, plant and equipment	<b>4,365</b>	5,700
Amortisation of other intangible assets	<b>454</b>	478
Provision for warranties	<b>14,468</b>	18,224
Reversal of provision for warranties	<b>(612)</b>	(2,688)
Impairment loss recognised on trade receivables	<b>-</b>	227
Net losses/(gains) on disposal of property, plant and equipment	<b>211</b>	(184)
Bank interest income	<b>(2,290)</b>	(2,461)
Loss from changes in fair value of contingent consideration payables	<b>191,402</b>	-
Gain from change in fair value of investment properties	<b>(1,202)</b>	-
Finance costs recognised in profit or loss	<b>195</b>	-
	<b>(38,170)</b>	(31,197)
Movements in working capital		
Decrease in inventories	<b>948</b>	22,392
Decrease in deposits and prepayments	<b>10,541</b>	8,146
Decrease in trade receivables	<b>1,499</b>	5,990
Increase in other receivables, deposits and prepayments	<b>(5,225)</b>	(13,427)
Increase in amount due from a joint venture	<b>(2)</b>	(2)
(Decrease)/increase in trade payables	<b>(14,089)</b>	16,299
(Decrease)/increase in accruals and other payables	<b>(23,781)</b>	8,063
Decrease in provision for warranties	<b>(3,037)</b>	(4,383)
Cash (used in)/generated from operations	<b>(71,316)</b>	11,881
Income taxes paid	<b>(3,570)</b>	(4,524)
<b>NET CASH (USED IN)/GENERATED BY OPERATING ACTIVITIES</b>	<b>(74,886)</b>	7,357



Consolidated Statement of Cash Flows  
For the year ended 31 December 2015

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	<b>2,290</b>	2,461
Payments for property, plant and equipment	<b>(1,428)</b>	(7,661)
Proceeds from disposal of property, plant and equipment	-	401
Decrease/(increase) in fixed deposit held at bank with original maturity over three months	<b>37,914</b>	(37,914)
Increase in pledged bank deposits	<b>(12,066)</b>	(2,976)
Acquisition of subsidiaries	<b>(55,757)</b>	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(29,047)</b>	(45,689)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of Shares	<b>58,826</b>	27,864
Proceeds from secured bank borrowings	<b>21,982</b>	-
Interest paid	<b>(195)</b>	-
<b>NET CASH GENERATED BY FINANCING ACTIVITIES</b>	<b>80,613</b>	27,864
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(23,320)</b>	(10,468)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR</b>	<b>274,710</b>	286,531
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>	<b>(19,743)</b>	(1,353)
<b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR</b>	<b>231,647</b>	274,710
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Bank balances and cash	<b>231,647</b>	274,710



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its issued Shares have been listed on GEM.

At 31 December 2015, the Directors regard MAXPROFIT GLOBAL INC, a private limited company incorporated in the British Virgin Islands (“BVI”), as the immediate and ultimate holding company of the Company.

The addresses of the registered office and principal place of business of the Company are disclosed in the “Corporate Information” section of this annual report.

The Company is an investment holding company and its principal subsidiaries are mainly engaged in lottery games and systems, hardware, distribution and ancillary services in the PRC. Details of the principal activities of such principal subsidiaries are set out in Note 38.

The consolidated financial statements are presented in HK\$. The functional currency of the Company is RMB. As the Company is listed in Hong Kong, the Directors consider that it is appropriate to present the consolidated financial statements in HK\$, and all values are rounded to the nearest thousand (“HK\$’000”) unless otherwise stated.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”)

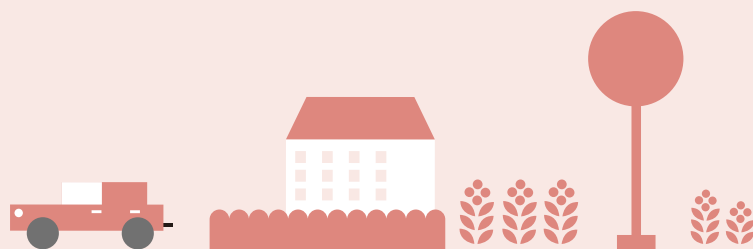
The Group has applied the following amendments to HKFRS issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

Amendments to HKAS 19  
Amendments to HKFRS  
Amendments to HKFRS

Defined Benefit Plans: Employee Contributions  
Annual Improvements to HKFRS 2010–2012 Cycle  
Annual Improvements to HKFRS 2011–2013 Cycle

The adoption of these new and revised standards, interpretation and amendments to standards have no material effect on the results and financial position of the Group.

In addition, the Company has adopted the amendments to the Rules Governing the listing of Securities on the GEM of Stock Exchange (the “GEM Listing Rule”) relating the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap 622) during the current year. The impact on the financial statement is on the presentation and disclosure of certain information in the consolidated financial statement in long term.



## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”) (continued)

The Group has not early applied the following new and revised HKFRS that have been issued but are not yet effective:

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 14	Regulatory Deferral Accounts <sup>2</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception <sup>3</sup>
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations <sup>3</sup>
Amendments to HKAS 1	Disclosure Initiative <sup>3</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>3</sup>
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants <sup>3</sup>
Amendments to HKAS 27	Equity Method in Separate Financial Statements <sup>3</sup>
Amendments to HKFRS	Annual Improvements to HKFRS 2012-2014 Cycle <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

<sup>2</sup> Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

<sup>4</sup> Effective for annual periods beginning on or after a date to be determined.

### HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contract; and
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.



## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”) (continued)

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15. The Directors anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group’s consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

The Group is in the process of making an assessment of what the impact of the other new or revised HKFRS is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group’s results of operations and financial position.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRS issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance (“CO”).

### Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Basis of preparation (continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Basis of consolidation (continued)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

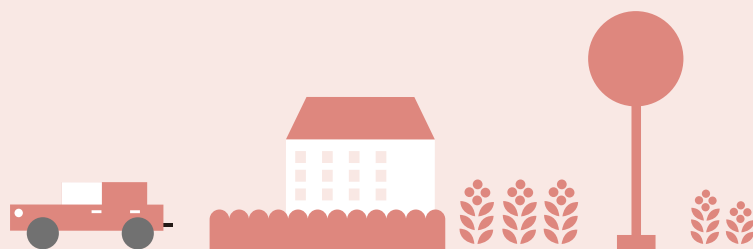
#### Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/ permitted by applicable HKFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

#### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Business combinations (continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed as of the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.





### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Business combinations (continued)

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as at the acquisition date that, if known, would have affected the amounts recognised as at that date.

#### Goodwill

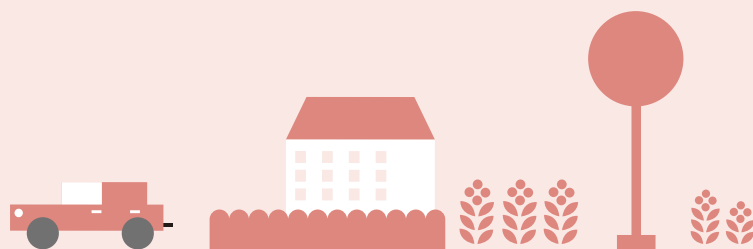
Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of a joint venture is described below.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investment in a joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with *HKAS 36 Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be a joint venture, or when the investment (or a portion thereof) is classified as held for sale. When the Group retains an interest in the former joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investment in a joint venture (continued)

The Group continues to use the equity method when an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with a joint venture of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from sports lottery management and marketing consultancy services is recognised when the services are rendered, the revenue can be reliably estimated and it is probable that the revenue will be received.

Revenue from the supply of sports lottery sales terminals (and accessories) is recognised when the sports lottery sales terminals (and accessories) are supplied to the customers.

Revenue from gaming technologies services is recognised when the services are rendered, the revenue can be reliably estimated and it is probable that the revenue will be received.

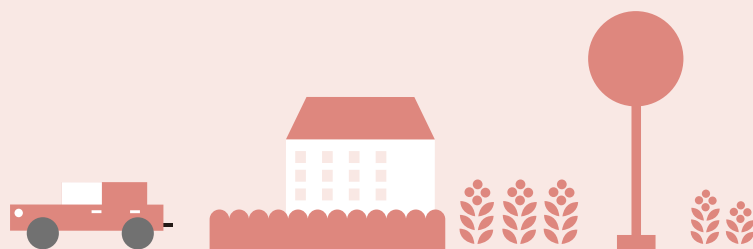
Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

#### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Leasing (continued)

##### The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

##### Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

##### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity’s functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Foreign currencies (continued)

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK\$) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. 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, or a partial disposal of an interest in a joint arrangement that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of a joint arrangement that do not result in the Group losing joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Borrowing costs**

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

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

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

#### **Retirement benefit costs**

Payments to defined contribution retirement benefit schemes (Mandatory Provident Fund scheme and state-managed retirement benefit schemes) are recognised as an expense when employees have rendered service entitling them to the contributions.

#### **Share-based payment arrangements**

##### **Share options granted to Directors, eligible employees and other eligible participants in an equity-settled share-based payment arrangement**

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

#### **Taxation**

Income tax expense represents the sum of tax currently payable and deferred tax.

##### **Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “loss before tax” as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Taxation (continued)

##### Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

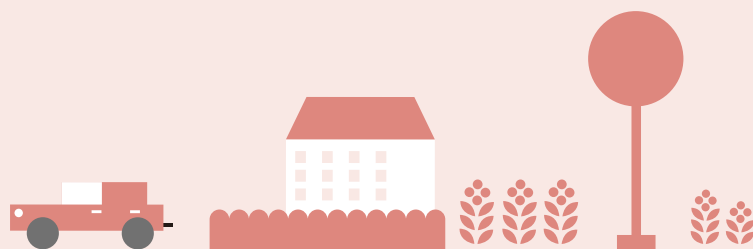
The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

##### Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Property, plant and equipment

Property, plant and equipment including buildings and leasehold land (classified as finance leases) held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

#### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair value. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

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





### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Intangible assets

##### Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

##### Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

##### Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair values at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Intangible assets (continued)

##### Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

##### Impairment of tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

##### Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are determined on the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### Warranties

Provisions for the expected cost of warranty obligations under the relevant sale of goods legislation are recognised at the date of sale of the relevant products, at the Directors' best estimate of the expenditure required to settle the Group's obligation.

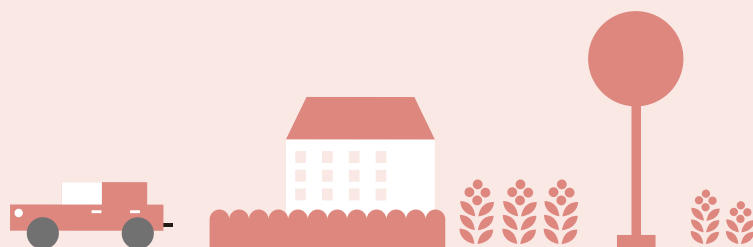
#### Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

#### Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments, available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial instruments (continued)

##### Financial assets (continued)

##### **Effective interest method**

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

##### **Financial assets at FVTPL**

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the consolidated statement of profit or loss and other comprehensive income. Fair value is determined in the manner described in Note 6.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial instruments (continued)

##### Financial assets (continued)

##### *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention and ability to hold to maturity other than:

- a) those that the entity upon initial recognition designates as at fair value through profit or loss;
- b) those that the entity designates as available for sale; and
- c) those that meet the definition of loans and receivables.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment (see the accounting policy in respect of impairment losses on financial assets below).

##### *AFS financial assets*

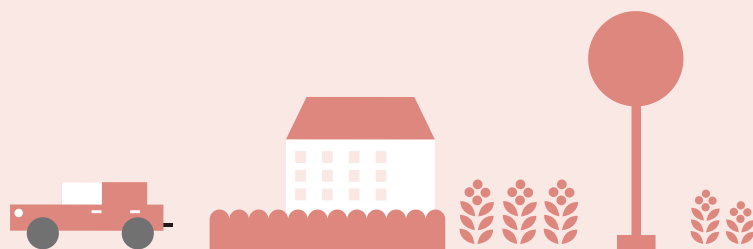
AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss.

Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated in equity. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in equity is reclassified to profit or loss (see the accounting policy in respect of impairment losses on financial assets below).

Dividends on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial instruments (continued)

##### Financial assets (continued)

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables and deposits, amount due from a joint venture, fixed deposit held at bank with maturity original maturity over three months, pledged bank deposit and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

##### *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial instruments (continued)

##### Financial assets (continued)

##### **Impairment of financial assets (continued)**

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. Subsequent recoveries of amounts previously written off are credited against the allowance account.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, 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, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under heading of investment revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

#### Financial liabilities and equity instruments

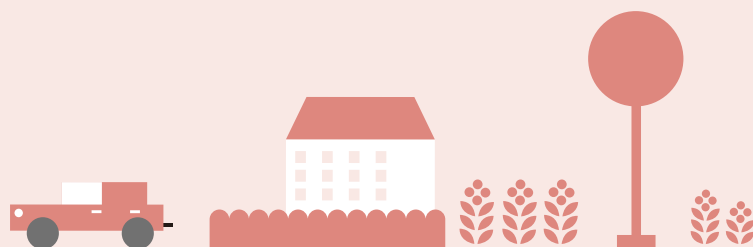
##### **Classification as debt or equity**

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

##### **Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial instruments (continued)

#### Financial liabilities and equity instruments (continued)

#### Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of business combination to which HKFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities and is included in the consolidated statement of profit or loss and other comprehensive income. Fair value is determined in the manner described in Note 6.

#### Other financial liabilities

Other financial liabilities (including trade payables, accruals and other payables, amount due to a joint venture and secured bank borrowings) are subsequently measured at amortised cost using the effective interest method.





### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial instruments (continued)

#### Financial liabilities and equity instruments (continued)

##### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL, of which the interest expenses is included in net gains or losses.

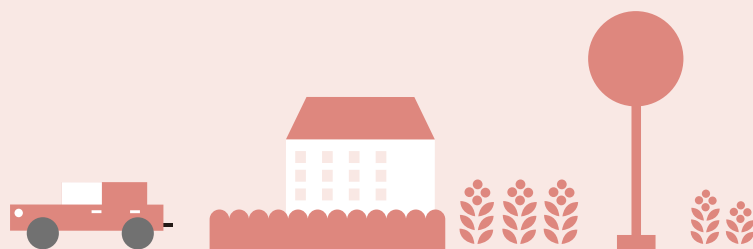
##### **Derecognition**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognise its retained interest in the asset and an associated liability for amount if may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial instruments (continued)

##### Related parties

A party is considered to be related to the Group if:

- (i) the party is a person or a close member of that person's family and that person,
  - (a) has controls or joint control of the Group;
  - (b) has significant influence over the Group; or
  - (c) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (ii) the party is an entity where any of the following conditions applies:
  - (a) the entity and the Group are members of the same group;
  - (b) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (c) the entity and the Group are joint ventures of the same third party;
  - (d) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (e) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (f) the entity is controlled or jointly controlled by a person identified in (i);
  - (g) a person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (h) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial instruments (continued)

##### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revisions affect only that period, or in the period of the revisions and future periods if the revisions affect both current and future periods.

#### Critical judgements in applying accounting policies

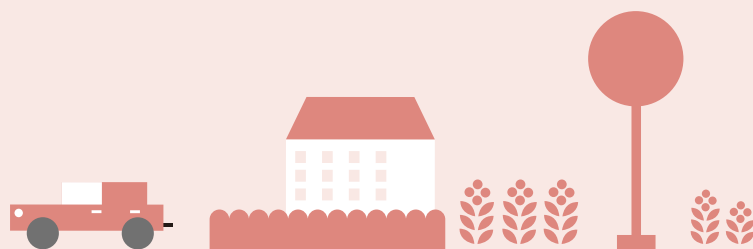
The following are the critical judgements, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

#### Classification of AG Inspired Lottech Limited as a joint venture

AG Inspired Lottech Limited is a limited liability company whose legal form confers separation between the parties to the joint arrangements and the company itself. Furthermore, there are no contractual arrangements or any other facts and circumstances that specify that the parties to the joint arrangements have rights to the assets and obligations for the liabilities of the joint arrangements. Accordingly, AG Inspired Lottech Limited is classified as a joint venture of the Group. See Note 21 for details.

#### Withholding taxes arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes from the distribution of dividends from subsidiaries in the PRC according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividend, where the Group considers that if it is probable that the profits of the subsidiaries in the PRC will not be distributed in the foreseeable future, then no withholding taxes are provided.



#### **4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)**

##### **Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

##### **Estimated impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

##### **Depreciation of property, plant and equipment**

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual value. The Group assesses annually the residual value and the useful lives of the property, plant and equipment. If the expectation differs from the original estimate, such difference will impact the depreciation and the amortisation charge in the period in which such estimate is changed.

##### **Estimated impairment of trade and other receivables**

The Group estimates the provisions for impairment of trade and other receivables by assessing their recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgements. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amount of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the provisions at the end of each reporting period.

##### **Estimated impairment loss of inventories**

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to changes to economic conditions.

##### **Deferred tax assets**

Deferred tax assets in relation to temporary differences have been recognised in the consolidated statement of financial position. The recognition of deferred tax assets mainly depends on whether sufficient taxable temporary differences of future assessable profits will be available in the future. In cases where the actual future assessable profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss in the consolidated statement of profit or loss and other comprehensive income in the period of the reversal takes place.



#### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

##### Key sources of estimation uncertainty (continued)

###### Provision for warranties

Provisions for product warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns. Management reviews and adjusts the provision to recognise the estimate at the end of the reporting period. In case where actual claims are greater than expected, a material increase in warranty expenses may arise, which would be recognised in profit or loss for the period in which such claim takes place.

#### 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2014.

The capital structure of the Group consists of net debt (which includes trade payables, accruals and other payables, amount due to a joint venture, secured bank borrowings and contingent consideration payables net of cash and cash equivalents) and equity attributable to owners of the Company (comprising issued share capital and reserves).

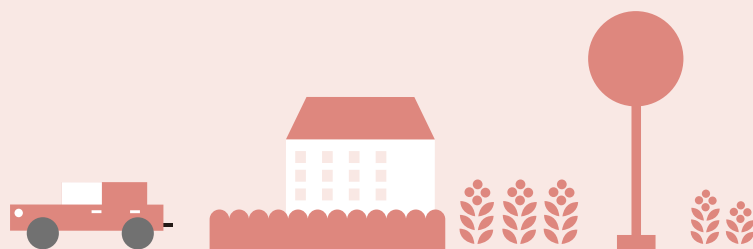
The Group is not subject to any externally imposed capital requirements.

##### Net debt-to-equity ratio

The Directors review the capital structure regularly. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buybacks as well as the issue of new debt.

The net debt-to-equity ratio at the end of the reporting period was as follows:

	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
Debt	<b>497,555</b>	66,015
Less: cash and cash equivalents	<b>231,647</b>	274,710
Net debt	<b>265,908</b>	(208,695)
Equity attributable to owners of the Company	<b>1,059,205</b>	1,218,840
Net debt-to-equity ratio	<b>25.10%</b>	N/A



## 6. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

	Notes	2015 HK\$'000	2014 HK\$'000
<b>Financial assets</b>			
<b>Available-for-sale investment</b>	22	–	–
<b>Loans and receivables</b>			
Trade receivables	25	<b>29,597</b>	31,071
Financial assets included in other receivables and deposits	26	<b>53,079</b>	58,562
Amount due from a joint venture	21	<b>11</b>	8
Fixed deposit held at bank with original maturity over three months	27	–	37,914
Pledged bank deposits	27	<b>15,042</b>	2,976
Bank balances and cash	27	<b>231,647</b>	274,710
		<b>329,376</b>	405,241
<b>Financial liabilities</b>			
<b>Financial liabilities at FVTPL</b>			
Contingent consideration payables	31	<b>390,309</b>	–
<b>Amortised cost</b>			
Trade payables	28	<b>36,664</b>	26,082
Financial liabilities included in accruals and other payables	29	<b>37,138</b>	30,348
Amount due to a joint venture	21	<b>650</b>	650
Secured bank borrowings	30	<b>21,982</b>	–
		<b>486,743</b>	57,080



## 6. FINANCIAL INSTRUMENTS (continued)

### (b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investment, trade receivables, other receivables and deposits, amount due from a joint venture, pledged bank deposits, bank balances and cash, trade payables, accruals and other payables, amount due to a joint venture, secured bank borrowings and contingent consideration payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate the effects of these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

#### **Market risks**

##### ***Foreign currency risk***

Transactional currency exposures arise from revenue or cost of sales and services by operating units in currencies other than the units' functional currency. Substantially all of the Group's revenue and cost of sales and services are denominated in the functional currency of the operating units making the revenue, and substantially all the costs of sales and services are denominated in the units' functional currency. Accordingly, the Directors consider that the Group is not exposed to significant currency risk.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

##### ***Interest rate risk***

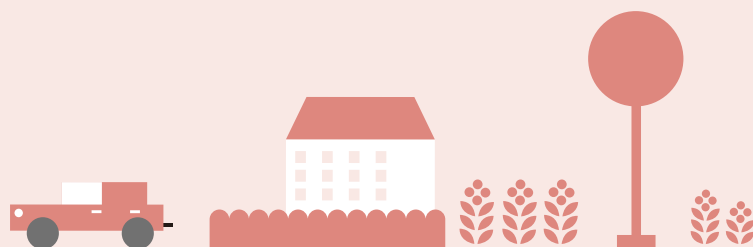
The Group's cash flow interest rate risk relates primarily to the Group's variable rate bank borrowings.

The Group does not enter into any derivative financial instruments in order to mitigate its exposure associated with fluctuations relating to fair value of its cash flows of interest receipts. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

As the Group is not exposed to significant interest rate risk, the Directors consider that the presentation of sensitivity analysis is unnecessary.

##### ***Other price risk***

As the Group has no significant investments in financial instruments at fair values, the Group is not exposed to significant price risk.



## 6. FINANCIAL INSTRUMENTS (continued)

### (b) Financial risk management objectives and policies (continued)

#### **Credit risk management**

As at 31 December 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies or with good reputation.

As at 31 December 2015, the Group is subject to concentration of credit risk as 12% (2014: 28%) of the Group's trade receivables were due from the Group's largest customer. Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in Note 25.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings or good reputation and on trade receivables, the Group does not have any other significant concentration of credit risk.

#### **Collateral held as security and other credit enhancements**

The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

#### **Liquidity risk management**

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents and reserve borrowing facilities deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

At 31 December 2015, the Group has available unutilized banking facilities of approximately HK\$25,478,000 (2014: nil).

#### **Liquidity tables**

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have 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.





## 6. FINANCIAL INSTRUMENTS (continued)

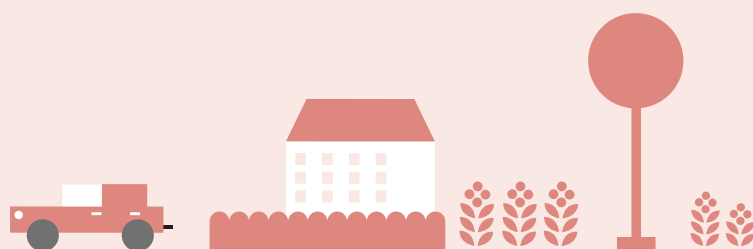
### (b) Financial risk management objectives and policies (continued)

#### Liquidity risk management (continued)

##### Liquidity tables (continued)

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

	Weighted average interest rate %	On demand or within 1 year HK\$'000	More than 1 year but not more than 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
<b>At 31 December 2015</b>					
<b>Non-derivative financial liabilities</b>					
Trade payables	-	36,664	-	36,664	36,664
Accruals and other payables	-	37,138	-	37,138	37,138
Amount due to a joint venture	-	650	-	650	650
Secured bank borrowings	3.75%	22,358	-	22,358	21,982
		96,810	-	96,810	96,434
<b>Derivative financial liabilities</b>					
Contingent consideration payables	-	63,503	326,806	390,309	390,309
		160,313	326,806	487,119	486,743
<b>At 31 December 2014</b>					
<b>Non-derivative financial liabilities</b>					
Trade payables	-	26,082	-	26,082	26,082
Accruals and other payables	-	30,348	-	30,348	30,348
Amount due to a joint venture	-	650	-	650	650
		57,080	-	57,080	57,080



## 6. FINANCIAL INSTRUMENTS (continued)

### (c) Fair value measurements

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

**Fair value of the Group's financial assets and financial liabilities are measured at fair value on a recurring basis**

#### Fair value hierarchy

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Contingent consideration payables	–	–	390,309	390,309

The descriptions of the valuation techniques and inputs used in fair value measurement for the contingent consideration payables were detailed in Note 31 and 39.

During the years ended 31 December 2015 and 2014, there were no transfers of fair value measurements between Level 1 and Level 2.

#### Reconciliation of Level 3 fair value measurements

	2015 HK\$'000	2014 HK\$'000
At the beginning of year	–	–
Acquisition of subsidiaries	198,907	–
Change in fair value recognised in profit or loss (included in loss from changes in fair value of contingent consideration payables)	191,402	–
At the end of year	390,309	–



## 7. REVENUE

Revenue represents the amounts received and receivable from lottery games and systems, hardware, distribution and ancillary services in the PRC for the year, and is analysed as follows:

	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
Lottery games and systems and hardware	<b>282,058</b>	188,522
Provision of distribution and ancillary services	<b>19,572</b>	22,529
	<b>301,630</b>	211,051

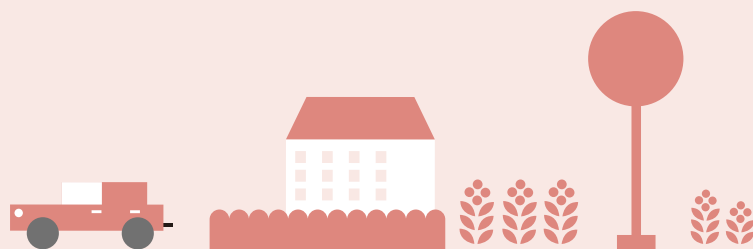
## 8. SEGMENT INFORMATION

Information reported to the Directors, being the chief operating decision maker (the "CODM"), for the purposes of resources allocation and assessment of performance focuses specifically on the revenue analysis by principal categories of the Group's business and the profit of the Group as a whole.

Accordingly, the CODM have determined that the Group has one sole operating segment (as a professional service provider in China's sports lottery market). The information regarding revenue derived from the principal businesses described above is set out in Note 7.

Additional disclosure in relation to segment information is not presented as the CODM assess the performance of the sole operating segment identified based on the consistent information as disclosed in the consolidated financial statements.

The total net segment income is equivalent to total comprehensive income for the year as shown in the consolidated statement of profit or loss and other comprehensive income and the total segment assets and total segment liabilities are equivalent to total assets and total liabilities as shown in the consolidated statement of financial position.



## 8. SEGMENT INFORMATION (continued)

### Geographical information

The Group's operations are mainly located in the PRC.

The Group's revenue from external customers by location of operations and information about its non-current assets\* by location of assets are detailed below:

	Revenue from external customers		Non-current assets*	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
PRC	300,689	209,513	1,195,342	885,753
Hong Kong	–	–	2,583	2,796
Others	941	1,538	–	–
	<b>301,630</b>	211,051	<b>1,197,925</b>	888,549

\* Non-current assets excluding deferred tax assets.

### Information about major customers

Revenue from customers of corresponding years contributing over 10% of total revenue of the Group is as follows:

	2015 HK\$'000	2014 HK\$'000
Customer A	82,220	N/A <sup>1</sup>
Customer B	N/A <sup>1</sup>	43,423
Customer C	N/A <sup>1</sup>	21,948
	<b>82,220</b>	65,371

<sup>1</sup> The corresponding customer did not contribute over 10% or more to the Group's revenue in the respective year.



## 9. INVESTMENT AND OTHER INCOME

	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
Interest income on bank deposits	<b>2,290</b>	2,461
Rental income from investment properties	<b>3,099</b>	1,418
Sundry income and expenses	<b>(849)</b>	670
	<b>4,540</b>	4,549

## 10. FINANCE COSTS

	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
Interest on secured bank borrowings	<b>195</b>	–

## 11. INCOME TAX EXPENSE

	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
Current tax:		
– PRC Enterprise Income Tax (“EIT”)	<b>4,464</b>	2,295
Under provision in prior year:		
– PRC EIT	<b>41</b>	178
Deferred tax (Note 23):		
– Current year	<b>(1,441)</b>	(1,874)
Total income tax recognised in profit or loss	<b>3,064</b>	599

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made as there were no assessable profits arising in or derived from Hong Kong for both years.

北京亞博高騰科技有限公司 (Beijing AGTech GOT Technology Co., Ltd.\*) (“GOT”) and 深圳中林瑞德科技有限公司 (Shenzhen Zoom Read Tech Co., Ltd.\*) (“Shenzhen Subsidiary”) are subject to PRC EIT at 15% for both years as GOT and Shenzhen Subsidiary are recognised as an Advanced and New Technology Enterprise under the PRC EIT Law. Other PRC subsidiaries are subject to PRC EIT at 25% for both years. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

\* For identification purpose only



## 11. INCOME TAX EXPENSE (continued)

### Income tax recognised in profit or loss

The tax charge for the year can be reconciled to loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
Loss before tax	<b>(280,354)</b>	(186,773)
Tax at domestic income tax rate	<b>(48,122)</b>	(32,141)
Tax effect of expenses not deductible for tax purpose	<b>44,843</b>	31,065
Tax effect of income not taxable for tax purpose	<b>(203)</b>	(803)
Utilisation of tax losses previously not recognised	<b>1,291</b>	(1,761)
Tax effect of unrecognised estimated tax losses	<b>6,655</b>	5,935
Under provision in prior year	<b>41</b>	178
Reversal of temporary differences	<b>(1,441)</b>	(1,874)
Income tax expense for the year	<b>3,064</b>	599

### Income tax recognised in other comprehensive income

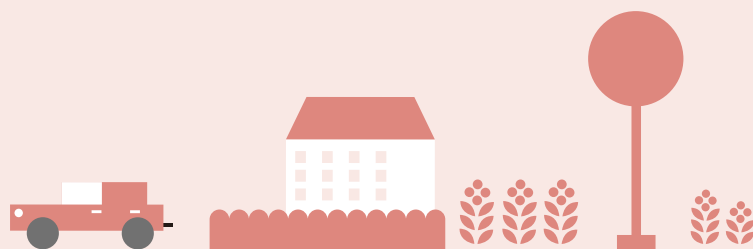
	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
<b>Deferred tax</b>		
Arising on income recognised in other comprehensive income:		
Revaluation of property transferred to investment properties	-	1,537
Total income tax recognised in other comprehensive income	-	1,537



## 12. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging/(crediting):

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
Auditors' remuneration	<b>1,100</b>	950
Cost of inventories recognised as an expense (included in cost of sales and services)	<b>176,240</b>	109,105
Provision for warranties (included in cost of sales and services)	<b>14,468</b>	18,224
Reversal of provision for warranties (included in cost of sales and services)	<b>(612)</b>	(2,688)
Impairment loss recognised on trade receivables	<b>-</b>	227
Depreciation of property, plant and equipment	<b>4,365</b>	5,700
Net losses/(gains) on disposals of property, plant and equipment	<b>211</b>	(184)
Operating lease rentals in respect of rented premises	<b>16,156</b>	16,375
Research and development costs	<b>20,881</b>	12,953
Gross rental income from investment properties	<b>(3,099)</b>	(1,418)
Less: direct operating expenses from investment properties that generated income during the year	<b>328</b>	131
	<b>(2,771)</b>	(1,287)
Employee benefits expense, including Directors' remunerations (Note 13):		
Fees, salaries, discretionary bonuses and other benefits	<b>55,048</b>	43,410
Share-based payments	<b>32,175</b>	37,296
Social security costs	<b>9,774</b>	8,018
Contributions to retirement benefits schemes	<b>161</b>	181
Total employee benefits expense	<b>97,158</b>	88,905



### 13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the eleven (2014: nine) Directors and the chief executive were as follows:

#### For the year ended 31 December 2015

	Fees HK\$'000	Salaries and other benefits in kind HK\$'000	Share-based payments HK\$'000	Contributions to retirement benefits schemes HK\$'000	Total emoluments HK\$'000
<b>Executive Directors:</b>					
Mr. Sun Ho	3,600	800	-	18	4,418
Mr. Robert Geoffrey Ryan (Note (i))	554	46	496	-	1,096
Mr. Bai Jinmin	1,494	603	2,369	18	4,484
Mr. Liang Yu	1,229	601	1,435	113	3,378
Mr. Cheng Guoming (Note (ii))	943	580	5,035	12	6,570
<b>Non-executive Director:</b>					
Mr. Ho King Fung, Eric	120	-	1,633	-	1,753
<b>Independent non-executive Directors:</b>					
Ms. Monica Maria Nunes	120	-	152	-	272
Mr. Wang Ronghua (Note (iii))	35	-	(204)	-	(169)
Mr. Hua Fengmao (Note (iii))	35	-	(204)	-	(169)
Dr. Gao Jack Qunyao (Note (iv))	65	-	168	-	233
Mr. Feng Qing (Note (v))	65	-	168	-	233
Total emoluments	8,260	2,630	11,048	161	22,099





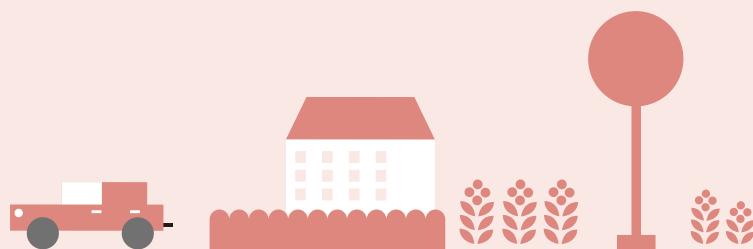
### 13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (continued)

For the year ended 31 December 2014

	Fees HK\$'000	Salaries and other benefits in kind HK\$'000	Share-based payments HK\$'000	Contributions to retirement benefits schemes HK\$'000	Total emoluments HK\$'000
<b>Executive Directors:</b>					
Mr. Sun Ho	3,600	300	–	17	3,917
Mr. Robert Geoffrey Ryan	1,662	138	2,407	–	4,207
Mr. Bai Jinmin	1,506	325	3,930	17	5,778
Mr. Liang Yu	1,237	303	2,407	79	4,026
<b>Non-executive Directors:</b>					
Ms. Yang Yang (vi)	69	–	(140)	–	(71)
Mr. Ho King Fung, Eric	120	–	2,635	–	2,755
<b>Independent non-executive Directors:</b>					
Ms. Monica Maria Nunes	120	–	246	–	366
Mr. Wang Ronghua	100	–	242	–	342
Mr. Hua Fengmao	100	–	242	–	342
Total emoluments	8,514	1,066	11,969	113	21,662

Notes:

- (i) Resigned on 1 May 2015.
- (ii) Appointed on 6 May 2015.
- (iii) Retired on 5 May 2015.
- (iv) Appointed on 6 May 2015.
- (v) Appointed on 4 May 2015.
- (vi) Retired on 5 May 2014.



### 13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (continued)

Mr. Sun Ho is also the chief executive and his emoluments disclosed above include those for services rendered by him as the chief executive.

No emoluments were paid by the Group to any of the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors waived their emoluments during the year ended 31 December 2015 (2014: nil).

### 14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2014: four) were Directors whose emoluments are included in the disclosures in Note 13 above. The emoluments of the remaining one (2014: one) individuals were as follows:

	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
Salaries and other benefits	<b>1,309</b>	1,419
Social security costs	<b>117</b>	111
Discretionary bonus	<b>80</b>	118
Share-based payments	<b>6,878</b>	12,439
	<b>8,384</b>	14,087

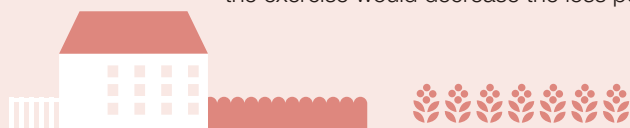
Their emoluments were within the following bands:

	<b>2015</b> <b>Number of</b> <b>individuals</b>	2014 Number of individuals
HK\$8,000,001 to HK\$8,500,000	<b>1</b>	–
HK\$14,000,001 to HK\$14,500,000	<b>–</b>	1
	<b>1</b>	1

### 15. LOSS PER SHARE

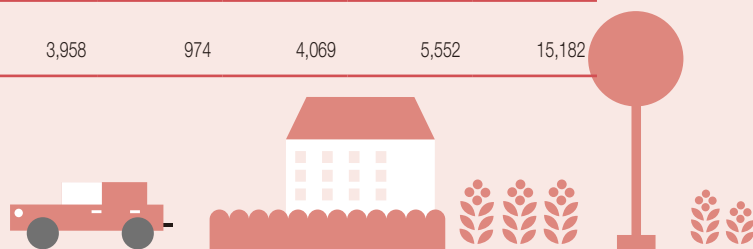
The calculation of basic and diluted loss per Share is based on the loss attributable to owners of the Company for the year ended 31 December 2015 of approximately HK\$280,222,000 (2014: approximately HK\$189,184,000) and the weighted average number of approximately 4,522,154,000 Shares (2014: approximately 4,397,479,000 Shares) in issue during the year ended 31 December 2015.

The computation of the diluted loss per Share does not assume the exercise of the Company's share options as the exercise would decrease the loss per Share of both current and prior years.



## 16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Sports lottery sales terminals HK\$'000	Leasehold improvements HK\$'000	Computer equipment HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>COST</b>							
Balance at 1 January 2014	48,400	7,049	6,363	6,380	9,486	7,222	84,900
Additions	-	-	1,745	473	1,082	4,361	7,661
Disposals	-	-	(2,010)	(575)	(602)	(1,815)	(5,002)
Reclassified as investment properties	(47,139)	-	-	-	-	-	(47,139)
Effect of foreign currency exchange differences	(329)	(30)	(24)	(23)	(37)	(29)	(472)
Balance at 31 December 2014 and 1 January 2015	932	7,019	6,074	6,255	9,929	9,739	39,948
Additions	-	-	158	730	540	-	1,428
Acquisition through business combination	-	-	-	143	7,283	780	8,206
Disposals	-	-	-	(955)	(855)	-	(1,810)
Effect of foreign currency exchange differences	(51)	(388)	(310)	(298)	(902)	(434)	(2,383)
Balance at 31 December 2015	881	6,631	5,922	5,875	15,995	10,085	45,389
<b>DEPRECIATION</b>							
Balance at 1 January 2014	7,310	7,049	2,962	5,160	4,692	4,648	31,821
Depreciation expense	2,034	-	1,173	714	1,780	1,149	6,850
Eliminated on disposals of assets	-	-	(2,010)	(589)	(594)	(1,592)	(4,785)
Reclassified as investment properties	(8,984)	-	-	-	-	-	(8,984)
Effect of foreign currency exchange differences	(57)	(30)	(9)	(4)	(18)	(18)	(136)
Balance at 31 December 2014 and 1 January 2015	303	7,019	2,116	5,281	5,860	4,187	24,766
Depreciation expense	44	-	1,320	869	1,799	1,519	5,551
Acquisition through business combination	-	-	-	111	5,887	456	6,454
Eliminated on disposals of assets	-	-	-	(950)	(649)	-	(1,599)
Effect of foreign currency exchange differences	(17)	(388)	(99)	(244)	(613)	(236)	(1,597)
Balance at 31 December 2015	330	6,631	3,337	5,067	12,284	5,926	33,575
<b>CARRYING AMOUNTS</b>							
Balance at 31 December 2015	551	-	2,585	808	3,711	4,159	11,814
Balance at 31 December 2014	629	-	3,958	974	4,069	5,552	15,182



## 16. PROPERTY, PLANT AND EQUIPMENT (continued)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land under finance lease	:	Over the lease term
Buildings	:	5%
Sports lottery sales terminals	:	20%
Leasehold improvements	:	20% or over the relevant lease terms, whichever is shorter
Computer equipment	:	20% – 33 1/3%
Furniture, fixtures and equipment	:	20% – 33 1/3%
Motor vehicles	:	10% – 25%

## 17. INVESTMENT PROPERTIES

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
<b>At fair value</b>		
Balance at beginning of year	<b>54,343</b>	–
Net increase in fair value recognised in profit or loss	<b>1,202</b>	–
Transfer from property, plant and equipment	<b>–</b>	54,094
Effect of foreign currency exchange differences	<b>(3,009)</b>	249
Balance at end of year	<b>52,536</b>	54,343

The Group's properties interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

As at 31 December 2015, the Group's investment properties with an aggregate carrying amount of approximately HK\$52,536,000 (2014: nil) have been pledged to secure certain bank borrowings and banking facilities granted to the Group.



## 17. INVESTMENT PROPERTIES (continued)

### Fair value measurement of the Group's investment properties

The fair value of the Group's investment properties as at 31 December 2015 has been arrived at on the basis of a valuation carried out on the respective date by Asset Appraisal Limited ("AAL"), an independent professional valuer not connected to the Group.

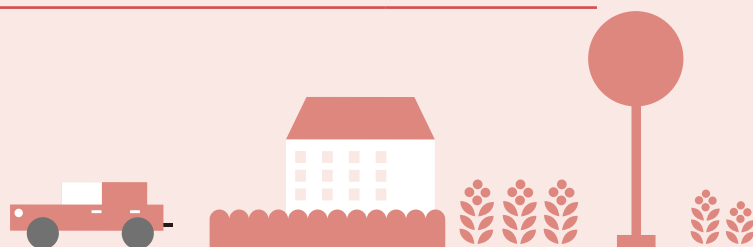
AAL is a member of the Hong Kong Institute of Surveyors and have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined was derived using the market comparable approach based on recent market prices without any significant adjustments being made to the market observable data. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2015 are as follows:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Office units located in the PRC	–	52,536	–	52,536

## 18. GOODWILL

	HK\$'000
COST	
Balance at 1 January 2014	796,946
Effect of foreign currency exchange differences	(3,328)
Balance at 31 December 2014 and 1 January 2015	793,618
Arising on acquisition of subsidiaries	369,503
Effect of foreign currency exchange differences	(43,832)
Balance at 31 December 2015	1,119,289
CARRYING AMOUNTS	
Balance at 31 December 2015	1,119,289
Balance at 31 December 2014	793,618



## 19. IMPAIRMENT TESTING ON GOODWILL

Goodwill has been allocated for impairment testing purpose to the following groups of cash-generating units (“CGU(s)”):

- Information technology solutions
- Consultancy services

The carrying amount of goodwill was allocated to groups of CGUs as follows:

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
Information technology solutions	<b>3,057</b>	3,235
Consultancy services	<b>1,116,232</b>	790,383
	<b>1,119,289</b>	793,618

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

### Information technology solutions

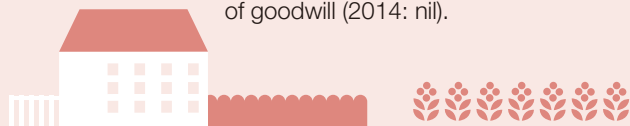
The recoverable amount of this CGU is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a period of 5 years and a discount rate of 24% per annum (2014: 23%). The key assumptions for the value in use calculation are those regarding the discount rate, growth in revenue and direct costs during the year. The management estimates discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU. In performing the impairment testing, the Directors have made reference to a valuation performed by an independent qualified professional valuer not connected to the Group.

During the year ended 31 December 2015, management of the Group determined that there was no impairment of goodwill (2014: nil).

### Consultancy services

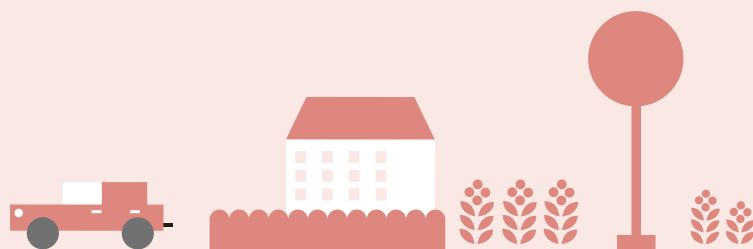
The recoverable amount of this CGU is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a period of 5 years, and cash flows beyond 5 years are extrapolated by assuming 3% growth rate (2014: 3%) and a discount rate of 20% per annum (2014: 16%). The key assumptions for the value in use calculation are those regarding the discount rate, growth in revenue and direct costs during the year. The management estimates discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU. In performing the impairment testing, the Directors have made reference to a valuation performed by an independent qualified professional valuer not connected to the Group.

During the year ended 31 December 2015, management of the Group determined that there was no impairment of goodwill (2014: nil).



## 20. OTHER INTANGIBLE ASSETS

	<b>Club membership</b> HK\$'000	<b>Capitalised development costs</b> HK\$'000	<b>Non- competition agreements</b> HK\$'000	<b>Contracted Customer</b> HK\$'000	<b>Total</b> HK\$'000
<b>COST</b>					
Balance at 1 January 2014	1,742	2,875	6,280	213,092	223,989
Effect of foreign currency exchange differences	–	(12)	(26)	(890)	(928)
Balance at 31 December 2014 and 1 January 2015	1,742	2,863	6,254	212,202	223,061
Effect of foreign currency exchange differences	–	(170)	(372)	(11,720)	(12,262)
Balance at 31 December 2015	1,742	2,693	5,882	200,482	210,799
<b>AMORTISATION</b>					
Balance at 1 January 2014	–	1,917	6,280	213,092	221,289
Amortisation expense	–	478	–	–	478
Effect of foreign currency exchange differences	–	(9)	(26)	(890)	(925)
Balance at 31 December 2014 and 1 January 2015	–	2,386	6,254	212,202	220,842
Amortisation expense	–	454	–	–	454
Effect of foreign currency exchange differences	–	(147)	(372)	(11,720)	(12,239)
Balance at 31 December 2015	–	2,693	5,882	200,482	209,057
<b>CARRYING AMOUNTS</b>					
Balance at 31 December 2015	1,742	–	–	–	1,742
Balance at 31 December 2014	1,742	477	–	–	2,219



## 20. OTHER INTANGIBLE ASSETS (continued)

The Directors consider that the club membership has indefinite useful life.

The amount of the capitalised development costs represents the expenditure capitalised for development of certain sports lottery products. The amount is amortised on a straight-line method over the estimated useful life of 6 years.

The amount of the non-competition agreements represents the fair value of the non-competition clause embedded in the employment contracts between top management and SYSTEK LTD and its subsidiary ("Systek Group") upon the acquisition of Systek Group by the Group. The amount is amortised on a straight-line method over the estimated useful life of 5 years.

The amount of the contracted customer represents the fair value of the contractual rights stated in the consultancy agreements with a principal customer of SHINING CHINA INC and its subsidiaries ("Shining China Group") for providing consultancy services upon the acquisition of Shining China Group by the Group (the "Contracted Customer"). The amount is amortised on a straight-line method over the period of 4 to 6 years in accordance with the terms of the consultancy agreements.

## 21. JOINT VENTURE

Details of the Group's investment in a joint venture are as follows:

	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
Unlisted investment, at cost	<b>650</b>	650
Share of post-acquisition losses and other comprehensive income, net of dividends received	<b>(5)</b>	(4)
	<b>645</b>	646

Details of the Group's joint venture at the end of the reporting period are as follows:

Name of Entity	Form of entity	Place of incorporation	Principal place of operation	Class of shares held	Proportion of nominal value of issued capital held by the Group		Proportion of voting power held		Principal activities
					2015	2014	2015	2014	
AG Inspired Lottech Limited	Incorporated	Hong Kong	Hong Kong	Ordinary	50% (indirect)	50% (indirect)	50% (indirect)	50% (indirect)	Investment holding

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





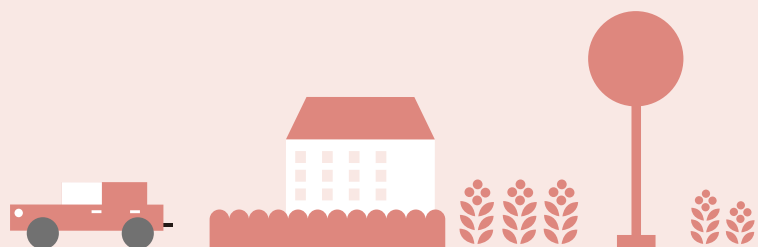
## 21. JOINT VENTURE (continued)

### Summarised financial information of the joint venture

Summarised financial information in respect of the Group's joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRS.

The joint venture is accounted for using the equity method in these consolidated financial statements.

	<b>2015 HK\$'000</b>	2014 HK\$'000
Current assets	<b>1,300</b>	1,300
Non-current assets	-	-
Current liabilities	<b>11</b>	8
Non-current liabilities	-	-



## 21. JOINT VENTURE (continued)

### Summarised financial information of the joint venture (continued)

The above amounts of assets and liabilities include the following:

	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
Cash and cash equivalents	-	-
Current financial liabilities (excluding trade and other payables and provisions)	-	-
Non-current financial liabilities (excluding trade and other payables and provisions)	-	-
	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
Revenue	-	-
Loss for the year	<b>(2)</b>	(2)
Other comprehensive income for the year	-	-
Total comprehensive income for the year	<b>(2)</b>	(2)
Dividends received from the joint venture during the year	-	-



## 21. JOINT VENTURE (continued)

### Summarised financial information of the joint venture (continued)

The above loss for the year include the following:

	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
Depreciation and amortisation	-	-
Interest income	-	-
Interest expense	-	-
Income tax expense	-	-

Reconciliation of the above summarised financial information to the carrying amount of the investment in a joint venture recognised in the consolidated financial statements:

	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
Net assets of the joint venture	<b>1,289</b>	1,292
Proportion of the Group's ownership interest in the joint venture	<b>50%</b>	50%
Carrying amount of the Group's interest in the joint venture	<b>645</b>	646

## 22. AVAILABLE-FOR-SALE INVESTMENT

	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
Unlisted investment, at cost	-	-

The above unlisted investment represents investment in unlisted equity securities issued by a limited liability company established in the PRC. The investment is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that its fair value cannot be measured reliably.



## 23. DEFERRED TAXATION

The following are the deferred tax assets and liabilities recognised and movements thereon during the current and prior years:

### Deferred tax assets

	<b>Provision for warranties</b> HK\$'000
Balance at 1 January 2014	4,590
Effect of foreign currency exchange differences	(21)
Credit to profit or loss	1,658
Balance at 31 December 2014 and 1 January 2015	6,227
Effect of foreign currency exchange differences	(354)
Credit to profit or loss	1,627
Balance at 31 December 2015	7,500

### Deferred tax liabilities

	<b>Accelerated tax depreciation</b> HK\$'000	<b>Investment properties</b> HK\$'000	<b>Total</b> HK\$'000
Balance at 1 January 2014	4,399	–	4,399
Effect of foreign currency exchange differences	(30)	16	(14)
Charge to other comprehensive income upon reclassification as investment properties	(4,153)	5,690	1,537
Credit to profit or loss	(216)	–	(216)
Balance at 31 December 2014 and 1 January 2015	–	5,706	5,706
Effect of foreign currency exchange differences	–	(316)	(316)
Credit to profit or loss	–	186	186
Balance at 31 December 2015	–	5,576	5,576



## 23. DEFERRED TAXATION (continued)

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to the profits earned by the PRC subsidiaries amounting to approximately HK\$144,963,000 (2014: approximately HK\$76,254,000) 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.

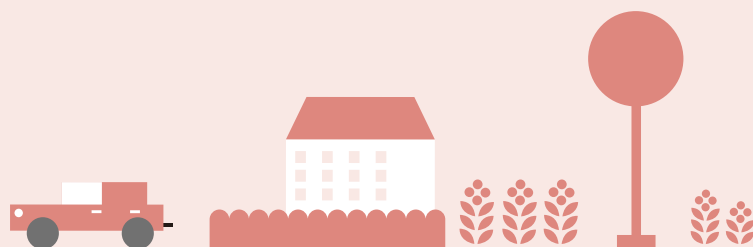
At the end of the reporting period, the Group has estimated unused tax losses of approximately HK\$257,176,000 (2014: approximately HK\$220,108,000) available for offsetting against future profits of the companies in which the losses arose. Included in the estimated unused tax losses are losses of approximately HK\$31,008,000 (2014: approximately HK\$19,506,000) that will expire within 5 years. Other estimated unused tax losses of approximately HK\$226,167,000 (2014: approximately HK\$200,602,000) may be carried forward indefinitely. No deferred tax asset has been recognised in respect of these estimated unused tax losses due to unpredictability of future profit streams.

## 24. INVENTORIES

	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
Raw materials	<b>29,236</b>	10,712
Finished goods	<b>27,070</b>	14,579
	<b>56,306</b>	25,291

## 25. TRADE RECEIVABLES

	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
Trade receivables	<b>29,597</b>	31,071



## 25. TRADE RECEIVABLES (continued)

The following is an analysis of trade receivables by age, presented based on the terms of the related contracts or the invoice/delivery date, which approximate the respective revenue recognition dates:

	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
0 to 30 days	<b>25,646</b>	19,135
61 to 90 days	<b>16</b>	6,793
121 to 365 days	<b>3,935</b>	3,116
Over 365 days	<b>-</b>	2,027
	<b>29,597</b>	31,071

The credit terms granted to customers are varied and are generally the result of negotiations between individual customers and the Group. No interest is charged on trade receivables.

At 31 December 2015, 100% (2014: 98.20%) of the trade receivables were neither past due nor impaired and were related to a number of independent customers that have a good track record with the Group.

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due at the end of the reporting period for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in the credit quality and the amounts are still considered recoverable.

### Age of trade receivables that are past due but not impaired

	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
Overdue by:		
0 to 30 days	-	516
91 to 120 days	-	43
Total	-	559
Average age (days)	-	22



## 25. TRADE RECEIVABLES (continued)

### Movement in the allowance for doubtful debts

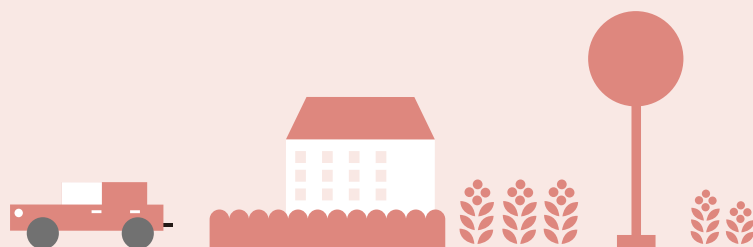
	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
Balance at the beginning of year	-	-
Impairment loss recognised on trade receivables	-	227
Amounts written off during the year as uncollectible	-	(227)
Balance at end of year	-	-

Included in the above are individually impaired trade receivables aged over 365 days with balance of nil (2014: approximately HK\$227,000) being business relationship terminated and change of recoverability is low. The Group does not hold any collateral over this balance.

## 26. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
Deposits paid to suppliers	<b>438</b>	350
Prepayments	<b>33,017</b>	30,994
Rental, utility and guarantee deposits	<b>4,804</b>	16,332
Other receivables	<b>47,837</b>	41,880
	<b>86,096</b>	89,556
Less: Deposits and prepayments classified as non-current assets	<b>(10,204)</b>	(20,746)
	<b>75,892</b>	68,810

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables on which there was no recent history of default.



## 27. BANK BALANCES AND CASH AND PLEDGED BANK DEPOSITS AND FIXED DEPOSIT HELD AT BANK WITH ORIGINAL MATURITY OVER THREE MONTHS

Bank balances and cash comprise cash held by the Group and short-term bank deposits carry effective interest ranging from 0.001% to 3.250% per annum (2014: 0.001% to 3.600% per annum) with an original maturity of three months or less. Fixed bank deposits held at bank with original maturity over three months were withdrawn during the year.

Pledged bank deposits represent deposits pledged with banks to secure letters of guarantee granted to the Group. As at 31 December 2015, the deposit carries effective interest at 3.300% per annum (2014: 3.300%). The pledged bank deposits will be released upon expiry of the relevant letters of guarantee.

As at 31 December 2015, bank balances and cash of approximately HK\$184,520,000 (2014: approximately HK\$203,299,000) were denominated in RMB which are not freely convertible into other currencies.

## 28. TRADE PAYABLES

The following is an analysis of trade payables by age based on the invoice date:

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
0 to 30 days	<b>25,174</b>	25,550
31 to 60 days	<b>2,274</b>	–
61 to 90 days	<b>1,707</b>	21
91 to 120 days	<b>178</b>	454
121 to 365 days	<b>6,943</b>	–
Over 365 days	<b>388</b>	57
	<b>36,664</b>	26,082

The credit period is ranging from 30 to 120 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. Trade payables are non-interest-bearing.





## 29. ACCRUALS AND OTHER PAYABLES

	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
Receipts in advance	<b>9,131</b>	4,148
Accrued charges	<b>15,202</b>	6,994
Other payables	<b>23,617</b>	28,141
	<b>47,950</b>	39,283

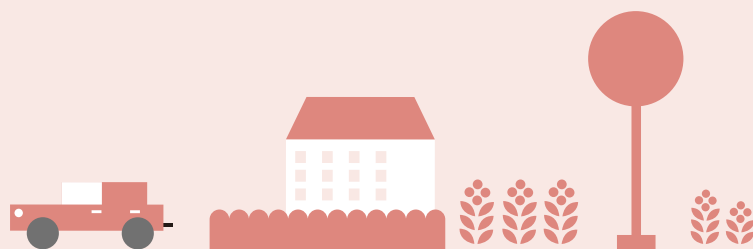
The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame. Other payables are non-interest-bearing.

Included in the Group's other payables is an amount of approximately HK\$19,542,000 (2014: approximately HK\$17,162,000) due to non-controlling interests of a subsidiary which is unsecured, interest-free and repayable on demand.

## 30. SECURED BANK BORROWINGS

	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
Secured term loans wholly repayable within one year	<b>21,982</b>	–

The loans are secured by a charge over a letter of guarantee and investment properties with an aggregate carrying amount of approximately HK\$52,536,000, bear interest ranging from 3.22% to 4.35% per annum. The amounts are dominated in the functional currencies of the relevant entities.



### 31. CONTINGENT CONSIDERATION PAYABLES

	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
First Deferred Consideration by cash	<b>48,819</b>	–
Second Deferred Consideration by the issue of ordinary shares	<b>136,486</b>	–
Bonus Options	<b>161,009</b>	–
2015 Profit Guarantees by cash	<b>14,684</b>	–
2016 Profit Guarantees by cash	<b>13,331</b>	–
2017 Profit Guarantees by cash	<b>15,980</b>	–
	<b>390,309</b>	–
Less: Contingent consideration payables classified as non-current liabilities	<b>(326,806)</b>	–
	<b>63,503</b>	–

The fair values of the aggregate contingent consideration payables of cash portion of First Deferred Consideration, Second Deferred Consideration, Bonus Options, cash portion of 2015 Profit Guarantees, cash portion of 2016 Profit Guarantees and cash portion of 2017 Profit Guarantees from acquisition of Score Value Group (as defined in Note 39) as at 31 December 2015 are estimated to be approximately HK\$390,309,000.

The valuation of cash portion of First Deferred Consideration, 2015 Profit Guarantees, 2016 Profit Guarantees and 2017 Profit Guarantees has been undertaken by discounting the contractual cash flows over the contractual term of the consideration payables at the discount rates ranging from 10.091% to 10.636%, which were appropriate to the riskiness of the consideration payables in cash, with reference to the prevailing market rates, the latest financial information of Shenzhen Subsidiary, the financial performance forecast of Shenzhen Subsidiary, the valuation performed by an independent qualified valuer (the "Independent Valuer"), the legal opinion from the legal advisor and other relevant indicators.

The valuation of the Second Deferred Consideration has been with reference to the published closing price of HK\$2.02 per Share as at 31 December 2015, the legal opinion from the legal advisor and other relevant indicators.



### 31. CONTINGENT CONSIDERATION PAYABLES (continued)

The Directors consider it is probable that 166,666,666 Bonus Options would be granted by the Company with reference to opinion from the legal advisor and other relevant indicators and therefore, the fair value of the Bonus Options as at 31 December 2015 is estimated to be approximately HK\$161,009,000 by the Independent Valuer. The valuation of the Bonus Options has been undertaken by using the binominal model, of which significant inputs are as follows:

Closing share price at date of grant	HK\$2.02
Exercise price	HK\$1.80
Expected volatility	68.780%
Risk-free interest rate	0.682%
Dividend yield	Nil

On 17 November 2015, the Approval (as defined in note 39) has not yet been fulfilled but the parties to the Agreement (as defined in Note 39) have mutually agreed to extend the deadline for fulfilment of Approval to 31 March 2016.

### 32. PROVISION FOR WARRANTIES

	HK\$'000
Balance at 1 January 2014	30,495
Additional provision recognised	18,224
Reversal of provision	(2,688)
Amounts utilised during the year	(4,383)
Effect of foreign currency exchange differences	(134)
Balance at 31 December 2014 and 1 January 2015	41,514
Additional provision recognised	14,468
Reversal of provision	(612)
Amounts utilised during the year	(3,037)
Effect of foreign currency exchange differences	(2,331)
Balance at 31 December 2015	50,002

The Group provides warranties to its customers on certain of its products, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.



### 33. SHARE CAPITAL

	<b>Number of Shares</b>	<b>Amount HK\$'000</b>
Authorised:		
Ordinary shares of HK\$0.002 each at 31 December 2014 and 2015	10,000,000,000	20,000
Issued and fully paid:		
Ordinary shares of HK\$0.002 each at 1 January 2014	4,348,823,864	8,698
Exercise of part of share options (Note (i))	91,560,000	182
Ordinary shares of HK\$0.002 each at 31 December 2014	4,440,383,864	8,880
Exercise of part of share options (Note (i))	132,350,981	265
Issue of Shares upon acquisition of subsidiaries (Note 39)	33,783,783	68
Ordinary shares of HK\$0.002 each at 31 December 2015	4,606,518,628	9,213

Notes:

- (i) During the year ended 31 December 2015, part of the options for 132,350,981 (2014: 91,560,000) Shares of HK\$0.002 each were exercised at exercise prices ranging from HK\$0.1006 to HK\$1.3100 (2014: HK\$0.1006 to HK\$0.4890) per Share, resulting in the issue of 132,350,981 (2014: 91,560,000) Shares of HK\$0.002 each. The Shares rank pari passu in all respects with other Shares in issue.



### 34. OPERATING LEASE COMMITMENTS

#### The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which approximately fall due as follows:

	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
Within one year	<b>11,903</b>	10,277
In the second to fifth years inclusive	<b>7,277</b>	15,583
	<b>19,180</b>	25,860

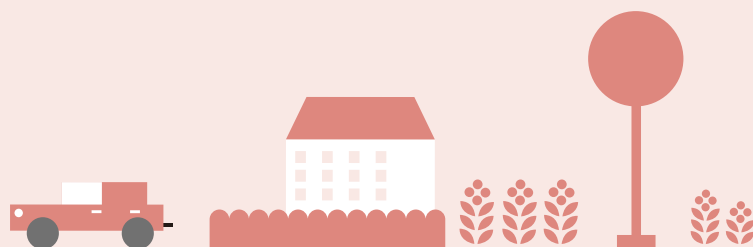
Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for terms of one to three years (2014: one to four years) and rentals are fixed over the lease periods. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

#### The Group as lessor

Property rental income earned during the year was approximately HK\$3,099,000 (2014: approximately HK\$1,418,000). All of the Group's investment properties are held for rental purposes. All of the properties held have committed tenants for the next one and a half years (2014: two and a half years).

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
Within one year	<b>3,232</b>	3,399
In the second to fifth years inclusive	<b>1,885</b>	5,382
	<b>5,117</b>	8,781



### 35. RETIREMENT BENEFIT PLANS

The Group participates in employee social security plans as required by the regulations in the PRC. The Group also participates in the Mandatory Provident Fund scheme to which all qualified employees of the Group in Hong Kong are entitled. The assets of the retirement benefit schemes are held, separately from those of the Group, in funds under the control of the trustees. The employees of the subsidiaries in the PRC are members of social security schemes operated by the relevant local government authorities. The pension plans are funded by payments from employees and by the relevant group companies. The amounts charged to the consolidated statement of profit or loss and other comprehensive income represent contributions payable by the Group at the specified rates according to the respective plans. The only obligation of the Group in respect of the retirement benefit schemes is to make the specified contributions.

### 36. SHARE-BASED PAYMENT TRANSACTIONS

#### Share option scheme prior to 17 November 2014 (“2004 Share Option Scheme”)

The 2004 Share Option Scheme was adopted pursuant to a resolution passed on 18 November 2004 for the primary purpose of providing incentives to Directors and eligible participants (as defined in the 2004 Share Option Scheme). Under the 2004 Share Option Scheme, the Board may at its discretion grant options to eligible employees, including Directors of the Company and its subsidiaries, certain consultants, suppliers or customers of the Group who, in the sole discretion of the Board, have contributed or will contribute or can contribute to the Group, to subscribe for Shares in the Company from time to time. The maximum number of Shares which may be issued upon exercise of all options to be granted under the 2004 Share Option Scheme and any other schemes shall not exceed 10% of the Shares in issue at the date of approval of the 2004 Share Option Scheme, without prior approval from the Shareholders. The number of Shares in respect of which options may be granted under the 2004 Share Option Scheme to any individual in any one year is not permitted to exceed 1% of the Shares in issue at the date of approval of the 2004 Share Option Scheme, without prior approval from the Shareholders.

Options granted to a Director, the chief executive or substantial Shareholder of the Company or any of their associates (as defined in the GEM Listing Rules) require the approval of independent non-executive Directors (excluding an independent non-executive Director who is the prospective grantee in question). Options granted to substantial Shareholders or independent non-executive Directors or their respective associates in excess of 0.1% of the Company’s share capital and with a value in excess of HK\$5 million must be approved in advance by the Shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per option. Options may be exercised at any time from the date of grant of the share option to a period to be notified by the Board to each grantee at the time of making such offer, which shall not expire later than 10 years from the date of grant.

The subscription price of the share option is determined by the Board, and the amount will not be less than the higher of (a) the closing price of Shares on the Stock Exchange on the date of grant; (b) the average closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of grant; and (c) the nominal value of a Share on the date of grant.

The 2004 Share Option Scheme is valid for a period of 10 years commencing on the adoption date of 18 November 2004 and was expired during the current financial year. Thereafter, no further options would be granted under the 2004 Share Option Scheme but the subsisting options granted thereunder prior to the expiry date will continue to be valid and exercisable in accordance with the terms of the 2004 Share Option Scheme.



### 36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

#### Share option scheme on or after 23 December 2014 (“2014 Share Option Scheme”)

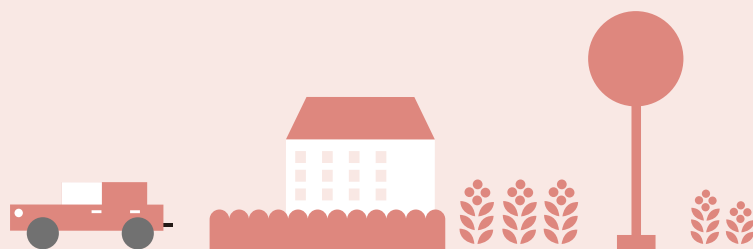
The 2014 Share Option Scheme was adopted pursuant to a resolution passed on 23 December 2014 for the primary purpose of providing incentives to Directors and eligible participants (as defined in the 2014 Share Option Scheme). Under the 2014 Share Option Scheme, the Board may at its discretion grant options to eligible employees, including Directors of the Company and its subsidiaries, certain consultants, suppliers or customers of the Group who, in the sole discretion of the Board, have contributed or will contribute or can contribute to the Group, to subscribe for Shares in the Company from time to time. The maximum number of Shares which may be issued upon exercise of all options to be granted under the 2014 Share Option Scheme and any other schemes shall not exceed 10% of the Shares in issue at the date of approval of the 2014 Share Option Scheme, without prior approval from the Shareholders. The number of Shares in respect of which options may be granted under the 2014 Share Option Scheme to any individual in any one year is not permitted to exceed 1% of the Shares in issue at the date of approval of the 2014 Share Option Scheme, without prior approval from the Shareholders.

Options granted to a Director, the chief executive or substantial Shareholder of the Company or any of their associates (as defined in the GEM Listing Rules) require the approval of independent non-executive Directors (excluding an independent non-executive Director who is the prospective grantee in question). Options granted to substantial Shareholders or independent non-executive Directors or their respective associates in excess of 0.1% of the Company’s share capital and with a value in excess of HK\$5 million must be approved in advance by the Shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per option. Options may be exercised at any time from the date of grant of the share option to a period to be notified by the Board to each grantee at the time of making such offer, which shall not expire later than 10 years from the date of grant.

The subscription price of the share option is determined by the Board, and the amount will not be less than the higher of (a) the closing price of Shares on the Stock Exchange on the date of grant; (b) the average closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of grant; and (c) the nominal value of a Share on the date of grant.

The 2014 Share Option Scheme is valid for a period of 10 years commencing on the adoption date of 23 December 2014.



### 36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

The following table discloses details and movements of the Company's share options held by Directors, eligible employees and other eligible participants of the Group during the years ended 31 December 2015 and 2014:

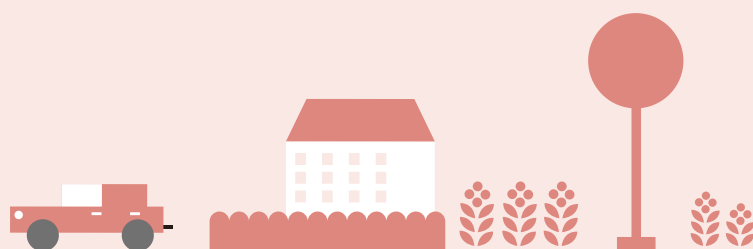
Option type	Outstanding at 1 January 2015	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	Outstanding at 31 December 2015
<b>Directors</b>						
2004 Share Option Scheme	125,846,844	-	(50,098,961)	(250,000)	(3,250,000)	72,247,883
2014 Share Option Scheme	-	47,944,800	-	-	-	47,944,800
<b>Eligible employees:</b>						
2004 Share Option Scheme	253,644,738	-	(73,708,059)	(342,500)	(44,582,000)	135,012,179
2014 Share Option Scheme	-	96,419,500	-	-	(1,800,000)	94,619,500
<b>Other eligible participants:</b>						
2004 Share Option Scheme	351,277,844	-	(8,543,961)	-	(271,552,000)	71,181,883
2014 Share Option Scheme	-	281,092,780	-	-	-	281,092,780
<b>Total</b>	730,769,426	425,457,080	(132,350,981)	(592,500)	(321,184,000)	702,099,025
<b>Exercisable at the end of year</b>	53,150,672					42,637,423
<b>Weighted average exercise price</b>	HK\$0.9106	HK\$1.0378	HK\$0.4445	HK\$0.7478	HK\$1.2329	HK\$0.9282





### 36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

	Outstanding at 1 January 2014	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	Outstanding at 31 December 2014
<b>Directors</b>						
2004 Share Option Scheme	132,169,844	22,000,000	(25,323,000)	–	(3,000,000)	125,846,844
2014 Share Option Scheme	–	–	–	–	–	–
<b>Eligible employees:</b>						
2004 Share Option Scheme	235,096,000	93,988,238	(63,137,000)	(1,515,000)	(10,787,500)	253,644,738
2014 Share Option Scheme	–	–	–	–	–	–
<b>Other eligible participants:</b>						
2004 Share Option Scheme	42,575,844	311,802,000	(3,100,000)	–	–	351,277,844
2014 Share Option Scheme	–	–	–	–	–	–
<b>Total</b>	409,841,688	427,790,238	(91,560,000)	(1,515,000)	(13,787,500)	730,769,426
<b>Exercisable at the end of year</b>	33,232,750					53,150,672
<b>Weighted average exercise price</b>	HK\$0.3475	HK\$1.3018	HK\$0.3043	HK\$0.2803	HK\$0.4066	HK\$0.9106



### 36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Notes:

- (i) The following share options under the 2004 Share Option Scheme were exercised during the year ended 31 December 2015:

#### For the year ended 31 December 2015

Date of option grant	Number of Shares	Exercise date	Share price at exercise date	Share price immediately before the date of exercise
17 August 2012	875,000	9 January 2015	0.92	0.90
9 January 2013	2,000,000	9 January 2015	0.92	0.90
21 December 2011	250,000	9 January 2015	0.92	0.90
21 December 2011	375,000	9 January 2015	0.92	0.90
9 January 2013	125,000	9 January 2015	0.92	0.90
9 January 2013	150,000	9 January 2015	0.92	0.90
9 January 2013	75,000	23 January 2015	0.90	0.90
9 January 2013	187,500	23 January 2015	0.90	0.90
9 January 2013	200,000	6 February 2015	0.82	0.84
9 January 2013	9,500,000	6 February 2015	0.82	0.84
9 January 2013	1,500,000	13 February 2015	0.72	0.73
21 December 2011	62,500	13 February 2015	0.72	0.73
9 January 2013	75,000	13 February 2015	0.72	0.73
9 January 2013	200,000	13 February 2015	0.72	0.73
9 January 2013	2,000,000	13 February 2015	0.72	0.73
21 December 2011	250,000	27 February 2015	0.75	0.72
9 January 2013	62,500	27 February 2015	0.75	0.72
9 January 2013	125,000	13 March 2015	0.63	0.67
21 December 2011	375,000	1 April 2015	0.90	0.85
9 January 2013	125,000	1 April 2015	0.90	0.85
21 December 2011	250,000	1 April 2015	0.90	0.85
9 January 2013	250,000	1 April 2015	0.90	0.85
30 March 2011	1,300,000	8 April 2015	0.96	0.93
21 December 2011	125,000	24 April 2015	1.00	0.99
9 January 2013	75,000	24 April 2015	1.00	0.99
21 December 2011	200,000	24 April 2015	1.00	0.99
21 December 2011	750,000	24 April 2015	1.00	0.99
30 March 2011	1,050,000	24 April 2015	1.00	0.99
21 December 2011	500,000	4 May 2015	0.92	0.89
9 January 2013	250,000	4 May 2015	0.92	0.89
21 December 2011	500,000	4 May 2015	0.92	0.89
30 March 2011	500,000	12 May 2015	0.79	0.81
23 May 2013	1,000,000	12 May 2015	0.79	0.81
23 May 2013	5,000,000	19 May 2015	0.80	0.84
23 May 2013	10,643,961	21 May 2015	0.79	0.80
23 May 2013	1,543,961	22 May 2015	0.80	0.79



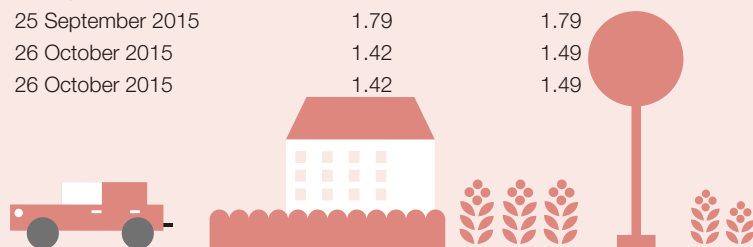
### 36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Notes: (continued)

- (i) The following share options under the 2004 Share Option Scheme were exercised during the year ended 31 December 2015: (continued)

#### For the year ended 31 December 2015 (continued)

Date of option grant	Number of Shares	Exercise date	Share price at exercise date	Share price immediately before the date of exercise
21 December 2011	125,000	29 June 2015	1.11	1.14
9 January 2013	62,500	29 June 2015	1.11	1.14
6 July 2010	125,000	29 June 2015	1.11	1.14
17 August 2012	32,500	29 June 2015	1.11	1.14
21 December 2011	1,250,000	29 June 2015	1.11	1.14
9 January 2013	9,500,000	14 July 2015	1.14	1.14
17 August 2012	77,500	14 July 2015	1.14	1.14
17 August 2012	875,000	7 August 2015	1.01	1.01
17 August 2012	875,000	7 August 2015	1.01	1.01
9 January 2013	2,000,000	7 August 2015	1.01	1.01
17 August 2012	15,000	14 August 2015	1.09	1.03
17 August 2012	125,000	17 August 2015	1.17	1.09
17 August 2012	2,500,000	17 August 2015	1.17	1.09
9 January 2013	375,000	31 August 2015	1.26	1.25
9 January 2013	300,000	31 August 2015	1.26	1.25
9 January 2013	375,000	31 August 2015	1.26	1.25
17 August 2012	32,500	31 August 2015	1.26	1.25
21 January 2014	60,000	4 September 2015	1.39	1.34
17 August 2012	3,750,000	4 September 2015	1.39	1.34
9 January 2013	375,000	4 September 2015	1.39	1.34
17 August 2012	875,000	4 September 2015	1.39	1.34
9 January 2013	250,000	4 September 2015	1.39	1.34
21 January 2014	40,000	11 September 2015	1.55	1.47
21 December 2011	5,316,000	11 September 2015	1.55	1.47
17 August 2012	875,000	11 September 2015	1.55	1.47
17 August 2012	3,750,000	11 September 2015	1.55	1.47
23 May 2013	1,000,000	11 September 2015	1.55	1.47
21 January 2014	62,500	25 September 2015	1.79	1.79
21 January 2014	250,000	25 September 2015	1.79	1.79
21 December 2011	1,250,000	25 September 2015	1.79	1.79
17 August 2012	32,500	25 September 2015	1.79	1.79
21 December 2011	500,000	25 September 2015	1.79	1.79
9 January 2013	250,000	25 September 2015	1.79	1.79
17 August 2012	77,500	25 September 2015	1.79	1.79
21 January 2014	100,000	26 October 2015	1.42	1.49
9 January 2013	50,000	26 October 2015	1.42	1.49



### 36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Notes: (continued)

- (i) The following share options under the 2004 Share Option Scheme were exercised during the year ended 31 December 2015: (continued)

#### For the year ended 31 December 2015 (continued)

Date of option grant	Number of Shares	Exercise date	Share price at exercise date	Share price immediately before the date of exercise
21 January 2014	125,000	26 October 2015	1.42	1.49
21 December 2011	5,316,000	26 October 2015	1.42	1.49
9 January 2013	2,000,000	26 October 2015	1.42	1.49
17 August 2012	875,000	28 October 2015	1.57	1.45
21 January 2014	500,000	28 October 2015	1.57	1.45
21 December 2011	250,000	26 November 2015	1.70	1.70
9 January 2013	125,000	26 November 2015	1.70	1.70
21 January 2014	125,000	26 November 2015	1.70	1.70
9 January 2013	125,000	26 November 2015	1.70	1.70
21 January 2014	375,000	26 November 2015	1.70	1.70
21 December 2011	125,000	26 November 2015	1.70	1.70
9 January 2013	62,500	26 November 2015	1.70	1.70
21 December 2011	125,000	26 November 2015	1.70	1.70
9 January 2013	125,000	26 November 2015	1.70	1.70
21 January 2014	125,000	26 November 2015	1.70	1.70
21 December 2011	5,316,000	26 November 2015	1.70	1.70
9 January 2013	2,000,000	26 November 2015	1.70	1.70
21 December 2011	250,000	18 December 2015	1.73	1.61
21 December 2011	250,000	18 December 2015	1.73	1.61
9 January 2013	125,000	18 December 2015	1.73	1.61
21 December 2011	5,316,000	18 December 2015	1.73	1.61
21 January 2014	1,250,000	18 December 2015	1.73	1.61
21 December 2011	375,000	18 December 2015	1.73	1.61
21 January 2014	150,000	18 December 2015	1.73	1.61
21 December 2011	218,750	18 December 2015	1.73	1.61
21 December 2011	5,316,000	21 December 2015	1.95	1.73
21 December 2011	250,000	21 December 2015	1.95	1.73
21 January 2014	25,000	21 December 2015	1.95	1.73
21 January 2014	1,250,000	21 December 2015	1.95	1.73
21 December 2011	125,000	23 December 2015	1.84	1.94
21 December 2011	375,000	23 December 2015	1.84	1.94
17 August 2012	15,000	23 December 2015	1.84	1.94
21 January 2014	125,000	23 December 2015	1.84	1.94
9 January 2013	300,000	23 December 2015	1.84	1.94
21 December 2011	218,750	23 December 2015	1.84	1.94
21 December 2011	5,316,000	24 December 2015	1.90	1.84



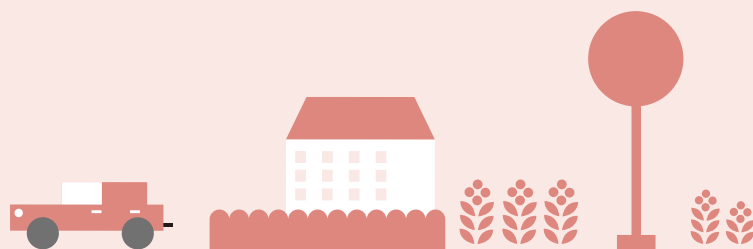
### 36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Notes: (continued)

- (i) The following share options under the 2004 Share Option Scheme were exercised during the year ended 31 December 2015: (continued)

#### For the year ended 31 December 2015 (continued)

Date of option grant	Number of Shares	Exercise date	Share price at exercise date	Share price immediately before the date of exercise
21 December 2011	1,250,000	24 December 2015	1.90	1.84
9 January 2013	125,000	24 December 2015	1.90	1.84
21 December 2011	500,000	29 December 2015	1.96	2.01
21 January 2014	62,500	29 December 2015	1.96	2.01
21 January 2014	62,500	29 December 2015	1.96	2.01
21 January 2014	62,500	29 December 2015	1.96	2.01
21 December 2011	200,000	29 December 2015	1.96	2.01
2 January 2014	10,872,059	29 December 2015	1.96	2.01
21 December 2011	250,000	31 December 2015	2.02	2.00
21 January 2014	62,500	31 December 2015	2.02	2.00
	132,350,981			



### 36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Notes: (continued)

- (ii) The following share options under the 2004 Share Option Scheme were exercised during the year ended 31 December 2014:

#### For the year ended 31 December 2014

Date of option grant	Number of Shares	Exercise date	Share price at exercise date	Share price immediately before the date of exercise
21 December 2011	750,000	14 January 2014	1.08	1.10
9 January 2013	10,025,000	14 January 2014	1.08	1.10
21 December 2011	375,000	22 January 2014	1.32	1.31
17 August 2012	62,500	22 January 2014	1.32	1.31
9 January 2013	2,300,000	22 January 2014	1.32	1.31
30 March 2011	1,050,000	27 January 2014	1.15	1.19
21 December 2011	5,316,000	18 February 2014	1.42	1.42
9 January 2013	2,150,000	18 February 2014	1.42	1.42
21 December 2011	5,816,000	10 March 2014	2.13	2.18
17 August 2012	875,000	10 March 2014	2.13	2.18
9 January 2013	2,487,500	10 March 2014	2.13	2.18
21 December 2011	250,000	1 April 2014	1.94	1.76
9 January 2013	75,000	1 April 2014	1.94	1.76
30 March 2011	1,550,000	9 April 2014	1.84	1.80
21 December 2011	5,941,000	9 April 2014	1.84	1.80
9 January 2013	2,387,500	9 April 2014	1.84	1.80
21 December 2011	250,000	30 April 2014	1.87	1.76
9 January 2013	125,000	30 April 2014	1.87	1.76
9 January 2013	250,000	9 May 2014	1.47	1.55
9 January 2013	150,000	16 May 2014	1.54	1.60
6 July 2010	125,000	23 May 2014	1.61	1.61
17 August 2012	32,500	23 May 2014	1.61	1.61
9 January 2013	125,000	30 May 2014	1.59	1.52
9 January 2013	62,500	13 June 2014	1.51	1.55
21 December 2011	200,000	20 June 2014	1.44	1.40
30 March 2011	1,300,000	4 July 2014	1.36	1.36
9 January 2013	2,000,000	4 July 2014	1.36	1.36
6 July 2010	875,000	18 July 2014	1.51	1.51
9 January 2013	1,500,000	8 August 2014	1.43	1.45
17 August 2012	13,499,750	18 August 2014	1.32	1.34
17 August 2012	4,625,000	5 September 2014	1.21	1.11
20 June 2013	375,000	5 September 2014	1.21	1.11



### 36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Notes: (continued)

- (ii) The following share options under the 2004 Share Option Scheme were exercised during the year ended 31 December 2014: (continued)

#### For the year ended 31 December 2014 (continued)

Date of option grant	Number of Shares	Exercise date	Share price at exercise date	Share price immediately before the date of exercise
17 August 2012	32,500	17 September 2014	1.34	1.32
23 May 2013	1,000,000	17 September 2014	1.34	1.32
9 January 2013	50,000	17 October 2014	1.33	1.32
23 May 2013	1,500,000	17 October 2014	1.33	1.32
17 August 2012	2,500,000	24 October 2014	1.30	1.29
9 January 2013	9,500,000	24 October 2014	1.30	1.29
21 December 2011	125,000	14 November 2014	1.14	1.14
9 January 2013	62,500	14 November 2014	1.14	1.14
23 May 2013	600,000	14 November 2014	1.14	1.14
21 December 2011	2,968,750	12 December 2014	0.89	0.90
9 January 2013	250,000	12 December 2014	0.89	0.90
21 December 2011	5,816,000	24 December 2014	0.96	0.95
9 January 2013	250,000	24 December 2014	0.96	0.95
	91,560,000			

At 31 December 2015, the number of Shares in respect of which options had been granted and remained outstanding under the 2014 Share Option Scheme was approximately 423,657,000 (2014: nil), under the 2004 Share Option Scheme was approximately 278,442,000 (2014: approximately 730,769,000), totally representing approximately 15.2% (2014: approximately 16.5%) of the Company's issued share capital as at that date.



### 36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

The fair values of options granted were calculated using the binominal model, details of which are as follows:

#### For the year ended 31 December 2015

	Date of grant		
	7 July 2015	1 June 2015	20 January 2015
Number of Shares to be issued upon exercise of options granted	<b>300,312,280</b>	<b>72,944,800</b>	<b>52,200,000</b>
Estimated fair values of options granted (rounded to HK\$'000)	<b>HK\$143,454</b>	<b>HK\$29,474</b>	<b>HK\$22,915</b>
Significant inputs into the model:			
Closing share price at date of grant	<b>HK\$1.0200</b>	<b>HK\$0.8400</b>	<b>HK\$0.9200</b>
Exercise price	<b>HK\$1.1020</b>	<b>HK\$0.8580</b>	<b>HK\$0.9200</b>
Expected volatility	<b>66.39%-75.55%</b>	<b>66.59%-73.87%</b>	<b>65.85%-72.71%</b>
Expected life of options	<b>2-5 years</b>	<b>2-5 years</b>	<b>2-5 years</b>
Risk-free interest rate	<b>0.401%-1.156%</b>	<b>0.444%-1.104%</b>	<b>0.344%-0.971%</b>
Dividend yield	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>





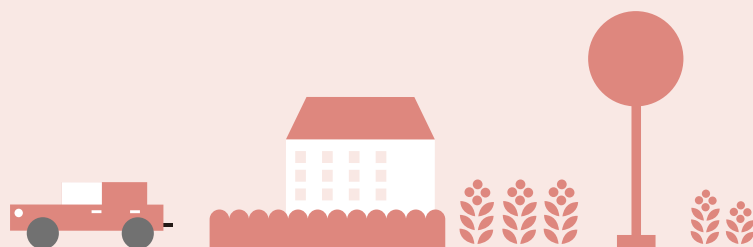
### 36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

For the year ended 31 December 2014

	Date of grant		
	19 August 2014	21 January 2014	2 January 2014
Number of Shares to be issued upon exercise of options granted	25,000,000	359,302,000	43,488,238
Estimated fair values of options granted (rounded to HK\$'000)	HK\$20,340	HK\$236,383	HK\$26,547
Significant inputs into the model:			
Closing share price at date of grant	HK\$1.3300	HK\$1.3100	HK\$1.1900
Exercise price	HK\$1.3780	HK\$1.3100	HK\$1.1900
Expected volatility	70.18%-88.26%	71.81%-78.02%	70.69%-86.03%
Expected life of options	2-9 years	2-5 years	2-5 years
Risk-free interest rate	0.311%-1.766%	0.334%-1.449%	0.338%-1.449%
Dividend yield	Nil	Nil	Nil

Expected volatility was determined by using the historical volatility of the share prices of other companies in the similar industry over the expected life of the options. No other feature of the options granted was incorporated into the measurement of fair values.

The variables and assumptions used in computing the fair values of the share options are based on the Directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.



### 36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

On 22 June 2015, certain options previously granted to eligible employee were forfeited. On 7 July 2015, the Company granted options carrying rights to subscribe a total of 19,219,500 Shares under the Share Option Scheme to eligible employee and other eligible participants, options carrying rights to subscribe 19,219,500 Shares were identified by the Company as replacement equity instruments for the cancelled equity instruments. The decreased value arising from the aforementioned cancellation and replacement was approximately HK\$13,220,000, which represented the difference between the fair value of the replacement options and the fair value of the cancelled options at the date of the replacement options were granted. Then fair values of the replacement options and cancelled options were estimated using the binominal method. The following table lists the inputs to the model used:

	<b>Number of Shares in respect of the cancelled options</b>	<b>Number of Shares in respect of the replacement options</b>
Number of Shares to be issued upon exercise of options granted	19,219,500	19,219,500
Estimated fair values of options granted (rounded to HK\$'000)	HK\$22,486	HK\$9,266
Significant inputs into the model:		
Closing share price at date of the replacement options were granted	HK\$1.2700	HK\$1.0200
Exercise price	HK\$0.1006	HK\$1.1020
Expected volatility	65.10%-68.49%	66.39%-71.74%
Expected life of options	1.15-2.15 years	2-5 years
Risk-free interest rate	0.158%-0.464%	0.401%-1.156%
Dividend	Nil	Nil

Expected volatility was determined by using the historical volatility of the share prices of other companies in the similar industry over the expected life of the options. No other feature of the options granted was incorporated into the measurement of fair values.

The variables and assumptions used in computing the fair values of the share options are based on the Directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.



### 37. RELATED PARTY TRANSACTIONS

Details of balances with related parties are set out in the consolidated statement of financial position and respective notes. Save as those disclosed elsewhere in these consolidated financial statements, the Group entered into the following transactions with related parties:

#### Compensation of key management personnel

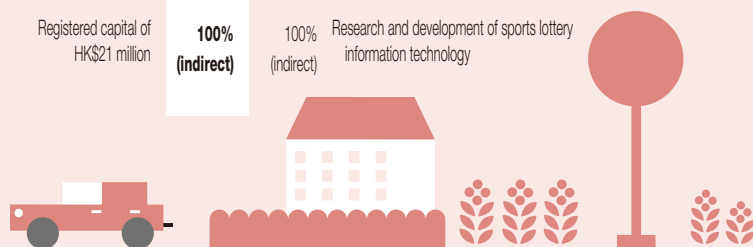
The remuneration of the Directors (who are the key management personnel of the Group) during the year was as follows:

	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
Short-term employee benefits	<b>10,890</b>	9,580
Share-based payments	<b>11,048</b>	11,969
Post-employment benefits	<b>161</b>	113
	<b>22,099</b>	21,662

### 38. PRINCIPLE SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2015 and 2014 are set out as follows:

Name of subsidiary	Form of business structure	Place of incorporation/ registration	Principal place of operations	Issued and fully paid share capital/ registered capital/ paid-up capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
					2015	2014	
Asia Gaming Technologies Limited	Incorporated	Hong Kong	PRC	Ordinary shares of HK\$2,622	<b>51%</b> <b>(indirect)</b>	51% (indirect)	Sales and distribution of software games and system and provision of maintenance, after-sales, training and consultancy services for such products
亞博泰科技(北京)有限公司 (Asia Gaming Technologies (Beijing) Co., Ltd.*)	Wholly-foreign owned enterprise	PRC	PRC	Registered capital of HK\$11.8 million	<b>51%</b> <b>(indirect)</b>	51% (indirect)	Sales and distribution of software games and system and provision of maintenance, after-sales, training and consultancy services for such products
亞博泰科技(天津)有限公司 (Asia Gaming Technologies (Tianjin) Co., Ltd.*)	Wholly-foreign owned enterprise	PRC	PRC	Paid-up capital of RMB10 million	<b>51%</b> <b>(indirect)</b>	51% (indirect)	Sales and distribution of software games and system and provision of maintenance, after-sales, training and consultancy services for such products
Maxprofit Management Limited	Incorporated	Hong Kong	Hong Kong	Ordinary shares of HK\$600,000	<b>100%</b> <b>(indirect)</b>	100% (indirect)	Provision of management services for the Group
北京思德泰科技發展有限公司 (Beijing Systek Science & Technology Development Co., Ltd.*)	Wholly-foreign owned enterprise	PRC	PRC	Registered capital of HK\$21 million	<b>100%</b> <b>(indirect)</b>	100% (indirect)	Research and development of sports lottery information technology



### 38. PRINCIPLE SUBSIDIARIES (continued)

Name of subsidiary	Form of business structure	Place of incorporation/ registration	Principal place of operations	Issued and fully paid share capital/ registered capital/ paid-up capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
					2015	2014	
世紀星彩企業管理有限公司 (China Lottery Management Co., Ltd.*)	Wholly-foreign owned enterprise	PRC	PRC	Registered capital of HK\$150 million	<b>100%</b> <b>(indirect)</b>	100% (indirect)	Provision of sports lottery management and marketing consultancy services and supply of sports lottery sales terminals (and accessories)
SYSTEK LTD	Incorporated	BVI	PRC	1 ordinary share of US\$1	<b>100%</b> <b>(indirect)</b>	100% (indirect)	Investment holding
SHINING CHINA INC	Incorporated	BVI	PRC	50,000 ordinary shares of US\$1 each	<b>100%</b> <b>(indirect)</b>	100% (indirect)	Investment holding
Exequus Co. Ltd.	Incorporated	BVI	PRC	50,000 ordinary shares of US\$1 each	<b>100%</b> <b>(indirect)</b>	100% (indirect)	Investment holding
Fortune Happy Investment Limited	Incorporated	Hong Kong	Hong Kong	Ordinary shares of HK\$10,000	<b>100%</b> <b>(indirect)</b>	100% (indirect)	Investment holding
北京世紀德彩科技有限公司 (Beijing Century Decal Technology Co., Ltd.*)	Domestic enterprise	PRC	PRC	Registered capital of RMB30 million	<b>100%</b> <b>(indirect)</b>	100% (indirect)	Investment holding
GOT	Domestic enterprise	PRC	PRC	Registered capital of RMB100 million	<b>100%</b> <b>(indirect)</b>	100% (indirect)	Research, development and production of sports lottery terminals and systems
深圳市銀溪數碼技術有限公司 (Shenzhen Silvercreek Digital Technology Co., Ltd.)(Note)	Domestic enterprise	PRC	PRC	Paid-up capital of RMB30 million	<b>100%</b> <b>(indirect)</b>	100% (indirect)	Provision for lottery organisations with comprehensive phone and mobile betting solutions
Score Value Limited	Incorporated	BVI	PRC	50,000 ordinary shares of US\$1 each	<b>100%</b> <b>(indirect)</b>	N/A	Investment holding
Sincere Honor Holdings Limited	Incorporated	Hong Kong	Hong Kong	Ordinary shares of HK\$10,000	<b>100%</b> <b>(indirect)</b>	N/A	Investment holding
Shenzhen Subsidiary	Domestic enterprise	PRC	PRC	Paid-up capital of RMB5 million	<b>100%</b> <b>(indirect)</b>	N/A	Research and development, quality assurance and sale of handheld lottery sales equipment, provision of after sales maintenance services
北京名影科漫科技有限公司 (Beijing MTC Creative Mind Tech Co., Ltd.*)	Domestic enterprise	PRC	PRC	Paid-up capital of RMB10 million	<b>100%</b> <b>(indirect)</b>	N/A	Research and development, quality assurance and sale of handheld lottery sales equipment, provision of after sales maintenance services

\* For identification purposes only

Note:

Shenzhen Silvercreek Digital Technology Co., Ltd. is a limited liability company established in the PRC to be operated for a period of 15 years up to 2016. The equity interest is held by individual nominees on behalf of the Group.

### 38. PRINCIPLE SUBSIDIARIES (continued)

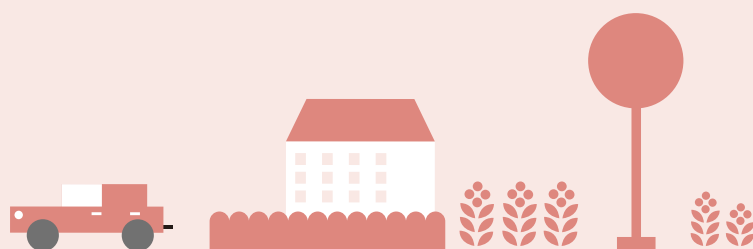
The above table lists out the principal subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries operate in Hong Kong. The principal activities of these subsidiaries are summarised as follows:

Principal activities	Principal place of business	Number of subsidiaries	
		2015	2014
Investment holding	Hong Kong	21	21
Investment holding	PRC	3	2
Provision of sports lottery management and marketing consultancy services	PRC	1	1
		<b>25</b>	24

None of the subsidiaries had issued any debt securities during the year and at the end of the reporting period.

The Group had no subsidiaries which have material non-controlling interests for the years ended 31 December 2015 and 2014.



### 39. ACQUISITIONS OF SUBSIDIARIES

#### **Acquisition of Score Value Limited and its subsidiaries (collectively, the “Score Value Group”)**

On 8 January 2015, the Group completed the acquisition of a 100% equity interest in Score Value. The Score Value Group are principally engaged in the research and development, quality assurance and sale of handheld lottery sales equipment, as well as the provision of after sale maintenance services of such devices; and in the design of lottery games and system development in the PRC. The acquisition was made with the aims to expand the Group’s existing sale of operation and enlarge the Group’s market presence in the PRC lottery industry.

Pursuant to the acquisition agreement dated 17 November 2014 (the “Agreement”) and the supplemental agreement dated 8 January 2015 (the “Supplemental Agreement”), the maximum nominal consideration for the acquisition is HK\$489,500,000 which will be satisfied by:

#### **Initial Consideration (“Initial Consideration”)**

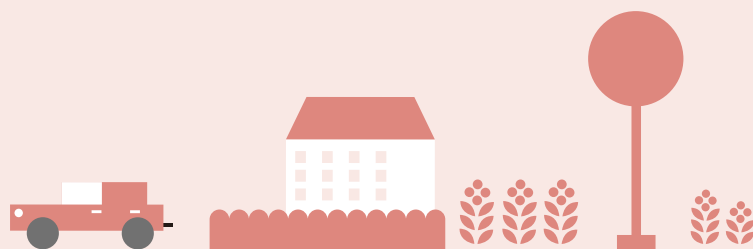
- (i) as to HK\$37,000,000 in cash on completion date (the “First Tranche Initial Consideration”);
- (ii) as to HK\$50,000,000 in cash on or before 15 January 2015 (the “Second Tranche Initial Consideration”);
- (iii) as to HK\$50,000,000 by the Company allotting and issuing 33,783,783 new ordinary shares on or before 15 January 2015 (the “Third Tranche Initial Consideration”); and
- (iv) as to HK\$52,500,000 in cash on or before 30 June 2015 (the “Fourth Tranche Initial Consideration”). Pursuant to the Supplemental Agreement, in the event that the vendors of Score Value fail to satisfy their undertaking to collect outstanding receivables of Shenzhen Subsidiary, a subsidiary of Score Value, totaling RMB24,300,000 (equivalent to HK\$30,375,000 at the exchange rate of RMB1 to HK\$1.25 as agreed in the Supplemental Agreement) (the “Outstanding Receivables”) on or before 1 April 2015, the Group would deduct the amount of the Outstanding Receivables which remains outstanding as of 1 April 2015 from the Fourth Tranche Initial Consideration;



### 39. ACQUISITIONS OF SUBSIDIARIES (continued)

#### Deferred consideration (“Deferred Consideration”) (to be paid in the following sequence)

- (i) as to HK\$50,000,000 (the “First Deferred Consideration”) by the Company allotting and issuing 33,783,784 new ordinary shares within fifteen business days after the granting of the approval of the lottery game by the relevant government authority of the PRC (the “Approval”) (on the condition that the Approval should have been granted on or before the first anniversary date of the Agreements);
- (ii) as to HK\$50,000,000 (the “Second Deferred Consideration”) in cash within fifteen business days after the granting of the Approval;
- (iii) as to HK\$100,000,000 (the “Third Deferred Consideration”) by the Company allotting and issuing 67,567,567 new ordinary shares within thirty business days after the official commencement date of sales of the lottery game through mobile smart phone channel in the first trial province in the PRC in accordance with the Approval;
- (iv) in the event that the net profit after taxation of Shenzhen Subsidiary for the financial year ended 31 December 2015 is not less than RMB20,000,000 (equivalent to approximately HK\$25,200,000) (the “2015 Profit Guarantees”), the Group shall pay to the vendors a further amount of HK\$30,000,000 which shall be satisfied as to HK\$15,000,000 in cash and as to HK\$15,000,000 by the Company allotting and issuing 10,135,135 new ordinary shares to the vendors within fifteen business days after the issue of the audit report of Shenzhen Subsidiary for the year ended 31 December 2015;
- (v) in the event that the aggregate net profit after taxation of Shenzhen Subsidiary for the two financial years ending 31 December 2015 and 2016 is not less than RMB40,000,000 (equivalent to approximately HK\$50,400,000) (the “2016 Profit Guarantees”), the Group shall pay to the vendors a further amount of HK\$30,000,000 which shall be satisfied as to HK\$15,000,000 in cash and as to HK\$15,000,000 by the Company allotting and issuing 10,135,135 new ordinary shares to the vendors within fifteen business days after the issue of the audit report of Shenzhen Subsidiary for the year ending 31 December 2016; and
- (vi) in the event that the aggregate net profit after taxation of Shenzhen Subsidiary for the three financial years ending 31 December 2015, 2016 and 2017 is not less than RMB60,000,000 (equivalent to approximately HK\$75,600,000) (the “2017 Profit Guarantees”), the Group shall pay to the vendors a further amount of HK\$40,000,000 which shall be satisfied as to HK\$20,000,000 in cash and as to HK\$20,000,000 by the Company allotting and issuing 13,513,514 new ordinary shares to the vendors within fifteen Business Days after the issue of the audit report of Shenzhen Subsidiary for the year ending 31 December 2017.



### 39. ACQUISITIONS OF SUBSIDIARIES (continued)

#### Bonus options

Within two years from the date of the Agreement and provided that the Approval has been granted, the Company shall grant to the vendors the bonus options, entitling them to subscribe for up to 166,666,666 bonus option shares (the “Bonus Options”), subject to the fulfilment of the following milestone conditions:

- (i) in the event that the Score Value Group has launched the sales of the Lottery Game through mobile smart phone channel in five provinces or more in the PRC, the Company shall grant to the vendors the Bonus Options entitling them to subscribe for up to 55,555,555 Bonus Option Shares at the subscription price of HK\$1.80 per Bonus Option Share within an exercise period of two years from the date of such grant; and
- (ii) in the event that the Score Value Group has launched the sales of the Lottery Game through mobile smart phone channel in ten provinces or more (inclusive of those provinces mentioned in (i) above) in the PRC, the Company shall grant to the vendors the Bonus Options entitling them to subscribe for up to 111,111,111 Bonus Option Shares at the subscription price of HK\$1.80 per Bonus Option Share within an exercise period of two years from the date of such grant.





### 39. ACQUISITIONS OF SUBSIDIARIES (continued)

Considerations transferred and to be transferred:

	HK\$'000
Initial Consideration	
• First Tranche Initial Consideration by cash	37,000
• Second Tranche Initial Consideration by cash	50,000
• Third Tranche Initial Consideration by the issue of 33,783,783 ordinary shares of the Company with par value of HK\$0.002 with reference to the published closing price of HK\$0.90 per Shares	30,405
• Fourth Tranche Initial Consideration by cash	22,125
Deferred Consideration	
• First Deferred Consideration by:	
– cash	45,934
– by the issue of 33,783,784 ordinary shares of the Company with par value of HK\$0.002	30,405
• Second Deferred Consideration by the issue of 67,567,567 ordinary shares of the Company with par value of HK\$0.002	60,811
• 2015 Profit Guarantees by:	
– cash	13,406
– by the issue of 10,135,135 ordinary shares of the Company with par value of HK\$0.002	9,122
• 2016 Profit Guarantees by:	
– cash	12,115
– by the issue of 10,135,135 ordinary shares of the Company with par value of HK\$0.002	9,122
• 2017 Profit Guarantees by:	
– cash	14,508
– by the issue of 13,513,514 ordinary shares of the Company with par value of HK\$0.002	12,162
• Bonus Options	52,133
	399,248

At the date of completion, the Directors consider it is probable that the Outstanding Receivables would not be collected on or before 1 April 2015 and the total amount of the Outstanding Receivables would be deducted from the Fourth Tranche Initial Consideration.

The fair values of the Deferred Consideration (included First Deferred Consideration, Second Deferred Consideration, 2015 Profit Guarantees, 2016 Profit Guarantees, 2017 Profit Guarantees and Bonus Options) as at 8 January 2015 are estimated to be approximately HK\$259,718,000.



### 39. ACQUISITIONS OF SUBSIDIARIES (continued)

The valuation of the cash portion of First Deferred Consideration, 2015 Profit Guarantees, 2016 Profit Guarantees and 2017 Profit Guarantees has been undertaken by discounting the contractual cash flows over the contractual term of the consideration payables at the discount rates ranging from 9.611% to 10.560%, which were appropriate to the riskiness of the consideration payables in cash, with reference to the prevailing market rates, the latest financial information of Shenzhen Subsidiary, the financial performance forecast of Shenzhen Subsidiary, the valuation performed by the Independent Valuer, the legal opinion from the legal advisor and other relevant indicators. The Directors consider it is probable that these contingent considerations would be settled in full and therefore, contingent consideration of approximately HK\$85,963,000 is recognised as at 8 January 2015.

The valuation of the Second Deferred Consideration, share portion 2015 of Profit Guarantees, 2016 Profit Guarantees and 2017 Profit Guarantees has been with reference to the published closing price, the latest financial information of Shenzhen Subsidiary, the financial performance forecast of Shenzhen Subsidiary, the legal opinion from the legal advisor and other relevant indicators. The Directors consider it is probable that full allotment of the new ordinary shares by the Company would be required and therefore, contingent consideration of approximately HK\$60,811,000 (being 100,000,000 shares valued at HK\$0.90 each) is recognised as at 8 January 2015.

The Directors consider it is probable that 166,666,666 Bonus Options would be granted by the Company with reference to the valuation performed by the Independent Valuer, the legal opinion from the legal advisor and other relevant indicators and therefore, contingent consideration of approximately HK\$52,133,000 is recognised as at 8 January 2015. The valuation of the Bonus Options has been undertaken by using the binominal model, of which significant inputs are as follows:

Closing share price at date of grant	HK\$0.90
Exercise price	HK\$1.80
Expected volatility	69.75%
Risk-free interest rate	1.131%
Dividend yield	Nil

Acquisition-related costs amounting to approximately HK\$1,037,000 have been excluded from the consideration transferred and have been recognised as an expense in the consolidated statement of profit or loss and other comprehensive income.



### 39. ACQUISITIONS OF SUBSIDIARIES (continued)

Assets acquired and liabilities recognised at the date of acquisition are as follows:

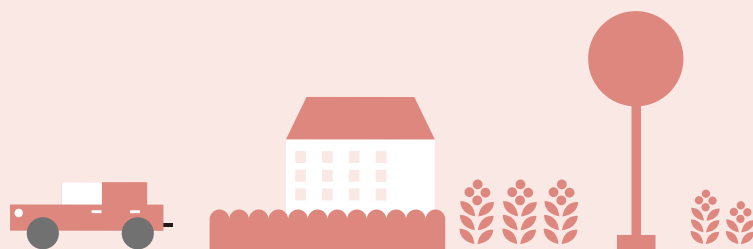
	HK\$'000
<b>Non-current assets</b>	
Property, plant and equipment	1,752
<b>Current assets</b>	
Inventories	30,777
Trade receivables	25
Other receivables, deposits and prepayments	1,857
Bank balances and cash	53,368
<b>Current liabilities</b>	
Trade payables	(24,671)
Accruals and other payables	(32,294)
Current tax liabilities	(1,069)
Net assets	29,745

Goodwill arising on acquisition:

	HK\$'000
Considerations transferred and to be transferred	399,248
Less: fair value of net identifiable assets acquired	(29,745)
Goodwill arising on acquisition	369,503

Goodwill arose in the acquisition of Score Value Group because of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in valuation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Score Value Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose.



### 39. ACQUISITIONS OF SUBSIDIARIES (continued)

Net cash outflow arising on acquisition:

	HK\$'000
Considerations paid in cash	109,125
Less: cash and cash equivalents acquired	(53,368)
	55,757

Included in the loss for the year is approximately HK\$17,365,000 of profit attributable to the additional business generated by Score Value Group. Revenue for the year includes approximately HK\$82,225,000 generated from Score Value Group.

Had the acquisition been completed on 1 January 2015, total group revenue for the year would have been approximately HK\$301,630,000, and loss for the year of the Group would have been approximately HK\$283,438,000. The pro forma information is for illustrative purpose only and is not necessarily an indication of results of operation of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is intended to be a projection of future results.

### 40. DIVIDEND

The Board does not recommend the payment of a final dividend for the year (2014: nil).



## 41. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	<b>2015</b> <b>HK\$'000</b>	2014 HK\$'000
Non-current assets		
Investments in subsidiaries	–	–
Current assets		
Amounts due from subsidiaries	<b>1,422,210</b>	1,116,309
Deposits and prepayments	<b>311</b>	393
Amount due from a joint venture	<b>8</b>	8
Bank balances and cash	<b>41,856</b>	109,487
	<b>1,464,385</b>	1,226,197
Current liabilities		
Accruals and other payables	<b>4,362</b>	4,435
Amounts due to subsidiaries	<b>38</b>	38
Secured bank borrowings	<b>11,640</b>	–
Contingent consideration payables	<b>63,503</b>	–
	<b>79,543</b>	4,473
Net current assets	<b>1,384,842</b>	1,221,724
Non-current liabilities		
Contingent consideration payables	<b>326,806</b>	–
Net assets	<b>1,058,036</b>	1,221,724
Capital and reserves		
Equity attributable to owners of the Company		
Share capital	<b>9,213</b>	8,880
Reserves	<b>1,048,823</b>	1,212,844
Total equity	<b>1,058,036</b>	1,221,724

The financial statements were approved and authorised for issue by the Board on 18 March 2016 and are signed on its behalf by:

**Sun Ho**  
Director

**Cheng Guoming**  
Director



## 41. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

<b>The Company</b>	<b>Share premium</b> HK\$'000	<b>Share options reserve</b> HK\$'000	<b>Contributed surplus</b> HK\$'000	<b>Other reserve</b> HK\$'000	<b>Accumulated losses</b> HK\$'000	<b>Total</b> HK\$'000
Balance at 1 January 2014	1,390,983	66,696	47,191	–	(291,446)	1,213,424
Loss for the year	–	–	–	–	(164,540)	(164,540)
Other comprehensive income for the year	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	(164,540)	(164,540)
Recognition of equity-settled share-based payments	–	136,279	–	–	–	136,279
Lapse of share options	–	(407)	–	–	407	–
Shares issued on exercise of part of share options	37,105	(9,424)	–	–	–	27,681
Balance at 31 December 2014 and 1 January 2015	1,428,088	193,144	47,191	–	(455,579)	1,212,844
Loss for the year	–	–	–	–	(348,922)	(348,922)
Other comprehensive income for the year	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	(348,922)	(348,922)
Recognition of equity-settled share-based payments	–	35,192	–	–	–	35,192
Lapse of share options	–	(36,176)	–	–	36,176	–
Issuance of ordinary shares arising from acquisition	30,337	–	–	–	–	30,337
Contingent consideration-shares arising from acquisition	–	–	–	60,811	–	60,811
Shares issued on exercise of part of share options	82,172	(23,611)	–	–	–	58,561
Balance at 31 December 2015	1,540,597	168,549	47,191	60,811	(768,325)	1,048,823



## 42. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, on 4 March 2016, the Company had entered into a subscription agreement under which Ali Fortune Investment Holding Limited (“Ali Fortune”) (a company indirectly owned as to 60% by Alibaba Group Holding Limited (“Alibaba”) and as to 40% by Zhejiang Ant Small and Micro Financial Services Group Co., Ltd. (“Ant Financial”)) will subscribe for HK\$2,388,000,000 of new ordinary shares of the Company and convertible bonds issued by the Company. Upon completion of the transaction, the Company will become the exclusive lottery business platform of Alibaba and Ant Financial and Ali Fortune will become the Company’s largest Shareholder.

