新濠環彩
MelcoLot

Annual Report 2015

MelcoLot Limited

(Incorporated in the Cayman Islands with limited liability)

A Hong Kong Listed Company (Stock Code: 8198)

www.melcolot.com

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This report, for which the directors of MelcoLot Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors of the Company, 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.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Tsui Che Yin, Frank* *(Chairman)*
Mr. Ko Chun Fung, Henry#
(Chief Executive Officer)
Mr. Tsang Yuen Wai, Samuel#
Mr. Tam Chi Wai, Dennis#
Mr. Tsoi, David+
Mr. Pang Hing Chung, Alfred+
Ms. Chan Po Yi, Patsy+

\# *Executive Director*
* *Non-executive Director*
\+ *Independent Non-executive Director*

EXECUTIVE COMMITTEE

Mr. Ko Chun Fung, Henry *(Chairman)*
Mr. Tsang Yuen Wai, Samuel
Mr. Tam Chi Wai, Dennis

AUDIT COMMITTEE

Mr. Tsoi, David *(Chairman)*
Mr. Tsui Che Yin, Frank
Mr. Pang Hing Chung, Alfred
Ms. Chan Po Yi, Patsy

REMUNERATION COMMITTEE

Mr. Tsoi, David *(Chairman)*
Mr. Tam Chi Wai, Dennis
Ms. Chan Po Yi, Patsy

NOMINATION COMMITTEE

Ms. Chan Po Yi, Patsy *(Chairman)*
Mr. Ko Chun Fung, Henry
Mr. Tsoi, David
Mr. Pang Hing Chung, Alfred

COMPLIANCE OFFICER

Mr. Ko Chun Fung, Henry

JOINT COMPANY SECRETARIES

Mr. Leung Hoi Wai, Vincent
Ms. Chan Yuen Mei, Claudia

AUTHORIZED REPRESENTATIVES

Mr. Ko Chun Fung, Henry
Mr. Tam Chi Wai, Dennis

REGISTERED OFFICE

Floor 4, Willow House
Cricket Square
P.O. Box 2804
Grand Cayman KY1-1112
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 3701, 37th Floor
The Centrium
60 Wyndham Street
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

China Construction Bank (Asia)
Corporation Limited
Bank of China (Hong Kong) Limited

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISORS

Michael Li & Co.
Zhong Lun Law Firm

STOCK CODE

The Stock Exchange of Hong Kong Limited: 8198

WEBSITE

www.melcolot.com

CHAIRMAN'S STATEMENT

TO OUR SHAREHOLDERS

On behalf of the board (the "Board") of directors (the "Directors") of MelcoLot Limited (the "Company"), I hereby present the results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2015.

In 2015, the Group worked through a challenging year against the backdrop of change in regulatory regime and a soft lottery market. Despite the increasingly competitive market environment, the Group was able to make solid progress on various strategic and operational fronts to embrace the shifting trends which are going to benefit our core lottery operations and open up significant growth potential for the Group.

During the financial year under review, the Group's revenue rose 26.3% to HK$57.2 million (2014: HK$45.3 million). Loss attributable to owners of the Company reduced to approximately HK$35.9 million, representing a decrease of 45.1% compared to last year. Our balance sheet remains strong. At the end of 2015, we had no debt and had cash and bank balances of HK$438.4 million.

We believe the China lottery market will remain challenging due to the evolving regulatory environment but with our competitive strength, this will undoubtedly bring new opportunities for the Group to capitalize on.

In line with the leisure and entertainment corporate philosophy of our parent company, the Group continues pursuing investment opportunities outside of lottery and the People's Republic of China (the "PRC") market. We are continuing to pursue the opportunity to develop a premium integrated resort next to Barcelona in Spain. The ongoing international and existing PRC business opportunities leverage on our corporate expertise in gaming and entertainment industry by diversifying our business with a view to achieve our goal in maximizing long-term shareholders' value.

IN APPRECIATION

On behalf of the Board, I would like to express our sincere gratitude to all our stakeholders. I would also like to give our genuine thanks to our shareholders for their continued support and confidence. To my fellow Board members, management team and employees, I wish to express my heartfelt appreciation for your hard work and dedicated commitment. To our business partners, we are grateful for your trust and confidence in us and look forward to many more years of support.

Tsui Che Yin, Frank
Chairman and Non-executive Director

Hong Kong, 11 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is engaged in the provision of lottery-related technologies, systems and solutions to two state-run lottery operators in the People's Republic of China (the "PRC"), namely the China Welfare Lottery Issuance Centre and China Sports Lottery Administration Centre ("CSLA"). We are a distributor of high quality, versatile lottery terminals and parts for CSLA, which is the exclusive sports lottery operator in the PRC. The Group provides game upgrading technology and system maintenance service for the rapid-draw game, "Shi Shi Cai" in Chongqing Municipality. The Group has also established a wide presence by managing a network of retail outlets in the PRC.

China Lottery Market

According to the figures published by the Ministry of Finance, the China lottery market registered total lottery sales of RMB367.9 billion in 2015, representing a year-on-year decrease of 3.8%. During 2015, the month-on-month growth rate of total lottery sales fell from an average of 34.2% for the first two months to an average of negative 8.9% for the remaining 10 months. The decline in sales is widely believed to be mainly attributable to the severe action taken by the government to prohibit all internet lottery ticket sales activities since March 2015.

It is expected that the regulatory reform will further improve the transparency on the control and management of lottery funds and ensure a healthier and more reliable market in the long run. The Group is expected to benefit from the positive long-term effects of a more robust regulatory regime and will be well positioned in the new environment.

FINANCIAL REVIEW

The Group continues to be engaged in a single operating segment which is the lottery business. During the year, the Group recorded revenue of HK$57.2 million, representing a year-on-year growth of 26.3% (2014: HK$45.3 million) and comprised:

(1) Sales of lottery terminals and parts

Revenues generated from the sales of lottery terminals and parts for the sports lottery increased by 26.5% to HK$51.6 million (2014: HK$40.8 million).

(2) Provision of services and solutions for the distribution of lottery products

Revenue derived from the provision of services and solutions for the distribution of lottery products in 2015 amounted to HK$5.6 million, an increase of 24.4% compared with HK$4.5 million in 2014.

Operating results

A loss attributable to owners of the Company of approximately HK$35.9 million was recorded for the year of 2015, representing a decrease of 45.1% as compared with HK$65.4 million in 2014, which was mainly attributable to the combined effect of:

(i) the decrease in employee benefits costs from HK$56.7 million in 2014 to HK$32.1 million in 2015. The decrease was primarily due to share-based payments of HK$32.1 million recorded in the profit or loss in 2014 in connection with certain 2014 share options that vested in 2014 and no further share-based payments in relation to these share options were recorded in 2015;

(ii) the gain of approximately HK$3.7 million arising from the disposal of 山東省開創紀元電子商務信息有限公司 ("Shandong KCJY"), an indirect non-wholly owned subsidiary of the Company, in December 2015; and

(iii) the decrease in finance costs from HK$3.1 million in 2014 to nil in 2015 as the Group had fully settled the amount due to its immediate holding company in 2014.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group continues to manage its balance sheet carefully and maintains conservative policies in cash and financial management. As at 31 December 2015, the Group's cash and bank balances (including bank deposits with original maturity over three months) amounted to HK$438.4 million (2014: HK$499.7 million), representing a decrease of HK$61.3 million from last year. Of the cash and cash equivalents as at 31 December 2015, 77% (2014: 81%) was denominated in Hong Kong dollars, with the remaining balance in Renminbi and United States dollars.

The decrease in cash and bank balances was mainly due to the cash used in the subscription of 24-month puttable step-up coupon notes (the "Notes") issued by BOCI Financial Products Limited in a principal amount of HK$50 million. Since the returns available on surplus liquidity remain low, pending deployment of funds for any investment project that may arise, the Group believes that subscription of the Notes with part of the Group's available cash balance could offer a better return on cash while keeping increased risks within prudent limits. Further details of the subscription of the Notes were set out in the announcement of the Company dated 25 June 2015.

It is currently anticipated that substantially the entire amount of our "Bank deposits with original maturity over three months" and "Bank balances and cash" shown in our consolidated statement of financial position as at 31 December 2015 (in aggregate amounting to HK$438 million) will be deployed in the proposed premium integrated resort project next to Barcelona in Spain (the "Barcelona Project") as announced by us on 9 October 2015 and 8 January 2016, unless there is any suitable investment opportunity arises in the meantime requiring more imminent funding.

The bidding process for the Barcelona Project is a competitive tender. The precise amount of investment required will be determined by, amongst other things, the detailed terms of the bid to be submitted by Melco Property Development Limited ("MPDL", the pre-qualified bidder currently owned by Melco International Development Limited and, as disclosed in our announcement of 9 October 2015, to be acquired by us, subject to our independent shareholders' approval) but as the minimum amount of investment permissible under the tender rules is €300 million (approximately HK$2,580 million), if MPDL's tender is successful, it is expected that additional financing will be required for the Barcelona Project. The definitive fund raising plan will be determined in due course.

MANAGEMENT DISCUSSION AND ANALYSIS

As a result of the uncertainty regarding the publication of the master plan as we announced on 8 January 2016, the timing of the investment we will need to make if MPDL's bid is accepted is also uncertain. We anticipate that the terms of the casino authorizations will be finalized, and the bid and performance bonds in an aggregate amount of €10 million will be payable by MPDL, in calendar year 2016. The additional costs incurred in 2016 are expected to be relatively modest, principally relating to planning. Substantial portion of the project expenses will be incurred during the construction phase, which is expected to span from 2017 to 2019.

In respect of share options exercised during 2015, the Company issued 111,574 new shares and the share capital of the Company has increased by HK$1,116 to HK$31.5 million (2014: HK$31.5 million).

The Group had no bank borrowings in 2015 (2014: Nil) and generally financed its operations with internal resources.

As at 31 December 2015, the Group's current assets exceeded its current liabilities by HK$357.9 million (2014: HK$420.1 million). The Group had a capital surplus of HK$408.5 million as at 31 December 2015 (2014: HK$421.0 million).

The gearing ratio of the Group (total borrowings divided by shareholders' funds) was nil as at 31 December 2015 (2014: Nil).

OUTLOOK

The China lottery market witnessed some fundamental changes in 2015. The recent regulatory reform demonstrates the Chinese government's determination to better regulate the lottery industry by eliminating malpractices and improving transparency. The Group believes that by building a more transparent and reliable regulatory environment, the China lottery market will have a more sustainable growth in the long run.

Whilst the Company has announced on 10 February 2016 that it has decided not to proceed further with the casino project in Tbilisi, Georgia, the Group continues to pursue the opportunity to develop a premium integrated resort next to Barcelona in Spain. The Group will also continue to explore other potential investment opportunities where the Group can leverage on its and Melco's strengths in gaming, leisure and entertainment industries, including integrated resorts, casinos, hotels and lotteries located in emerging or frontier gaming markets.

With a solid financial foundation, a focused line of principal business, together with continuing efforts to pursue investment opportunities outside of lottery and the PRC market, the Group remains confident in delivering attractive returns to the Company's shareholders in the long run.

CHARGES ON GROUP ASSETS

None of the Group's assets were pledged as of 31 December 2015 and 2014.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

As at 31 December 2015, all assets and liabilities of the Group were denominated in Hong Kong dollars, Renminbi and United States dollars. For the year ended 31 December 2015, the business activities of the Group were mainly denominated in Hong Kong dollars and Renminbi. Since the impact of foreign exchange exposure has been insignificant, no hedging or other alternatives have been implemented.

MANAGEMENT DISCUSSION AND ANALYSIS

STAFF AND REMUNERATION POLICY

As at 31 December 2015, the Group had a total of 15 full-time employees (2014: 23). For the year ended 31 December 2015, the Directors received total emoluments of approximately HK$21.0 million (2014: HK$42.5 million), including non-cash share-based payments to Directors of HK$17.1 million in 2015 (2014: HK$37.9 million). The Group continues to provide remuneration packages to employees that are in line with market practices and past performance. The Group also provides employee benefits such as mandatory provident fund, medical insurance, staff training programs and share option schemes.

CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

As at 31 December 2015 and 2014, the Group had no significant capital commitments contracted but not provided for in the consolidated financial statements and also did not have any significant contingent liabilities.

BIOGRAPHICAL DETAILS OF DIRECTORS

NON-EXECUTIVE DIRECTOR

Mr. Tsui Che Yin, Frank, aged 58, has been the Chairman and Non-executive Director of the Company since July 2013. He is also a member of the audit committee of the Company and a director of certain subsidiaries of the Company. Mr. Tsui is currently an executive director of Melco International Development Limited ("Melco"), a company listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and the parent company of the Company. He is also a director of Mountain China Resorts (Holding) Limited, a company listed on the TSX Venture Exchange of Canada, an independent non-executive director of Jinhui Holdings Company Limited, a company listed on the Hong Kong Stock Exchange, and a non-executive director of Jinhui Shipping and Transportation Limited, a company listed on the Oslo Stock Exchange. Mr. Tsui has more than 30 years of experience in investment and banking industries and held senior management positions at various international financial institutions. Prior to joining Melco, Mr. Tsui was the President of China Assets Investment Management Limited which is the investment manager of China Assets (Holdings) Limited, a listed investment holding company in Hong Kong. Mr. Tsui graduated with a bachelor's and a master's degree in business administration from The Chinese University of Hong Kong and with a law degree from the University of London. He also holds a doctoral degree in Business Administration from The University of Newcastle, Australia. He is a member of the Certified General Accountants Association of Canada and the Hong Kong Securities Institute.

EXECUTIVE DIRECTORS

Mr. Ko Chun Fung, Henry, aged 56, is the Chief Executive Officer, Compliance Officer and Executive Director of the Company. He is also the chairman of executive committee and a member of the nomination committee of the Company and a director of certain subsidiaries of the Company. Mr. Ko was appointed as a Director of the Company in January 2008. He is a seasoned professional with a strong track record of successful senior positions in Asia. He has led various high profile ventures in the telecom industry. Prior to entering the lottery industry, he was a founder of iAsia Online Systems Limited, and in his capacity as chief executive officer and executive director, nurtured its growth into a leading financial trading solutions vendor in Hong Kong and mainland China. Mr. Ko then went on to set up the lottery business which was subsequently acquired by the Group in late 2007, in his capacity as chief executive officer and executive director of PAL Development Limited. Upon the acquisition of the lottery business, Mr. Ko was appointed to the Board and as Chief Executive Officer of the Company and continues to lead the lottery business of the Group. Mr. Ko obtained a Bachelor of Engineering degree (first class honours) in 1982. In 1990 he received an Australian Postgraduate Course Award to study at the Australian Graduate School of Management, where he obtained his Master of Business Administration degree.

Mr. Tsang Yuen Wai, Samuel, aged 61, has been a Director of the Company since July 2013. Mr. Tsang has worked as a lawyer in Hong Kong for over 30 years and is currently Chief Advisor, Legal of Melco Group. Before assuming such post, Mr. Tsang had been group legal counsel and company secretary of Melco Group and overseen the legal, corporate and compliance matters of that group.

Mr. Tsang holds a master of laws degree from University of Hong Kong and a master of business administration degree from the Australian Graduate School of Management. Mr. Tsang is a director of Melco's subsidiary, Entertainment Gaming Asia Inc., a company listed on the NASDAQ Capital Market in the United States, and a director of Maple Peak Investments Inc., a company listed on the TSX Venture Exchange of Canada. Mr. Tsang was a director of Alpha Peak Leisure Inc., a company listed on the TSX Venture Exchange of Canada, from June 2011 to June 2015.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Tam Chi Wai, Dennis, aged 46, has been an Executive Director of the Company since July 2013. He is also a member of both the executive committee and remuneration committee of the Company and a director of certain subsidiaries of the Company. Mr. Tam oversees the strategic investment, financial control, treasury and corporate finance of the Group. Mr. Tam is currently Group Finance Director and Head of Human Resources and Administration of Melco, a company listed on the Hong Kong Stock Exchange and the parent company of the Company. He is also a director of Melco's subsidiary, Entertainment Gaming Asia Inc., a company listed on the NASDAQ Capital Market in the United States, and a director of Alpha Peak Leisure Inc. and Maple Peak Investments Inc., both of which are listed on the TSX Venture Exchange of Canada. Mr. Tam has more than 20 years of experience in corporate finance, accounting, financial control and mergers & acquisitions. Prior to joining Melco, Mr. Tam held senior management positions with various local listed and multinational companies.

Mr. Tam obtained his Master Degree in Accounting from Monash University, completed his PhD program at Washington Intercontinental University and was trained at Harvard Business School in Cambridge, Massachusetts. He is the chairman of the board for Greater China for the Institute of Certified Management Accountants, a fellow member of the Financial Services Institute of Australasia, a member of the Institute of Public Accountants, a member of CPA Australia, a member of the Institute of Administrative Management in United Kingdom. In 2014 and 2015, Mr. Tam was awarded "Asia's Best CFO (Investor Relations)" at the Asian Excellence Awards by Corporate Governance Asia Magazine.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tsoi, David, aged 68, has been an Independent Non-executive Director of the Company since October 2001. He is also the chairman of both the audit committee and remuneration committee and a member of the nomination committee of the Company. Being a Certified Public Accountant by profession, Mr. Tsoi currently practises as managing director of Alliott, Tsoi CPA Limited. He is a fellow member of the Association of Chartered Certified Accountants, Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England & Wales and a member of the Chartered Professional Accountants of Canada and CPA Australia. He is also a fellow member of the Hong Kong Institute of Directors. Mr. Tsoi holds a master's degree in business administration from the University of East Asia, Macau. Mr. Tsoi is currently an independent non-executive director of Guru Online (Holdings) Limited, Enviro Energy International Holdings Limited and Universal Technologies Holdings Limited, all of which are companies listed on the Hong Kong Stock Exchange. Between March 2008 and June 2014, he was an independent non-executive director of CRRC Corporation Limited (formerly Known as CSR Corporation Limited), a company listed on the Hong Kong Stock Exchange.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Pang Hing Chung, Alfred, aged 54, has been an Independent Non-executive Director of the Company since March 1999. He is also a member of both the audit committee and nomination committee of the Company. Mr. Pang is currently the chairman of Standard Advisory Asia Limited ("Standard") and a member of Standard's Asia Executive Committee. He is also an independent non-executive director of Summit Ascent Holdings Limited, a company listed on the Hong Kong Stock Exchange. Mr. Pang has over 25 years of financial, management and investment banking experience in China, Asia and the United States. Before joining Standard, Mr. Pang was the managing director and vice chairman, Investment Banking Division, at BOC International Holdings Ltd. ("BOCI") where he was also the chairman of BOCI's commitment committee. Prior to joining BOCI, he was the managing director and president, Asia at Donaldson Lufkin & Jenrette, the United States investment banking firm. Mr. Pang holds dual Bachelor of Arts (in Economics) & Bachelor of Science (in Electrical Engineering) degrees from Cornell University, and Master of Business Administration degree from Stanford University Graduate School of Business in the United States.

Ms. Chan Po Yi, Patsy, aged 51, has been an Independent Non-executive Director of the Company since November 2013. She is also the chairman of the nomination committee and a member of the audit committee and remuneration committee of the Company. Ms. Chan is currently the chief operating officer of Richemont Asia Pacific Limited, Hong Kong and Macau. She has been working with Richemont Luxury Group, one of the world leading luxury goods groups, for over 10 years. With more than 20 years of experience in several prestigious multinational corporations, Ms. Chan leads the company in maximizing operational efficiency and cost effectiveness with knowledge in risk management and corporate governance as well as in-depth perception in strategic planning and performance measurement development. Prior to joining Richemont Luxury Group, she held various management positions in Piaget, Marsh & McLennan and other multinational companies. Ms. Chan holds a Bachelor's degree of Commerce in Accounting from University of New South Wales in Sydney, Australia and participated in the Luxury Brand Management Executive Program at ESSEC Business School. She is a member of CPA Australia, a member of Institute of Certified Management Accountants and a member of the Institute of Public Accountants, Australia.

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining a high standard of corporate governance and has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). The board of directors of the Company (the "Directors" or "Board") is conscientious of the need for accountability, transparency, fairness and integrity of the operations of the Company for the benefit of its shareholders and the investing public.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions as set out in the CG Code throughout the year ended 31 December 2015. The Board will continue to monitor and review the Company's corporate governance practices to ensure compliance with the CG Code.

BOARD OF DIRECTORS

Composition of the Board

The composition of the Board reflects the necessary balance of skills and experience desirable for the effective leadership of the Company. The Board currently comprises a total of seven Directors, comprising three Executive Directors, one Non-executive Director and three Independent Non-executive Directors. The number of Independent Non-executive Directors represents more than one-third of the Board and at least one of whom has appropriate professional qualifications, or accounting or related financial management expertise as required by the GEM Listing Rules.

The Board members were made up of the following Directors who served throughout the year:

Mr. Tsui Che Yin, Frank* *(Chairman)*
Mr. Ko Chun Fung, Henry# *(Chief Executive Officer)*
Mr. Tsang Yuen Wai, Samuel#
Mr. Tam Chi Wai, Dennis#
Mr. Tsoi, David+
Mr. Pang Hing Chung, Alfred+
Ms. Chan Po Yi, Patsy+

\# *Executive Director*
* *Non-executive Director*
\+ *Independent Non-executive Director*

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his/her independence. The Board considers that each Independent Non-executive Director is independent in character and judgment and that they all meet the specific independence criteria as required by the GEM Listing Rules.

All Directors have signed service contract or formal letters of appointment with the Company, which set out the key terms and conditions of their appointments. Each executive was appointed for a term of three years while each Non-executive Director and Independent Non-executive Director was appointed for a term of two years from the date of the appointment. Every Director will retire once every three years. This year, Mr. Tsang Yuen Wai, Samuel, Mr. Tam Chi Wai, Dennis and Mr. Tsoi, David will retire and will offer themselves for re-election at the forthcoming annual general meeting.

Among the retiring Directors, Mr. Tsoi, David, an Independent Non-executive Director, has served the Board for more than 14 years. The Board has received written confirmation from Mr. Tsoi regarding his independence in accordance with the GEM Listing Rules. In view of this and in view of the fact that Mr. Tsoi is a very seasoned and experienced director and professional, the Board considers Mr. Tsoi as having the necessary character, integrity and experience to remain independent notwithstanding his long length of service and will continue to bring invaluable independent advice and perspectives to the Company and its business. The Board therefore recommends Mr. Tsoi be re-elected as Independent Non-executive Director of the Company at the annual general meeting.

The biographies of Mr. Tsang, Mr. Tam and Mr. Tsoi have been set out in the circular sent with this report to provide information to shareholders to decide on their re-elections.

Board Meetings

The Board meets regularly over the Company's affairs and operations. At the Board meetings, the Directors considered and approved the financial results and budget, discussed the overall strategy as well as the operation and financial performance of the Group. All Directors are kept informed on a timely basis of major changes that may affect the Group's businesses, including relevant rules and regulations. The Directors either participated in person or through electronic means of communication. At least 14 days' notice of the meetings was given.

Board papers were provided to Directors in advance to enable them to prepare for the meetings and keep the Directors appraised of the latest developments and financial position of the Company. All Directors have access to the advice and services of the Joint Company Secretaries to ensure that the Board procedures, and all applicable rules and regulations are followed. Directors are also entitled to seek independent professional advice in performing their duties at the Company's expense, where necessary.

Draft and final versions of minutes of Board meetings were circulated to all Directors for comment within a reasonable time after the Board meeting was held. The Joint Company Secretaries keep full records of the meetings in accordance with applicable laws and regulations.

The Board met seven times during 2015. In addition, the Chairman of the Board met the Non-executive Directors once without the presence of the Executive Directors. The attendance records of the Directors at Board meetings and the annual general meeting are set out below:

	Attendance (rate)	
Name of Director	**Board Meeting**	**Annual General Meeting**
Mr. Tsui Che Yin, Frank*	7 (100%)	1 (100%)
Mr. Ko Chun Fung, Henry#	6 (86%)	1 (100%)
Mr. Tsang Yuen Wai, Samuel#	7 (100%)	1 (100%)
Mr. Tam Chi Wai, Dennis#	7 (100%)	1 (100%)
Mr. Tsoi, David+	7 (100%)	1 (100%)
Mr. Pang Hing Chung, Alfred+	7 (100%)	1 (100%)
Ms. Chan Po Yi, Patsy+	7 (100%)	1 (100%)

Executive Director
* *Non-executive Director*
\+ *Independent Non-executive Director*

Board Diversity Policy

The Board adopted a board diversity policy in August 2013 which sets out the approach by the Company to achieve diversity on the Board. The Company considers diversity can be achieved from different age, gender, cultural and educational background, ethnicity, professional experience, skills and knowledge. All Board appointments are considered according to objective criteria, having regard to benefits of diversity, and decided on merits.

The Nomination Committee is in charged with implementation of this policy and reports annually on Board appointment process in the corporate governance report.

Directors' Training

The Joint Company Secretaries are responsible for keeping Directors informed of changes in laws and regulations and organizing continuing development programme. Every Director will receive a comprehensive orientation package on appointment.

All Directors have participated in continuous professional development to develop and refresh their skills and knowledge in accordance with Paragraph A.6.5 of the CG Code. The Company has also sent information on external training courses and articles to Directors. A summary of training received by Directors during 2015 is set out below:

	Type of Continuous Professional Development	
Name of Director	**Attending seminars/ workshops/conferences relevant to the business of the Company or directors' duties**	**Reading regulatory updates**
Mr. Tsui Che Yin, Frank*	✓	✓
Mr. Ko Chun Fung, Henry#	–	✓
Mr. Tsang Yuen Wai, Samuel#	✓	✓
Mr. Tam Chi Wai, Dennis#	✓	✓
Mr. Tsoi, David+	✓	✓
Mr. Pang Hing Chung, Alfred+	✓	✓
Ms. Chan Po Yi, Patsy+	✓	✓

\# *Executive Director*
* *Non-executive Director*
\+ *Independent Non-executive Director*

All Directors have been informed of the latest developments and changes in the GEM Listing Rules and other relevant legal and regulatory requirements regularly to ensure compliance and enhance their awareness of good corporate governance practices. Also, all Directors were provided with monthly updates on the Company's performance, position and prospects with sufficient explanation and information to enable the Board as a whole and each Director to make an informed assessment of financial and other information put before it for approval.

CORPORATE GOVERNANCE REPORT

Securities Dealings by Directors and Relevant Employees

The Company has adopted its own code for dealing in the Company's securities by Directors and relevant employees who are likely to be in possession of inside information in relation to the securities of the Company (the "Code of Securities Dealings") on terms no less exacting than the required standards set out in Rules 5.48 to 5.67 of the GEM Listing Rules.

Having made specific enquiry of the Directors, all Directors, except for Mr. Pang Hing Chung, Alfred ("Mr. Pang"), confirmed that they have complied with the required standards set out in the Code of Securities Dealings throughout the year 2015.

On 8 April 2015, 4,000 shares of the Company held by Mr. Pang were sold during the black-out period specified under Rule 5.56(a)(ii) of the GEM Listing Rules (the "Transaction"). The non-compliance did not arise from Mr. Pang's own action but arose from a sale initiated by his broker for settlement of the broker's service charge. Upon Mr. Pang becoming aware of the Transaction on 22 June 2015, the Transaction was disclosed to the Stock Exchange and the public on 25 June 2015. At his own initiation, Mr. Pang agreed with the Stock Exchange to put into place necessary measures to ensure similar incident will not happen again in future.

Directors' and Officers' Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers. The coverage and the amount insured are reviewed annually by the Company. In 2015, no claims under the insurance policy were made.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The posts of Chairman and Chief Executive Officer are separate and are not held by the same individual to ensure independence, accountability and responsibility. The responsibilities of the Chairman and the Chief Executive Officer are clearly defined and set out in writing.

The Chairman, Mr. Tsui Che Yin, Frank, who is a Non-executive Director, is responsible for setting the Group's strategy and business directions, overseeing the functioning of the Board and ensuring that the Board is functioning properly with good corporate governance practices and procedures. The Chief Executive Officer, Mr. Ko Chun Fung, Henry, who is an Executive Director, supported by other Board members, is responsible for managing the Group's business, including implementation of major strategies set by the Board, making day-to-day decisions and coordinating overall business operations. The Chairman and the Chief Executive Officer do not have any financial, business, family or other material or relevant relationships with each other.

DELEGATION BY THE BOARD

Management Functions

The overall management of the Company's business is vested in the Board, which assumes responsibility for its leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs.

CORPORATE GOVERNANCE REPORT

The Board has delegated the day-to-day operation responsibility to the management under the supervision of the Chief Executive Officer and various Board committees. Whenever appropriate, management is required to report back and obtain prior Board approval before making decisions or entering into any commitments on behalf of the Company. To ensure effective discharge of the Board's responsibilities, the management submits monthly, quarterly and annual operations reports to the Board. Directors have full and ready access to management on the Company's business and operations.

Board Committees

To assist the Board in execution of its duties and to facilitate effective management, certain functions of the Board have been delegated to various committees, which review and make recommendations to the Board on specific areas. Chairmen and members of the committees are set out on page 3 of this annual report.

Each committee has its defined terms of reference and has power to decide on matters within its terms of reference. The board committees' terms of reference have been posted on the Company's website under the section "Corporate Governance".

Each committee is provided with sufficient resources to perform its duties. It may seek independent professional advice at the Company's expense, where necessary.

(1) Executive Committee

The Executive Committee is made up of the Company's Executive Directors. The Executive Committee holds monthly meetings to discuss the Company's business and new projects. It oversees the implementation of the Group's strategic objectives and risk management policy and the Group's business and operations.

(2) Audit Committee

The Audit Committee is made up of three Independent Non-executive Directors and a Non-executive Director. The primary duties of the Audit Committee are (i) to review the Group's financial statements and published reports; (ii) to provide advice and comments thereon to the Board and (iii) to review and supervise the financial reporting process and internal control procedures of the Group.

The roles and functions of the Audit Committee are set out in the committee's terms of reference, which align with the requirements of the CG Code and the guidelines issued by the Hong Kong Institute of Certified Public Accountants and are published on the Company's website under the section "Corporate Governance".

In 2015, the Audit Committee met four times with attendance as shown below:

Audit Committee Members	Attendance (rate)
Mr. Tsoi, David	4 (100%)
Mr. Tsui Che Yin, Frank	4 (100%)
Mr. Pang Hing Chung, Alfred	4 (100%)
Ms. Chan Po Yi, Patsy	4 (100%)

During the year, the Audit Committee reviewed the Group's financial results and reports on a quarterly basis, and reviewed the continuing connected transactions of the Company for the year ended 31 December 2014, the remuneration of external auditor and the internal control review report. It also made recommendation to the Board on the approval of the revised terms of reference of the Audit Committee.

(3) Remuneration Committee

The Remuneration Committee is made up of one Executive Director and two Independent Non-executive Directors. It reviews the remuneration packages of Directors and management as well as guidelines on salary revision and bonus distribution to the Group's employees.

In 2015, the Remuneration Committee met once with attendance as shown below:

Remuneration Committee Members	Attendance (rate)
Mr. Tsoi, David	1 (100%)
Mr. Tam Chi Wai, Dennis	1 (100%)
Ms. Chan Po Yi, Patsy	1 (100%)

During the year, the Remuneration Committee approved the proposal on salary revision of and discretionary bonus distribution to the management and employees of the Group, and reviewed and approved remuneration of Directors.

Details of the remuneration of Directors and senior management for the year ended 31 December 2015 are set out in notes 10 and 30(b) to the consolidated financial statements. Details of the Company's share option scheme are set out in note 23 to the consolidated financial statements.

(4) Nomination Committee

The Nomination Committee is made up of one Executive Director and three Independent Non-executive Directors. It reviews the structure, size and composition of the Board, and makes recommendations to the Board on appointment and re-appointment of Directors.

In 2015, the Nomination Committee met once with attendance as shown below:

Nomination Committee Members	Attendance (rate)
Ms. Chan Po Yi, Patsy	1 (100%)
Mr. Ko Chun Fung, Henry	1 (100%)
Mr. Tsoi, David	1 (100%)
Mr. Pang Hing Chung, Alfred	1 (100%)

During the year, the Nomination Committee reviewed the structure, size, composition and diversity of the Board, assessed the independence of the Independent Non-executive Directors, considered and made recommendation to the Board on the re-election of Mr. Pang Hing Chung, Alfred, who has served for more than nine years on the Board and made recommendation to the Board on re-election of other Directors.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties set out in the CG Code which include (i) developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board; (ii) reviewing and monitoring the training and continuous professional development of Directors and senior management; (iii) reviewing and monitoring the Company's policies and practices in compliance with the legal and regulatory requirements; and (iv) reviewing the Company's compliance with the code provisions in the CG Code.

JOINT COMPANY SECRETARIES

The Joint Company Secretaries support the Board and Board Committees and facilitates good information flow between them and the Company's management. All Directors have access to the Joint Company Secretaries' advice and services. Being the primary channel of communications between the Company and the Stock Exchange, the Joint Company Secretaries assist the Board in implementing and strengthening the Group's corporate governance practices.

Ms. Chan Yuen Mei, Claudia was appointed as the Company Secretary in October 2013 and has become a Joint Company Secretary of the Company upon the appointment of Mr. Leung Hoi Wai, Vincent as the other Joint Company Secretary of the Company with effect from 9 December 2015. Mr. Leung is a qualified solicitor in Hong Kong and England and Wales. Ms. Chan is an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. The Joint Company Secretaries report to the Chief Executive Officer of the Company. During the year, the Joint Company Secretaries have complied with the training requirement as provided in Rule 5.15 of the GEM Listing Rules.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

The Directors' responsibilities for preparing the consolidated financial statements and the reporting responsibilities of the independent auditor are set out on page 39 of this annual report. In particular, the Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. It is also the Board's responsibility to oversee the preparation of the annual accounts which provide a reflective and fair view of the Group's state of affairs, results and cash flow for the year. To fulfill this responsibility, the Board regularly reviewed the reports prepared by management on the Group's financial and operational performance as well as the development of major projects during the year.

CORPORATE GOVERNANCE REPORT

AUDITOR'S REMUNERATION

At the annual general meeting of the Company held on 7 May 2015, Messrs. Deloitte Touche Tohmatsu were re-appointed as the external auditor of the Company and the Group until the conclusion of the next annual general meeting.

On the recommendation of the Audit Committee, the Board has agreed to the fee of HK$1,070,000 for the audit of the Group's accounts for the year ended 31 December 2015 (2014: HK$1,030,000).

The external auditor was not engaged to provide non-audit services, except for taxation services and other consultancy services amounting to HK$832,000 in aggregate, for the year (2014: HK$971,000).

INTERNAL CONTROLS

The Board acknowledges its overall responsibility for establishing and maintaining a reliable and thorough system of internal controls and risk management to safeguard the shareholders' investments and the Group's assets.

During the year, the internal auditor performed high-level review of the Company's internal control system regarding its business operations and processes. The audit work focuses on those areas of the Group's activities with greatest perceived risks. Results of audit reviews in the form of audit reports are submitted to the members of the Audit Committee and discussed at the Audit Committee meeting. Appropriate recommendations for further enhancing the internal control system have been adopted.

The Board, through the Audit Committee, has conducted a review of the effectiveness of the Group's internal control system for 2015 covering all material financial, operational and compliance controls and considers that such system is adequate and effective. The Board, through the Audit Committee, has also reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting and financial functions and considers that they are adequate.

CONSTITUTIONAL DOCUMENTS

During the year, there was no change in the Company's constitutional documents.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to Convene Extraordinary General Meeting and Putting Forward Proposal at General Meetings

Under Article 58 of the Company's Articles of Association, any one or more shareholders holding not less than one-tenth of the paid up capital of the Company and carrying the right of voting at the general meeting of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within 2 months after the deposit of such requisition.

Such a requisition, specifying the shareholding information of the shareholder who made the requisition, must be signed by the shareholder and deposited at the registered office of the Company or the Company's principal place of business in Hong Kong, the details of which are provided in the "Corporate Information" section of this annual report.

If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting, the requisitionist(s) may convene the extraordinary general meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

There are no provisions under the Company's Articles of Association or the Companies Law of the Cayman Islands regarding procedures for shareholders to put forward proposals at general meetings. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

Procedures for Nomination of Directors for Election

Under Article 88 of the Company's Articles of Association, shareholders are entitled to elect a person to be a Director at a general meeting. The procedures for nomination of Directors for election are available on the Company's website at www.melcolot.com.

Enquiries to the Board

Shareholders have a right to put enquiries to the Board. All enquiries should be in writing and sent to the Company Secretarial Department at Room 3701, 37th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong or by email to information@melcolot.com.

COMMUNICATION WITH SHAREHOLDERS

The Company considers the annual general meeting ("AGM") an important event, as it provides an opportunity for the Board to communicate with the shareholders. The Company supports the CG Code's principle to encourage shareholders' participation. Questioning by shareholders at the Company's AGM is encouraged and welcomed.

The Board Chairman, Board Committees' chairmen and the Company's auditor attended the 2015 AGM and were on hand to answer questions.

The Group's Company Secretarial Department responds to letters, emails and telephone enquiries from shareholders/investors. Shareholders and investors may contact the Company by email via information@melcolot.com or by mail to the Joint Company Secretaries at Room 3701, 37th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong. The website of the Company at www.melcolot.com also provides a medium to make information of the Group available to shareholders.

REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries, an associate and joint ventures are set out in notes 31, 15 and 16 respectively to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2015 and an indication of likely future developments in the Group's business can be found in the Chairman's Statement and the Management Discussion and Analysis set out on page 4 and pages 5 to 8 respectively of this annual report. No important event affecting the Group that has occurred since the end of the financial year ended 31 December 2015. An analysis of the Group's performance during the year using financial key performance indicators is set out in the Group's Five-year Financial Summary on page 102 of this annual report.

KEY RISKS AND UNCERTAINTIES

Risk relating to the PRC economy

All of the Group's products and services are sold in the People's Republic of China (the "PRC") market. As the growth of the lottery industry in PRC is linked to the PRC's economic conditions, in the event there is a slower than expected economic growth or any other adverse change in the PRC economy, the Group's operating results and profitability could be adversely affected.

Risks relating to reliance on a major customer and a major supplier

Given the Group's strong reliance on a major customer or a major supplier (further details as set out in the section headed "Major Customers and Suppliers" of this report), should there be business failure of such major customer or supplier or any interruption in their businesses, or they decide to discontinue their business relationship with the Group, the Group's business and hence its operation and financial position will be adversely affected.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group recognizes the importance of environmental sustainability against modern ecological challenges. To enhance environmental awareness and encourage daily participation among staff in the continuous improvement of environmental protection, the Company implements green office practices, such as implementing paperless practice whenever possible, engaging staff regularly on low carbon office measures and encouraging them to switch off non-essential lights and maintain an average indoor temperature between 24-26 degree Celsius. The Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the operation of the Group's businesses to enhance environmental sustainability.

REPORT OF THE DIRECTORS

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. The Board considers that there is no compliance issue that has a significant impact of the Group.

Our audit committee is delegated by the Board to monitor the Group's policies and practices on compliance with legal and regulatory requirements and such policies are regularly reviewed. Any changes in the applicable laws, rules and regulations, in particular those relating to an operation in the PRC, are brought to the attention of relevant employees and relevant operation units from time to time.

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group understands that employees are valuable assets. The Group provides competitive remuneration package to attract and retain the best people. The Group regularly reviews the remuneration package of employees and makes necessary adjustments taking into account the prevailing market conditions.

The Group also understands the importance of maintaining good relationship with its suppliers and customers. The Group has established long term business relationship with the suppliers which ensures delivering constantly high standards of quality in the products and services. The Group maintains close relationship with the customers to fulfil their immediate and long-term need. During the year, there was no material and significant dispute between the Group and its suppliers and/or customers.

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 41 of this annual report.

The directors do not recommend the payment of a dividend for the year ended 31 December 2015.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 102 of this annual report. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements during the year in property, plant and equipment of the Group are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in share capital of the Company are set out in note 22 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of Cayman Islands in relation to issue of shares by the Company.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

As at 31 December 2015, the Company's reserves available for distribution to the shareholders of the Company are approximately HK$290,924,000 (2014: HK$327,834,000) as calculated in accordance with statutory provisions applicable in Cayman Islands.

MAJOR CUSTOMERS AND SUPPLIERS

In 2015, the Group's largest supplier accounted for 92% (2014: 97%) of total purchases. The five largest suppliers in 2015 comprised 100% (2014: 100%) of the Group's total purchases.

In 2015, the Group's largest customer accounted for 90% (2014: 89%) of the Group's total revenue. The five largest customers of the Group in 2015 comprised 100% (2014: 100%) of the Group's total revenue.

Save as disclosed above, at no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Mr. Tsui Che Yin, Frank* *(Chairman)*
Mr. Ko Chun Fung, Henry# *(Chief Executive Officer)*
Mr. Tsang Yuen Wai, Samuel#
Mr. Tam Chi Wai, Dennis#
Mr. Tsoi, David+
Mr. Pang Hing Chung, Alfred+
Ms. Chan Po Yi, Patsy+

\# *Executive Director*
* *Non-executive Director*
\+ *Independent Non-executive Director*

In accordance with Article 87 of the Company's Articles of Association, Mr. Tsang Yuen Wai, Samuel, Mr. Tam Chi Wai, Dennis and Mr. Tsoi, David, being directors longest in office since their last election, shall retire from office by rotation at the forthcoming annual general meeting and are eligible to offer themselves for re-election.

The Company has received annual confirmation from each of the independent non-executive directors concerning his/her independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

Biographical details of the directors as at the date of this report are set out on pages 9 to 11 of this annual report.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for re-election at the forthcoming annual general meeting of the Company has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles of Association, each director is entitled to 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 the duties of his/her office or otherwise in relation thereto, save for matters in respect of his/her fraud or dishonesty.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company or an entity connected with a director had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Share Option Scheme" in this report, at no time during the year was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2015, the interests and short positions of each director and chief executive of the Company and their respective associates 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")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

(I) Long positions in the shares and underlying shares of the Company

(a) Ordinary shares of the Company

Name of director	Number of ordinary shares held	Approximate percentage of total issued shares of the Company
	(Note 2)	*(Note 1)*
Mr. Tsoi, David	430,806	0.01%
Mr. Pang Hing Chung, Alfred	1,586,000	0.05%

(b) Share options granted by the Company

Name of director	Number of underlying shares held pursuant to share options	Approximate percentage of total issued shares of the Company
	(Notes 2 & 3)	*(Note 1)*
Mr. Tsui Che Yin, Frank	20,881,400	0.66%
Mr. Ko Chun Fung, Henry	17,688,200	0.56%
Mr. Tsang Yuen Wai, Samuel	20,881,400	0.66%
Mr. Tam Chi Wai, Dennis	20,881,400	0.66%
Mr. Tsoi, David	1,248,000	0.04%
Mr. Pang Hing Chung, Alfred	1,805,872	0.06%
Ms. Chan Po Yi, Patsy	1,248,000	0.04%

Notes:

1. As at 31 December 2015, the total number of issued shares of the Company was 3,145,656,900.

2. This represents interests held by the relevant director as beneficial owner.

3. Details of share options granted to the directors pursuant to the share option schemes of the Company are set out in the section headed "Share Option Scheme" of this report and note 23 to the consolidated financial statements.

REPORT OF THE DIRECTORS

(II) Long positions in the shares and underlying shares of associated corporations of the Company

(A) Melco International Development Limited ("Melco") *(a listed holding company of the Company)*

(a) Ordinary shares of Melco

Name of director	Number of ordinary shares held	Approximate percentage of total issued shares of Melco
	(Note 2)	*(Note 1)*
Mr. Tsui Che Yin, Frank	4,579,660	0.30%
Mr. Ko Chun Fung, Henry	584,000	0.04%
Mr. Tsang Yuen Wai, Samuel	2,967,162	0.19%
Mr. Tam Chi Wai, Dennis	3,004,002	0.19%
Ms. Chan Po Yi, Patsy	4,000	0.00%

(b) Share options and awarded shares granted by Melco

Name of director	Number of underlying shares held pursuant to share options	Number of awarded shares held	Total	Approximate percentage of total issued shares of Melco
	(Notes 2 & 3)	*(Notes 2 & 4)*		*(Note 1)*
Mr. Tsui Che Yin, Frank	3,326,000	96,000	3,422,000	0.22%
Mr. Tsang Yuen Wai, Samuel	1,878,000	83,000	1,961,000	0.13%
Mr. Tam Chi Wai, Dennis	3,330,000	72,000	3,402,000	0.22%

Notes:

1. As at 31 December 2015, the total number of issued shares of Melco was 1,546,663,555.

2. This represents interests held by the relevant director as beneficial owner.

3. Details of the 3,326,000 share options held by Mr. Tsui Che Yin, Frank are as follows:

   – 170,000 share options granted on 7 April 2010 at exercise price of HK$3.76 are exercisable from 7 April 2015 to 6 April 2020

   – 1,200,000 share options granted on 27 January 2012 at exercise price of HK$7.10 are divided into 4 tranches exercisable from 27 January 2012, 27 January 2013, 27 January 2014 and 27 January 2015 respectively to 26 January 2022

   – 1,000,000 share options granted on 2 April 2013 at exercise price of HK$13.40 are divided into 4 tranches exercisable from 2 April 2013, 2 April 2014, 2 April 2015 and 2 April 2016 respectively to 1 April 2023

– 700,000 share options granted on 3 April 2014 at exercise price of HK$26.65 are divided into 4 tranches exercisable from 3 April 2014, 3 April 2015, 3 April 2016 and 3 April 2017 respectively to 2 April 2024

– 256,000 share options granted on 8 April 2015 at exercise price of HK$14.24 are divided into 4 tranches exercisable from 8 April 2015, 8 April 2016, 8 April 2017 and 8 April 2018 respectively to 7 April 2025

Details of the 1,878,000 share options held by Mr. Tsang Yuen Wai, Samuel are as follows:

– 125,000 share options granted on 7 April 2010 at exercise price of HK$3.76 are exercisable from 7 April 2015 to 6 April 2020

– 330,000 share options granted on 27 January 2012 at exercise price of HK$7.10 are exercisable from 27 January 2015 to 26 January 2022

– 500,000 share options granted on 2 April 2013 at exercise price of HK$13.40 are divided into 2 tranches exercisable from 2 April 2015 and 2 April 2016 respectively to 1 April 2023

– 700,000 share options granted on 3 April 2014 at exercise price of HK$26.65 are divided into 4 tranches exercisable from 3 April 2014, 3 April 2015, 3 April 2016 and 3 April 2017 respectively to 2 April 2024

– 223,000 share options granted on 8 April 2015 at exercise price of HK$14.24 are divided into 4 tranches exercisable from 8 April 2015, 8 April 2016, 8 April 2017 and 8 April 2018 respectively to 7 April 2025

Details of the 3,330,000 share options held by Mr. Tam Chi Wai, Dennis are as follows:

– 30,000 share options granted on 1 April 2008 at exercise price of HK$10.804 are divided into 3 tranches exercisable from 1 April 2009, 1 April 2010 and 1 April 2011 respectively to 31 March 2018

– 85,000 share options granted on 7 April 2010 at exercise price of HK$3.76 are exercisable from 7 April 2015 to 6 April 2020

– 1,320,000 share options granted on 27 January 2012 at exercise price of HK$7.10 are divided into 4 tranches exercisable from 27 January 2012, 27 January 2013, 27 January 2014 and 27 January 2015 respectively to 26 January 2022

– 1,000,000 share options granted on 2 April 2013 at exercise price of HK$13.40 are divided into 4 tranches exercisable from 2 April 2013, 2 April 2014, 2 April 2015 and 2 April 2016 respectively to 1 April 2023

– 700,000 share options granted on 3 April 2014 at exercise price of HK$26.65 are divided into 4 tranches exercisable from 3 April 2014, 3 April 2015, 3 April 2016 and 3 April 2017 respectively to 2 April 2024

– 195,000 share options granted on 8 April 2015 at exercise price of HK$14.24 are divided into 4 tranches exercisable from 8 April 2015, 8 April 2016, 8 April 2017 and 8 April 2018 respectively to 7 April 2025

4. Details of the 96,000 awarded shares held by Mr. Tsui Che Yin, Frank are as follows:

   – One third of the 96,000 awarded shares will vest on each of the following dates: 8 April 2016, 8 April 2017 and 8 April 2018

   Details of the 83,000 awarded shares held by Mr. Tsang Yuen Wai, Samuel are as follows:

   – One third of the 83,000 awarded shares will vest on each of the following dates: 8 April 2016, 8 April 2017 and 8 April 2018

   Details of the 72,000 awarded shares held by Mr. Tam Chi Wai, Dennis are as follows:

   – One third of the 72,000 awarded shares will vest on each of the following dates: 8 April 2016, 8 April 2017 and 8 April 2018

(B) Entertainment Gaming Asia Inc. ("EGT") *(a listed subsidiary of Melco)*

(a) Shares of EGT

	Number of shares held		
Name of director	**Before the Reverse Stock Split**	**After the Reverse Stock Split**	**Approximate percentage of total issued shares of EGT**
	(Note 2)	*(Notes 1 & 2)*	*(Note 1)*
Mr. Tsang Yuen Wai, Samuel	30,000	7,500	0.05%

(b) Stock options granted by EGT

	Number of underlying shares held pursuant to stock options		
Name of director	**Before the Reverse Stock Split**	**After the Reverse Stock Split**	**Approximate percentage of total issued shares of EGT**
	(Note 2)	*(Notes 1 to 3)*	*(Note 1)*
Mr. Tsang Yuen Wai, Samuel	137,500	34,375	0.24%

Notes:

1. EGT has effected a 1-for-4 reverse stock split (the "Reverse Stock Split") of its shares with effect from 26 February 2015. As a result of the Reverse Stock Split, every four shares have been combined into one share. As at 31 December 2015, the total number of issued shares of EGT was 14,464,220.

   The number of shares, underlying shares in respect of the stock options and the exercise prices of the stock options were adjusted for the effect of the Reverse Stock Split.

2. This represents interests held by the relevant director as beneficial owner.

3. Details of the 34,375 stock options held by Mr. Tsang Yuen Wai, Samuel are as follows:

   – 6,250 stock options granted on 11 December 2008 at exercise price of US$1.28 may be exercised from 12 June 2009 to 11 December 2018

   – 3,125 stock options granted on 12 February 2009 at exercise price of US$2.08 may be exercised from 13 August 2009 to 12 February 2019

   – 3,125 stock options granted on 7 January 2010 at exercise price of US$4.64 may be exercised from 8 July 2010 to 7 January 2020

   – 3,125 stock options granted on 3 February 2011 at exercise price of US$5.76 may be exercised from 4 August 2011 to 3 February 2021

   – 6,250 stock options granted on 3 January 2012 at exercise price of US$3.696 may be exercised from 4 July 2012 to 3 January 2022

   – 6,250 stock options granted on 2 January 2013 at exercise price of US$7.86 may be exercised from 3 July 2013 to 2 January 2023

   – 6,250 stock options granted on 2 January 2014 at exercise price of US$4.844 may be exercised from 3 July 2014 to 2 January 2024

Save as disclosed above, none of the directors or chief executive of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as at 31 December 2015.

SHARE OPTION SCHEME

The share option scheme adopted on 20 April 2002 (the “Old Share Option Scheme”) had expired on 20 April 2012. No options may be and have been granted under that scheme after the expiry date, but the options granted before the expiry date continue to be valid and exercisable in accordance with their terms of issue. Subject to the aforesaid, the provisions of the Old Share Option Scheme remain in full force and effect, notwithstanding the expiry of the scheme.

At the annual general meeting of the Company held on 18 May 2012, the shareholders of the Company approved the adoption of a new share option scheme (the “2012 Share Option Scheme”), under which the directors may grant options to eligible persons to subscribe for the Company’s shares, subject to the terms and conditions stipulated therein. The 2012 Share Option Scheme will expire on 17 May 2022.

A summary of the principal terms of the Old Share Option Scheme and 2012 Share Option Scheme are set out in note 23 to the consolidated financial statements.

Movements of share options granted under the Old Share Option Scheme and 2012 Share Option Scheme during the year are set out below:

	Number of share options								
Type of participants	**As at 1 January 2015**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Cancelled during the year**	**As at 31 December 2015**	**Date of grant**	**Exercise price** *(HK$)*	**Exercise period** *(Note)*
Under Old Share Option Scheme									
Director									
Mr. Pang Hing Chung, Alfred	278,936	–	–	–	–	278,936	10.07.2009	0.263	4
	278,936	–	–	–	–	278,936	18.11.2010	0.109	5
Sub-total:	557,872	–	–	–	–	557,872			
Employees	200,831	–	–	–	–	200,831	31.03.2008	0.638	2
	223,148	–	(111,574)	–	–	111,574	10.07.2009	0.263	4
	167,361	–	–	–	–	167,361	18.11.2010	0.109	5
Sub-total:	591,340	–	(111,574)	–	–	479,766			
Others	52,300	–	–	–	–	52,300	12.01.2007	0.063	1
	2,942,779	–	–	–	–	2,942,779	31.03.2008	0.638	2
	2,956,728	–	–	–	–	2,956,728	16.02.2009	0.215	3
Sub-total:	5,951,807	–	–	–	–	5,951,807			
Total:	7,101,019	–	(111,574)	–	–	6,989,445			

Type of participants	As at 1 January 2015	Granted during the year	Exercised during the year	Lapsed during the year	Modified during the year	Cancelled during the year	As at 31 December 2015	Date of grant	Exercise price *(HK$)*	Exercise period *(Note)*
	Number of share options									
Under 2012 Share Option Scheme										
Directors										
Mr. Tsui Che Yin, Frank	6,386,400	–	–	–	–	–	6,386,400	02.07.2013	0.511	6
	16,000,000	–	–	–	(16,000,000)	–	–	11.08.2014	1.140	7
	–	–	–	–	14,495,000	–	14,495,000	09.10.2015	0.465	7
	22,386,400	–	–	–	(1,505,000)	–	20,881,400			
Mr. Ko Chun Fung, Henry	3,193,200	–	–	–	–	–	3,193,200	02.07.2013	0.511	6
	16,000,000	–	–	–	(16,000,000)	–	–	11.08.2014	1.140	7
	–	–	–	–	14,495,000	–	14,495,000	09.10.2015	0.465	7
	19,193,200	–	–	–	(1,505,000)	–	17,688,200			
Mr. Tsang Yuen Wai, Samuel	6,386,400	–	–	–	–	–	6,386,400	02.07.2013	0.511	6
	16,000,000	–	–	–	(16,000,000)	–	–	11.08.2014	1.140	7
	–	–	–	–	14,495,000	–	14,495,000	09.10.2015	0.465	7
	22,386,400	–	–	–	(1,505,000)	–	20,881,400			
Mr. Tam Chi Wai, Dennis	6,386,400	–	–	–	–	–	6,386,400	02.07.2013	0.511	6
	16,000,000	–	–	–	(16,000,000)	–	–	11.08.2014	1.140	7
	–	–	–	–	14,495,000	–	14,495,000	09.10.2015	0.465	7
	22,386,400	–	–	–	(1,505,000)	–	20,881,400			
Mr. Tsoi, David	1,248,000	–	–	–	(1,248,000)	–	–	11.08.2014	1.140	7
	–	–	–	–	1,248,000	–	1,248,000	09.10.2015	0.465	7
	1,248,000	–	–	–	–	–	1,248,000			
Mr. Pang Hing Chung, Alfred	1,248,000	–	–	–	(1,248,000)	–	–	11.08.2014	1.140	7
	–	–	–	–	1,248,000	–	1,248,000	09.10.2015	0.465	7
	1,248,000	–	–	–	–	–	1,248,000			

Type of participants	Number of share options: As at 1 January 2015	Granted during the year	Exercised during the year	Lapsed during the year	Modified during the year	Cancelled during the year	As at 31 December 2015	Date of grant	Exercise price *(HK$)*	Exercise period *(Note)*
Ms. Chan Po Yi, Patsy	1,248,000	–	–	–	(1,248,000)	–	–	11.08.2014	1.140	7
	–	–	–	–	1,248,000	–	1,248,000	09.10.2015	0.465	7
	1,248,000	–	–	–	–	–	1,248,000			
Sub-total:	90,096,400	–	–	–	(6,020,000)	–	84,076,400			
Substantial shareholder	7,385,871	–	–	–	–	–	7,385,871	02.07.2013	0.511	6
	4,384,000	–	–	–	(4,384,000)	–	–	11.08.2014	1.140	7
	–	6,368,000	–	–	4,384,000	–	10,752,000	09.10.2015	0.465	7
Sub-total:	11,769,871	6,368,000	–	–	–	–	18,137,871			
Employees	1,216,000	–	–	–	(868,000)	(348,000)	–	11.08.2014	1.140	7
	–	–	–	–	868,000	–	868,000	09.10.2015	0.465	7
Sub-total:	1,216,000	–	–	–	–	(348,000)	868,000			
Others	1,596,600	–	–	–	–	–	1,596,600	02.07.2013	0.511	6
	8,364,000	–	–	–	(8,364,000)	–	–	11.08.2014	1.140	7
	–	–	–	–	8,364,000	–	8,364,000	09.10.2015	0.465	7
Sub-total:	9,960,600	–	–	–	–	–	9,960,600			
Total:	113,042,871	6,368,000	–	–	(6,020,000)	(348,000)	113,042,871			

Notes:

1. The share options granted on 12 January 2007 are divided into 4 tranches exercisable from 12 January 2008, 12 January 2009, 12 January 2010 and 12 January 2011 respectively to 11 January 2017.

2. The share options granted on 31 March 2008 are divided into 2 tranches exercisable from 30 September 2008 and 31 March 2009 respectively to 30 March 2018.

3. The share options granted on 16 February 2009 are divided into 3 tranches exercisable from 16 February 2010, 16 February 2011 and 16 February 2012 respectively to 15 February 2019.

4. The share options granted on 10 July 2009 are divided into 3 tranches exercisable from 10 July 2010, 10 July 2011 and 10 July 2012 respectively to 9 July 2019.

5. The share options granted on 18 November 2010 are divided into 2 tranches exercisable from 18 May 2011 and 18 November 2011 respectively to 17 November 2020.

6. The share options granted on 2 July 2013 are divided into 4 tranches exercisable from 2 July 2013, 2 July 2014, 2 July 2015 and 2 July 2016 respectively to 1 July 2023.

7. On 9 October 2015, (1) a total of 81,708,000 share options (the “2014 Share Options”) previously granted to the directors, a substantial shareholder, employees and consultants of the Company (the “Grantees”) under the 2012 Share Option Scheme on 11 August 2014, which had not been exercised or lapsed since they were granted, were cancelled; and (2) a total of 81,708,000 new share options (the “Replacement Share Options”) were granted under the 2012 Share Option Scheme to the Grantees in replacement of the 2014 Share Options, which effectively comprised modification of 75,340,000 share options and the grant of 6,368,000 new share options. All the Grantees had given their written consent to cancel their respective 2014 Share Options.

   The directors considered that the exercise price of the 2014 Share Options, being HK$1.14 per share of the Company, was significantly higher than the current market price of the shares of the Company, the 2014 Share Options could no longer serve the purpose of providing incentives or rewards to the Grantees. The replacement by the Replacement Share Options, by bringing the exercise price, being HK$0.465 per share of the Company, to the current trading price level of the shares of the Company would better serve the purpose of the 2012 Share Option Scheme in providing incentives or rewards to the Grantees for their contributions to the Company and its subsidiaries.

   The Replacement Share Options granted on 9 October 2015 are divided into 3 tranches exercisable from 9 October 2015, 9 October 2016 and 9 October 2017 respectively to 8 October 2025. As a condition of the issue of the Replacement Share Options, the Grantees are not permitted to exercise the Replacement Share Options or any part thereof until after the earlier of (a) completion of the sale and purchase transaction relating to the shares in Melco Property Development Limited and the issue of consideration shares by the Company to Melco or its nominee(s) pursuant to the share purchase agreement dated 9 October 2015 entered into between Melco and the Company (the “Share Purchase Agreement”); or (b) the termination of the Share Purchase Agreement.

8. The category “Others” represents the former directors or consultants of the Group. Consultants are individuals who rendered consultancy services in respect of the business development to the Group without receiving any compensation. The Group granted share options to them for recognizing their services similar to those rendered by employees of the Group.

9. In respect of the share options exercised during the year, the weighted average closing prices of the shares of the Company immediately before and on the date on which the share options were exercised were HK$0.49 and HK$0.485 respectively.

COMPETING INTEREST

As at 31 December 2015, none of the directors of the Company, the controlling shareholder of the Company and their respective close associates (as defined in the GEM Listing Rules) had interest in any business which competes or may compete with the business of the Group and any other conflicts of interest with the Group.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTION

On 9 October 2015, the Company and Melco entered into the Share Purchase Agreement, pursuant to which the Company has conditionally agreed to purchase, and Melco has conditionally agreed to sell, the 99 ordinary shares (the "Sale Shares") in Melco Property Development Limited ("MPDL") (a wholly-owned subsidiary of Melco and a pre-qualified bidder of the project in relation to development of a premium integrated resort in Spain, adjacent to Barcelona), representing 99% of the issued share capital of MPDL (the "Transaction"). The consideration for the Transaction is HK$502,920,000.00, which shall be fully satisfied upon completion by the allotment and issue of 2,196,157,205 new shares of the Company by the Company to Melco or its nominee(s) at the issue price of HK$0.229 per share, credited as fully paid. Completion is conditional on the Company obtaining and maintaining a valid casino authorization from the Catalan Government, amongst other conditions as set out in the Share Purchase Agreement.

Melco, the seller of the Sale Shares, is a substantial shareholder (as defined in the GEM Listing Rules) of the Company. Pursuant to the GEM Listing Rules, Melco is a connected person of the Company and the entering into of the Share Purchase Agreement and the transactions contemplated thereunder constituted a non-exempt connected transaction of the Company under Chapter 20 of the GEM Listing Rules and is subject to the reporting, announcement and Company's independent shareholders' approval requirements.

Further details of the Transaction were set out in the joint announcement of the Company and Melco dated 9 October 2015.

CONTINUING CONNECTED TRANSACTIONS

On 22 October 2014, Beijing Telenet Information Technology Ltd. (北京電信達信息技術有限公司) ("BTI"), a subsidiary of the Company, entered into an unconditional purchase agreement (the "Purchase Agreement") with Wu Sheng Computer Technology (Shanghai) Co., Ltd. (伍盛計算機科技（上海）有限公司) ("Wu Sheng"), pursuant to which, BTI agreed to purchase from Wu Sheng the lottery terminals and parts for a term of three years commencing from 22 October 2014 and ending on 21 October 2017. Annual purchase caps of HK$50 million, HK$150 million, HK$200 million and HK$180 million have been set for each of the four years ending 31 December 2014, 2015, 2016 and 2017 respectively.

Since 7 March 2014, the shareholding of Wu Sheng has been restructured and Wu Sheng became a subsidiary of GoReward Limited ("GoReward"), which is owned as to 50.002% by Global Crossing Holdings Ltd. and 49.998% by Intralot International Limited ("Intralot"). Intralot also holds 49% of Precious Success Holdings Limited ("Precious Success"), a subsidiary of the Company. Intralot is therefore a connected person of the Company under the GEM Listing Rules by virtue of its being a substantial shareholder of Precious Success. Wu Sheng, being a subsidiary of GoReward, is an associate of Intralot and, therefore, is also a connected person of the Company under the GEM Listing Rules. The entering into of the Purchase Agreement and the transactions contemplated thereunder constituted continuing connected transactions of the Company. Further details of the transactions were set out in the announcement of the Company dated 22 October 2014.

The aggregate amount of the transactions attributable to the Purchase Agreement during the period from 1 January 2015 to 31 December 2015 was approximately HK$48.2 million (the "Continuing Connected Transactions") and is within the annual cap.

All the independent non-executive directors of the Company have reviewed the Continuing Connected Transactions and confirmed that they have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) in accordance with the Purchase Agreement on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The Company's auditor was engaged to report on the Continuing Connected Transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the Continuing Connected Transactions disclosed by the Company in the annual report in accordance with Rule 20.38 of the GEM Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

RELATED PARTY TRANSACTIONS

The related party transactions of the Group for the year ended 31 December 2015 are set out in note 30 to the consolidated financial statements. The related party transactions amounting of HK$4,358,000 with a fellow subsidiary of the Company comprise (i) fees for management services provided by Melco's executives and officers of HK$2,347,000; (ii) rental for office space of HK$1,076,000, based on the terms of the office sharing agreement between the parties; (iii) reimbursement of professional fees and other expenses paid to third parties on behalf of the Company of HK$935,000. Except for (iii) above which does not fall under the definition of the transaction in accordance with Chapter 19 of the GEM Listing Rules, the rest constituted the continuing connected transactions of the Company but are exempt from shareholders' approval and disclosure and other requirements under Chapter 20 of the GEM Listing Rules. The related party transaction amounting of HK$48,207,000 with a subsidiary of a 49% non-controlling shareholder of a group company (purchase of lottery terminals and parts) constituted the continuing connected transaction of the Company under Chapter 20 of the GEM Listing Rules and the Company has complied with the relevant requirements in accordance with Chapter 20 of the GEM Listing Rules in respect of such transaction (further details as set out in the section headed "Continuing Connected Transactions" of this report).

CONTROLLING SHAREHOLDER'S INTERESTS IN SIGNIFICANT CONTRACTS

Save as disclosed in note 30 to the consolidated financial statements, at no time during the year had the Company or any of its subsidiaries, and the controlling shareholder or any of its subsidiaries entered into any contract of significance or any contract of significance for the provision of services by the controlling shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2015, according to the register of interests or short positions in shares required to be kept by the Company under Section 336 of the SFO, other than the interests of the directors and chief executive of the Company, the following shareholders were interested in 5% or more of the issued shares of the Company:

Long positions in the shares and underlying shares of the Company

Name	Capacity	Number of shares held	Number of underlying shares held	Approximate percentage of total issued shares of the Company *(Note 1)*
Melco LottVentures Holdings Limited ("Melco LV")	Beneficial owner	1,278,714,329	–	40.65%
Melco Leisure and Entertainment Group Limited ("Melco Leisure") *(Note 2)*	Interest of a controlled corporation	1,278,714,329	–	40.65%
Melco *(Note 3)*	Interest of controlled corporations	1,278,714,329	–	40.65%
Mr. Ho, Lawrence Yau Lung ("Mr. Ho") *(Note 4)*	Interest of controlled corporations	1,278,714,329	–	40.65%
	Beneficial owner	–	18,137,871	0.58%
Ms. Lo Sau Yan, Sharen *(Note 5)*	Interest of spouse	1,278,714,329	18,137,871	41.23%

Notes:

1. As at 31 December 2015, the total number of issued shares of the Company was 3,145,656,900.

2. Melco Leisure was deemed to be interested in 1,278,714,329 shares through its controlled corporation, Melco LV.

3. Melco was deemed to be interested in 1,278,714,329 shares through its controlled corporations, Melco LV and Melco Leisure.

4. Mr. Ho was deemed to be interested in 1,278,714,329 shares through his controlled corporations, Melco LV, Melco Leisure and Melco. He was also interested in 18,137,871 underlying shares in respect of the share options granted by the Company.

5. Ms. Lo Sau Yan, Sharen is the spouse of Mr. Ho and was deemed to be interested in 1,296,852,200 shares through the interest of her spouse, Mr. Ho.

Save as disclosed above, the Company has not been notified of any other interests or short position in the shares or underlying shares of the Company as at 31 December 2015.

REPORT OF THE DIRECTORS

EQUITY-LINKED AGREEMENTS

Other than the share option schemes of the Company as disclosed in this report, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

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

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

MANAGEMENT CONTRACTS

No contracts concerning the management and/or administration of the whole or any substantial part of the business of the Company were entered into during the year or subsisted at the end of the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the date of this report, the Company has maintained the prescribed public float under the GEM Listing Rules.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders' interests. Information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 12 to 20 of this annual report.

EMOLUMENT POLICY

The emolument policy for the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors and senior management of the Group are decided by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market standards. Particulars of the emoluments of directors on a named basis for the year are set out in note 10 to the consolidated financial statements.

The Company has adopted the share option schemes as an incentive to directors, employees and consultants. Details of the schemes are set out in note 23 to the consolidated financial statements.

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

The Company has established an audit committee for the purposes of reviewing and providing supervision over the Company's financial reporting process and internal controls. It also reviews the effectiveness of the audit process and risk evaluation.

The audit committee, made up of a non-executive director and three independent non-executive directors, met four times during the year. At the meetings, the audit committee reviewed the accounting principles and practices, the quarterly reports, the interim report and the annual report of the Group, and discussed auditing, internal controls and financial reporting matters with management.

CHARITABLE DONATIONS

During the year, the Group did not make any charitable and other donations (2014: Nil).

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2015 have been audited by Messrs. Deloitte Touche Tohmatsu, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Ko Chun Fung, Henry
Chief Executive Officer and Executive Director

Hong Kong, 11 March 2016

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF MELCOLOT LIMITED
新濠環彩有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of MelcoLot Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 41 to 101, 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.

Director's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, 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 auditor's judgment, 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 auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

INDEPENDENT AUDITOR'S REPORT

Opinion

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
11 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	5	**57,163**	45,284
Purchases and service costs		**(52,540)**	(39,609)
Other income		**4,932**	6,433
Employee benefits costs		**(32,054)**	(56,729)
Depreciation of property, plant and equipment		**(266)**	(1,176)
Impairment losses on:			
– property, plant and equipment	13	**–**	(1,348)
– amount due from an associate		**–**	(701)
– trade and other receivables	18	**–**	(99)
Gain on disposal of a subsidiary	27	**3,731**	–
Share of losses of joint ventures	16	**(6)**	(3)
Other expenses		**(15,015)**	(15,168)
Finance costs	7	**–**	(3,084)
Loss before taxation		**(34,055)**	(66,200)
Taxation	8	**(449)**	(349)
Loss for the year	9	**(34,504)**	(66,549)
Other comprehensive (expense) income			
Item that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		**(1,436)**	6,152
Item that may be reclassified subsequently to profit or loss:			
Share of exchange difference of a joint venture	16	**(29)**	(28)
Total comprehensive expense for the year		**(35,969)**	(60,425)
(Loss) profit for the year attributable to:			
Owners of the Company		**(35,934)**	(65,403)
Non-controlling interests		**1,430**	(1,146)
		(34,504)	(66,549)
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(38,121)**	(59,260)
Non-controlling interests		**2,152**	(1,165)
		(35,969)	(60,425)
Loss per share	12		
– Basic		**HK(1.14) cents**	HK(2.25) cents
– Diluted		**HK(1.14) cents**	HK(2.25) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	NOTES	2015 HK$'000	2014 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**343**	578
Intangible assets	14	**–**	–
Interest in an associate	15	**–**	–
Interests in joint ventures	16	**245**	280
Structured notes	17	**50,025**	–
		50,613	858
CURRENT ASSETS			
Trade and other receivables	18	**37,783**	25,164
Bank deposits with original maturity over three months	20	**322,698**	200,557
Bank balances and cash	20	**115,689**	299,190
		476,170	524,911
CURRENT LIABILITIES			
Trade and other payables	21	**90,678**	79,875
Amounts due to related companies	19	**1,310**	1,178
Amount due to a shareholder of a joint venture	19	**2,334**	2,334
Amount due to a fellow subsidiary	19	**2,746**	151
Tax payable		**21,168**	21,240
		118,236	104,778
NET CURRENT ASSETS		**357,934**	420,133
		408,547	420,991

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	NOTE	**2015** **HK$'000**	2014 HK$'000
CAPITAL AND RESERVES			
Share capital	22	**31,456**	31,455
Reserves		**368,295**	384,435
Equity attributable to owners of the Company		**399,751**	415,890
Non-controlling interests		**8,796**	5,101
		408,547	420,991

The consolidated financial statements on pages 41 to 101 were approved and authorized for issue by the Board of Directors on 11 March 2016 and are signed on its behalf by:

TSUI CHE YIN, FRANK
DIRECTOR

KO CHUN FUNG, HENRY
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium HK$'000	Share-based payment reserve HK$'000	Other reserve HK$'000 (Note i)	Exchange reserve HK$'000	Accumulated losses HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2014	24,081	906,442	18,557	(4,922)	(2,332)	(1,152,564)	(210,738)	9,306	(201,432)
Other comprehensive income (expense) for the year	–	–	–	–	6,143	–	6,143	(19)	6,124
Loss for the year	–	–	–	–	–	(65,403)	(65,403)	(1,146)	(66,549)
Total comprehensive income (expense) for the year	–	–	–	–	6,143	(65,403)	(59,260)	(1,165)	(60,425)
Dividend to non-controlling interests	–	–	–	–	–	–	–	(3,040)	(3,040)
Recognition of equity-settled share-based payments	–	–	46,383	–	–	–	46,383	–	46,383
Transfer of share-based payment reserve upon forfeiture of share options	–	–	(69)	–	–	69	–	–	–
Issue of new shares upon open offer	7,252	645,450	–	–	–	–	652,702	–	652,702
Issue of ordinary shares upon exercise of share options	122	5,321	(1,864)	–	–	–	3,579	–	3,579
Transaction costs attributable to issue of new shares	–	(16,776)	–	–	–	–	(16,776)	–	(16,776)
At 31 December 2014	31,455	1,540,437	63,007	(4,922)	3,811	(1,217,898)	415,890	5,101	420,991
Other comprehensive (expense) income for the year	–	–	–	–	(2,187)	–	(2,187)	722	(1,465)
(Loss) profit for the year	–	–	–	–	–	(35,934)	(35,934)	1,430	(34,504)
Total comprehensive (expense) income for the year	–	–	–	–	(2,187)	(35,934)	(38,121)	2,152	(35,969)
Elimination of accumulated losses with share premium *(Note ii)*	–	(1,212,603)	–	–	–	1,212,603	–	–	–
Recognition of equity-settled share-based payments	–	–	22,439	–	–	–	22,439	–	22,439
Transfer of share-based payment reserve upon cancellation of share options	–	–	(274)	–	–	274	–	–	–
Acquisition of additional interest in subsidiaries *(Note iii)*	–	–	–	(487)	–	–	(487)	487	–
Issue of ordinary shares upon exercise of share options	1	44	(15)	–	–	–	30	–	30
Disposal of a subsidiary *(Note 27)*	–	–	–	154	1,164	(1,318)	–	1,056	1,056
At 31 December 2015	31,456	327,878	85,157	(5,255)	2,788	(42,273)	399,751	8,796	408,547

Notes:

(i) Other reserve represents the difference between the adjustment to non-controlling interests and the consideration paid arising in equity transactions.

(ii) Pursuant to the Companies Law (Cap. 22) of the Cayman Islands and the Articles of Association of the Company, the Board of Directors of the Company passed a resolution on 19 March 2015 to set off the accumulated losses of the Company amounting to HK$1,212,603,000 as at 31 December 2014 against the amount standing to the credit of the share premium account of the Company.

(iii) In June 2015, the Group completed the acquisition of an additional 20% equity interest in Trade Express Services Inc. ("Trade Express"). Before the acquisition, the Group through Trade Express and another subsidiary indirectly held a 51% equity interest in 北京電信達信息技術有限公司 ("Beijing Telenet"). The Group's shareholding in Trade Express increased from 80% in 2014 to 100% in 2015. The acquisition resulted in an increase in the Group's shareholding in Beijing Telenet from 51% in 2014 to 52.5% in 2015.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	NOTE	2015 HK$'000	2014 HK$'000
OPERATING ACTIVITIES			
Loss before taxation		**(34,055)**	(66,200)
Adjustments for:			
Interest expenses		**–**	3,084
Equity-settled share-based payments		**22,439**	46,383
Reversal of provision of trade receivables		**–**	(1,361)
Depreciation of property, plant and equipment		**266**	1,176
Impairment losses on:			
– property, plant and equipment		**–**	1,348
– amount due from an associate		**–**	701
– trade and other receivables		**–**	99
Share of losses of joint ventures		**6**	3
Interest income		**(3,982)**	(3,579)
Loss on disposal and write off of property, plant and equipment		**–**	67
Net foreign exchange (gain) loss		**(910)**	7,038
Gain on disposal of a subsidiary	27	**(3,731)**	–
Operating cash flows before movements in working capital		**(19,967)**	(11,241)
(Increase) decrease in trade and other receivables		**(12,616)**	19,486
Increase (decrease) in trade and other payables		**15,819**	(4,187)
Increase in amount due to a fellow subsidiary		**2,595**	61
Increase in amount due from an associate		**–**	(56)
Cash (used in) generated from operations		**(14,169)**	4,063
Income taxes paid		**(486)**	(187)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		**(14,655)**	3,876
INVESTING ACTIVITIES			
Funds placed on bank deposit with original maturity over three months		**(322,698)**	(200,557)
Purchase of structured notes		**(50,000)**	–
Purchase of property, plant and equipment		**(61)**	(158)
Withdrawal of bank deposit with original maturity over three months		**200,557**	–
Interest received		**3,302**	3,579
Net proceeds from disposal of a subsidiary	27	**542**	–
NET CASH USED IN INVESTING ACTIVITIES		**(168,358)**	(197,136)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	2015 *HK$'000*	2014 *HK$'000*
FINANCING ACTIVITIES		
Advance from related companies	**132**	307
Proceeds from exercise of share options	**30**	3,579
Proceeds from issue of new shares	**–**	652,702
Receipts of earnest money from a project partner	**–**	58,350
Repayment to immediate holding company	**–**	(251,576)
Transaction costs attributable to issue of new shares	**–**	(16,776)
Dividend paid to non-controlling shareholders	**–**	(9,835)
NET CASH FROM FINANCING ACTIVITIES	**162**	436,751
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(182,851)**	243,491
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**299,190**	56,199
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES	**(650)**	(500)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**115,689**	299,190

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands and its shares have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 17 May 2002. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The Company's immediate holding company is Melco LottVentures Holdings Limited ("Melco LV"), a private company incorporated in the British Virgin Islands ("BVI"), and its ultimate holding company is Melco International Development Limited ("Melco"), a company incorporated in Hong Kong with its shares listed on the Stock Exchange.

The directors of the Company are of the opinion that the functional currency of the Company is the Renminbi ("RMB"), after taking into consideration that the primary economic environment in which the Company's subsidiaries operate is the People's Republic of China (the "PRC"). The consolidated financial statements are presented in Hong Kong dollars ("HK$") for the convenience of the shareholders as the Company is listed in Hong Kong.

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the lottery business in the PRC and details of the principal subsidiaries are set out in note 31.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Application of new and revised HKFRSs

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

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle

The application of the above new or revised HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and revised HKFRSs in issue but not yet effective

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

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

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2016
4 Effective for annual periods beginning on or after a date to be determined

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 9 Financial Instruments *(Continued)*

Key requirements of HKFRS 9 are described below:

- All recognized financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors anticipate that the adoption of HKFRS 9 in the future may affect the classification and measurement of the Group's financial assets.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

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 recognize revenue to depict the transfer of promised goods or services to customers at 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
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognizes 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 of the Company 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 directors anticipate that the application of the other new and revised standards and amendments issued but not yet effective will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM (the "GEM Rules") of the Stock Exchange and by the Hong Kong Companies Ordinance.

The provisions of the new Hong Kong Companies Ordinance (Cap. 622) regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the GEM Rules regarding annual accounts have been amended with reference to the new Companies Ordinance and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor Companies Ordinance or GEM Listing Rules but not under the new Companies Ordinance or amended GEM Listing Rules are not disclosed in these consolidated financial statements.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, at the end of each reporting period, as explained in the accounting policies set out 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 realizable 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 categorized 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in 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 recognized directly in equity (other reserve) and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognized 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 recognized 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 HKFRSs). 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 recognized in profit or loss as incurred.

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized 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 (see the accounting policy below); 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

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 re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and 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 acquire (if any), the excess is recognized 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 recognized 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.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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 associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds its interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and joint ventures *(Continued)*

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or 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 recognized 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 recognized 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 recognize any impairment loss with respect to the Group's investment in an associate or 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 to disposal) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized 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 an associate or 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 associate or 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 associate or 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 associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or 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.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and joint ventures *(Continued)*

When the Group reduces its ownership interest in an associate or 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 recognized 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 an associate or a joint venture of the Group, profits or losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or 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 provision of services and solutions for distribution of lottery products is recognized when the right to receive the income, which is calculated on a commission basis, has been established upon the sale of the lottery products by the lottery retail and other outlets.

Revenue from the sale of goods is recognized when the goods, including lottery terminals and parts, are delivered and title has passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognized 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 the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized 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 the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized 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 recognized in profit or loss.

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.

Operating lease payments are recognized 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 are recognized as expenses in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized 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.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognized at the rates of exchanges 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 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 recognized 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 (see the accounting policies below); 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 recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting the 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 the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized 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 or an associate 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 Group are reclassified to profit or loss.

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

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 capitalization.

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

Retirement benefit costs

Payments to defined contribution retirement benefit plans, including Mandatory Provident Fund Scheme ("MPF Scheme") and state-managed retirement benefit schemes, are recognized as an expense when employees have rendered service entitling them to the contributions.

Taxation

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

Deferred tax is recognized 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 recognized for all taxable temporary differences. Deferred tax assets are generally recognized 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 utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, 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 recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize 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 the 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 asset 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 is realized, 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 are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized 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.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortization 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 (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Impairment losses on tangible and intangible assets

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 ("CGU") to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs 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 assets may be impaired.

The recoverable amount is the higher of fair value less costs to dispose 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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) 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 recognized for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit and loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instruments.

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 or 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 recognized immediately in profit or loss.

Financial assets

Financial assets are classified into 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 recognized and derecognized 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.

Effective interest method

The effective interest method is a method of calculating the amortized 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 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 recognized on an effective interest basis for debt instruments.

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 structured notes, trade and other receivables, bank deposits with original maturity over three months and bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each 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.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the 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 credit period of 30 to 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

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 the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities including trade and other payables, amounts due to related companies/a shareholder of a joint venture/a fellow subsidiary are subsequently measured at amortized cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortized 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 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 recognized on an effective interest basis.

Derecognition

The Group derecognizes 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 recognizes its retained interest in the asset and an associated liability for amounts it 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 recognize the financial asset and also recognizes a collateralized 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 recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition (Continued)

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 recognize, and the part it no longer recognizes 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 recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

The Group derecognizes 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 derecognized and the consideration paid and payable is recognized in profit or loss.

Share-based payment arrangements

Share options granted after 7 November 2002 and vested before 1 January 2005

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognized in profit or loss in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Shares granted to directors, employees and substantial shareholder

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

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

At the time when the share options are exercised, the amount previously recognized in share-based payment reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share-based payment reserve will be transferred to accumulated losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment arrangements *(Continued)*

Share options granted to advisors

Share options issued in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognized as expenses, with a corresponding increase in equity (share-based payment reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company 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 associated 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 recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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 trade and other receivables

When there is objective evidence of an impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2015, the carrying amount of trade receivables was HK$26,455,000, net of allowance for doubtful debts of nil (2014: HK$12,515,000, net of allowance for doubtful debts of HK$207,000). As at 31 December 2015, the carrying amount of other receivables was HK$10,601,000, net of allowance for doubtful debts of HK$15,549,000 (2014: HK$9,955,000, net of allowance for doubtful debts of HK$16,429,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated impairment of property, plant and equipment

If there is any indication of impairment, determining the extent to which property, plant and equipment are impaired requires an estimation of the value in use of the CGUs to which they have been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value.

As at 31 December 2015, the carrying amount of property, plant and equipment was HK$343,000 (2014: HK$578,000), net of accumulated impairment losses of HK$1,348,000 (2014: HK$1,348,000) and accumulated depreciation of HK$4,525,000 (2014: HK$4,364,000) respectively. The management performed an impairment review as at year end and considered no impairment is necessary for 2015 (2014: HK$1,348,000).

Share-based payments

The Group recognizes share-based compensation expense on options granted. Share-based compensation expense is based on the estimated fair value of each option at its grant date, the estimation of which requires management to make assumptions about future volatility of the Group's stock price, future interest rates and the timing with respect to exercise of the options. The effects of a change in one or more of these variables could result in a materially different fair value. During the year ended 31 December 2015, the Company granted new share options in replacement of certain of its then outstanding options and effectively this comprised a repricing of certain of those outstanding options as well as an issuance of new share options ("New Options") to an option holder. The incremental fair value resulting from such options modification is estimated at HK$2,053,000 (2014: nil) and the fair value of the New Options granted was estimated at HK$2,059,000 (2014: HK$64,316,000). The amount associated with share-based payments for the year ended 31 December 2015 is HK$22,439,000 (2014: HK$46,383,000).

5. REVENUE

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

	2015	2014
	HK$'000	*HK$'000*
Trading of lottery terminals and parts	**51,572**	40,814
Provision of services and solutions for distribution of lottery products	**5,591**	4,470
	57,163	45,284

6. SEGMENT INFORMATION

The Group's revenue and results were solely derived from its lottery business which comprises the provision of services and solutions for distribution of lottery products and trading of lottery terminals and parts. The chief operating decision maker, being the Chief Executive Officer, reviews the internally reported consolidated financial information of the Group for the lottery business as a whole for purposes of resource allocation and performance assessment. Accordingly, the Group has only one operating segment, which is the lottery business. No segment analysis is presented other than entity-wide disclosures.

The revenue for products and services is set out in note 5.

Geographical information

The Group's operations are carried out in the PRC and revenue from external customers based on the location of goods and services delivered is derived in the PRC.

The following is an analysis of the non-current assets, analyzed by the geographical area in which the assets are located:

	2015	2014
	HK$'000	*HK$'000*
Non-current assets		
The PRC	**305**	542
Hong Kong *(Note)*	**50,308**	316
	50,613	858

Note: The Group's non-current assets located in Hong Kong as at 31 December 2015 include the structured notes and certain property, plant and equipment.

Information about major customers

Revenue from a customer individually contributing over 10% of the total sales of the Group is as follows:

	2015	2014
	HK$'000	*HK$'000*
Customer A	**51,572**	40,240

7. FINANCE COSTS

	2015	2014
	HK$'000	*HK$'000*
Interest on amount due to immediate holding company	**–**	3,084

8. TAXATION

	2015 **HK$'000**	2014 *HK$'000*
PRC Enterprise Income Tax		
– Current year	**627**	349
– Overprovision in respect of prior year	**(178)**	–
	449	349

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No Hong Kong Profits Tax was provided for since the Hong Kong subsidiaries have incurred losses from operations for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

The taxation for the year can be reconciled to the loss before taxation in the consolidated statement of profit or loss and other comprehensive income as follows:

	2015 **HK$'000**	2014 *HK$'000*
Loss before taxation	**(34,055)**	(66,200)
Tax at the domestic income tax rate of 25% *(Note)*	**(8,514)**	(16,550)
Tax effect of income not taxable for tax purposes	**(2,184)**	(1,627)
Overprovision in respect of prior year	**(178)**	–
Tax effect of expenses not deductible for tax purposes	**6,444**	15,532
Tax effect of tax losses not recognized	**4,898**	2,993
Utilization of tax loss previously not recognized	**(19)**	–
Tax effect of share of results of joint ventures and an associate	**2**	1
Taxation for the year	**449**	349

Note: The domestic income tax rate in the jurisdiction where the operation of the Group is substantially based is used.

At 31 December 2015, the Group had unused tax losses of HK$158,387,000 (2014: HK$144,392,000) available to offset against future taxable profits. No deferred tax asset has been recognized in respect of unused tax losses due to the unpredictability of future profit streams. Unused tax losses of HK$5,521,000 have been eliminated from tax losses carried forward upon the disposal of a subsidiary during the year.

Included in unrecognized tax losses are losses of HK$50,280,000 (2014: HK$53,908,000) that are allowed to be carried forward and utilized against the taxable income of subsequent years. The loss carry forward period cannot exceed 5 years and expires between 2016 to 2020. Other losses of HK$108,107,000 (2014: HK$90,484,000) may be carried forward indefinitely.

9. LOSS FOR THE YEAR

The loss for the year has been arrived at after charging (crediting):

	2015	2014
	HK$'000	*HK$'000*
Directors' emoluments	**21,027**	42,489
Other staff costs:		
Salaries and other benefits	**4,423**	4,424
Bonus	**526**	653
Retirement benefit scheme contributions	**767**	680
Share-based payments	**5,311**	8,483
Total employee benefit costs	**32,054**	56,729
Auditor's remuneration	**1,190**	1,022
Bank interest income	**(3,982)**	(3,579)
Cost of purchases recognized as an expense	**48,272**	38,372
Loss on disposal and write off of property, plant and equipment	**–**	67
Management fee paid to lottery operator (included in other expenses)	**1,323**	1,287
Net foreign exchange (gain) loss	**(910)**	7,038
Operating lease rentals in respect of land and buildings	**1,369**	1,220

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to the directors and the chief executive of the Company were as follows:

	Tsui Che Yin, Frank	**Ko Chun Fung, Henry**	**Tsang Yuen Wai, Samuel**	**Tam Chi Wai, Dennis**	**Tsoi, David**	**Pang Hing Chung, Alfred**	**Chan Po Yi, Patsy**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
2015								
Fees	**150**	**60**	**150**	**150**	**168**	**144**	**156**	**978**
Other emoluments								
Salaries and other benefits	**–**	**2,514**	**–**	**–**	**–**	**–**	**–**	**2,514**
Bonus *(Note)*	**–**	**389**	**–**	**–**	**–**	**–**	**–**	**389**
Contributions to retirement benefit schemes	**–**	**18**	**–**	**–**	**–**	**–**	**–**	**18**
Share-based payments	**4,106**	**3,886**	**4,106**	**4,106**	**308**	**308**	**308**	**17,128**
Total emoluments	**4,256**	**6,867**	**4,256**	**4,256**	**476**	**452**	**464**	**21,027**

	Tsui Che Yin, Frank	Ko Chun Fung, Henry	Tsang Yuen Wai, Samuel	Tam Chi Wai, Dennis	Tsoi, David	Pang Hing Chung, Alfred	Chan Po Yi, Patsy	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2014								
Fees	455	95	455	455	154	130	142	1,886
Other emoluments								
Salaries and other benefits	–	2,311	–	–	–	–	–	2,311
Bonus *(Note)*	–	374	–	–	–	–	–	374
Contributions to retirement benefit schemes	–	18	–	–	–	–	–	18
Share-based payments	9,120	8,635	9,120	9,120	635	635	635	37,900
Total emoluments	9,575	11,433	9,575	9,575	789	765	777	42,489

Note: The bonus is approved by the Remuneration Committee having regard to the individual's contribution to the Group.

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

Mr. Ko Chun Fung, Henry is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

During the years ended 31 December 2015 and 2014, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during both years.

Of the five individuals with the highest emoluments in the Group, four (2014: four) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining one (2014: one) individual were as follows:

	2015	2014
	HK$'000	*HK$'000*
Salaries and other benefits	**692**	611
Bonus	**264**	50
Contributions to retirement benefit schemes	**18**	17
Share-based payments	**87**	176
	1,061	854

11. DIVIDEND

No dividend was declared or proposed for both reporting periods.

12. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	2015	2014
	HK$'000	*HK$'000*
Loss		
Loss attributable to owners of the Company for the purpose of basic loss per share	**(35,934)**	(65,403)

	2015	2014
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**3,145,612**	2,911,965

The computation of diluted loss per share in 2015 and 2014 did not include the Company's outstanding share options since their assumed exercise would result in a decrease in diluted loss per share.

13. PROPERTY, PLANT AND EQUIPMENT

	Machinery and equipment *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
COST				
At 1 January 2014	5,396	820	1,187	7,403
Additions	85	73	–	158
Disposals and written off	(486)	(700)	–	(1,186)
Exchange realignment	(32)	(21)	(32)	(85)
At 31 December 2014 and 1 January 2015	**4,963**	**172**	**1,155**	**6,290**
Additions	**52**	**9**	**–**	**61**
Disposal of a subsidiary	**(10)**	**–**	**–**	**(10)**
Exchange realignment	**(60)**	**(2)**	**(63)**	**(125)**
At 31 December 2015	**4,945**	**179**	**1,092**	**6,216**
DEPRECIATION AND IMPAIRMENT				
At 1 January 2014	2,772	758	835	4,365
Provided for the year	1,065	28	83	1,176
Eliminated on disposals and written off	(442)	(677)	–	(1,119)
Impairment loss recognized	1,348	–	–	1,348
Exchange realignment	(36)	(8)	(14)	(58)
At 31 December 2014 and 1 January 2015	**4,707**	**101**	**904**	**5,712**
Provided for the year	**151**	**16**	**99**	**266**
Exchange realignment	**(51)**	**(1)**	**(53)**	**(105)**
At 31 December 2015	**4,807**	**116**	**950**	**5,873**
CARRYING VALUES				
At 31 December 2015	**138**	**63**	**142**	**343**
At 31 December 2014	256	71	251	578

The above items of property, plant and equipment are depreciated on a straight-line basis after taking into account of their estimated residual values, if any, at the following rates per annum:

Machinery and equipment	20% – 33$^1/_3$%
Furniture, fixtures and equipment	20% – 33$^1/_3$%
Motor vehicles	20% – 33$^1/_3$%

14. INTANGIBLE ASSETS

	Lottery software licences *HK$'000* *(note a)*	License rights *HK$'000* *(note b)*	Technology know-how *HK$'000* *(note c)*	Total *HK$'000*
COST				
At 1 January 2014	77,765	117,510	26,171	221,446
Exchange realignment	(1,909)	(2,885)	(643)	(5,437)
At 31 December 2014 and 1 January 2015	**75,856**	**114,625**	**25,528**	**216,009**
Written off for the year	**(75,856)**	**(114,625)**	**(25,528)**	**(216,009)**
At 31 December 2015	–	–	–	–
AMORTIZATION AND IMPAIRMENT				
At 1 January 2014	77,765	117,510	26,171	221,446
Exchange realignment	(1,909)	(2,885)	(643)	(5,437)
At 31 December 2014 and 1 January 2015	**75,856**	**114,625**	**25,528**	**216,009**
Written off for the year	**(75,856)**	**(114,625)**	**(25,528)**	**(216,009)**
At 31 December 2015	–	–	–	–
CARRYING AMOUNTS				
At 31 December 2015	–	–	–	–
At 31 December 2014	–	–	–	–

Notes:

(a) In September 2008, the Group acquired, inter alia, a perpetual license right, with 3-year exclusivity, to use and sublicense the software in connection with projects of China Sports Lottery Administration Centre and a perpetual, non-exclusive license right to use and sublicense the software in connection with projects of China Welfare Lottery Issuing Centre. The lottery software is a system platform to support and upgrade the lottery products and gaming operations.

A full impairment loss for the carrying amount of the lottery software licences was recognized in previous years. During the year, the lottery software licenses were fully written off as the Directors do not expect future economic benefits to arise from the continued use of the licenses.

(b) The Group's license rights included certain rights of operating lottery games and sales of gaming products in the PRC. The license rights are amortized on a straight-line basis over their estimated useful life of 5 years. The carrying amount of the license rights, net of accumulated impairment, had been fully amortized during the year ended 31 December 2011. During the year, the license rights were fully written off as the Directors do not expect future economic benefits to arise from the continued use of the license rights.

(c) The Group's technology know-how represents online betting technology to be used for the lottery business. A full impairment loss for the carrying amount of the technology know-how was recognized in previous years. During the year, the technology know-how was fully written off as the Directors do not expect future economic benefits to arise from the continued use of the technology know-how.

15. INTEREST IN AN ASSOCIATE

	2015	2014
	HK$'000	*HK$'000*
Cost of unlisted investments in an associate	**10,000**	10,000
Share of post-acquisition losses	**(10,000)**	(10,000)
	–	–

As at 31 December 2015 and 2014, the Group had an interest in the following associate:

Name of associate	Place of incorporation/ establishment	Principal place of operations	Proportion of nominal value of issued share capital held indirectly by the Group 2015	2014	Principal activity
CharïLot Company Limited ("ChariLot") *(Note)*	Hong Kong	Hong Kong	**40%**	40%	Provision of services for distribution of lottery products

Note: On 21 June 2010, Rising Move International Limited ("Rising Move"), a wholly-owned subsidiary of the Company, entered into an agreement with an independent third party, Calo Investments Limited ("Calo"), for the formation of ChariLot. ChariLot was set up primarily to be a vehicle for the investment in and provision of services for distribution of lottery products in the PRC. ChariLot is beneficially owned as to 60% by Calo and 40% by Rising Move.

The summarized financial information in respect of the Group's associate is set out below:

	2015	2014
	HK$'000	*HK$'000*
Current assets	**36**	37
Non-current assets	**–**	2
Current liabilities	**(911)**	(849)
Loss and total comprehensive expense for the year	**(64)**	(62)

The Group has discontinued the recognition of its share of losses of the associate. The amount of the unrecognized share of loss of the associate for the year and cumulatively, is as follows:

	2015	2014
	HK$'000	*HK$'000*
Unrecognized share of losses of an associate for the year	**(26)**	(25)
Accumulated unrecognized share of losses of an associate	**(265)**	(239)

16. INTERESTS IN JOINT VENTURES

	2015	2014
	HK$'000	*HK$'000*
Cost of unlisted investment in joint ventures	**15,871**	15,871
Share of post-acquisition losses	**(15,569)**	(15,563)
Share of other comprehensive expenses	**(57)**	(28)
	245	280

As at 31 December 2015 and 2014, the Group had an interest in the following joint ventures:

Name of joint ventures	Place of incorporation and operation	Class of shares held	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activities
			2015	2014	**2015**	2014	
PALTECH Company Limited ("PALTECH") *(Note a)*	Hong Kong	Ordinary	**60%**	60%	**60%**	60%	Inactive
BCN Integrated Resorts 2, S.A.U. ("BCN") *(Note b)*	Spain	Ordinary	**50%**	50%	**50%**	50%	Installation and exploitation of casinos in Spain

Notes:

(a) The Group indirectly owns a 60% equity interest in PALTECH. Pursuant to certain terms and conditions given in the shareholders' agreement, the financial and operating policies of PALTECH require approval from 75% of the equity holders. PALTECH is jointly controlled by the Group and the other shareholder, as such, it is accounted for as a joint venture of the Group. The Group has discontinued the recognition of its share of losses of this joint venture. During the year ended 31 December 2015, the unrecognized share of losses of the joint venture amounted to HK$7,000 (2014: HK$1,000). Cumulative unrecognized share of losses of the joint venture amounted to HK$204,000 (2014: HK$197,000).

(b) The Group indirectly owns a 50% equity interest in BCN and the remainder is owned by Veremonte Espana, S.L.U. ("Veremonte"). BCN was formed for the purpose of submitting an application for participation in the tender for the award of authorizations for installation and exploitation of casinos in the recreational tourist center of Vila-Seca and Salou, near Barcelona, Spain. Pursuant to certain terms and conditions in the shareholders' agreement, the relevant activities of BCN require unanimous consent of both shareholders and accordingly BCN is classified as a joint venture of the Group. As announced by the Company on 9 October 2015, the Group has agreed with Veremonte that BCN will not participate in the second phase of the tender process. A notice of withdrawal from the tender process was sent by BCN to the Generalitat of Catalonia in Spain on 8 October 2015 and BCN will be wound up in due course.

16. INTERESTS IN JOINT VENTURES *(Continued)*

Aggregate information of joint ventures that are not individually material

	2015	2014
	HK$'000	*HK$'000*
Current assets	**245**	560
Current liabilities	**(1,147)**	(1,900)
The Group's share of losses for the year	**(6)**	(3)
The Group's share of other comprehensive expenses	**(29)**	(28)
The Group's share of total comprehensive expenses	**(35)**	(31)
The unrecognized share of losses of joint ventures for the year	**(7)**	(1)
Cumulative unrecognized share of losses of joint ventures	**(204)**	(197)

17. STRUCTURED NOTES

On 25 June 2015, the Group subscribed, at par, for 24-month puttable step-up coupon notes in the principal amount of HK$50,000,000 (the "Notes") from a financial institution (the "Issuer"). The Notes are interest-bearing at progressive rates ranging from 0.97% – 1.45% payable at the end of each quarter (the "Interest Payment Date"), with maturity at 30 June 2017. The Group has the right to put the Notes, in whole but not in part, to the Issuer at par plus accrued interest on each coupon Interest Payment Date from and including the fifth Interest Payment Date to and including the Interest Payment Date immediately preceding the maturity date. If the Group exercises its right to put the Notes, the Issuer will have a corresponding obligation to redeem the Notes in respect of which the put right has been exercised. The management of the Company does not expect that the Notes will be redeemed early.

18. TRADE AND OTHER RECEIVABLES

	2015 HK$'000	2014 HK$'000
Trade receivables	26,455	12,722
Less: allowance for doubtful debts	–	(207)
	26,455	12,515
Other receivables	26,150	26,384
Less: allowance for doubtful debts	(15,549)	(16,429)
	10,601	9,955
Prepayments and deposits	727	2,694
	37,783	25,164

The Group allows credit periods ranging from 30 to 180 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

	2015 HK$'000	2014 HK$'000
Within 30 days	13,514	12,515
31 – 90 days	12,941	–
	26,455	12,515

Before accepting any new customers, the Group reviews the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year. The Group maintains a defined credit policy to assess the credit quality of the trade customers. The collection is closely monitored to minimize any credit risk associated with these trade debtors.

18. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group did not have trade receivable balances which were past due at the end of the reporting period for which the Group has not provided for an impairment loss as the amounts are still considered recoverable.

Movement in the allowance for trade receivables

	2015	2014
	HK$'000	*HK$'000*
Balance at beginning of the year	**207**	1,734
Impairment losses reversed	**–**	(1,361)
Written off	**(205)**	(138)
Exchange realignment	**(2)**	(28)
Balance at end of the year	**–**	207

At 31 December 2014, included in trade receivables are amounts net of individually impaired receivables amounting to nil (2014: HK$207,000). The directors of the Company take into consideration the current financial position of the counterparties and their repayment history and consider that the chances of collection of the outstanding amounts are remote. Further included in the allowance for trade receivables are individually impaired trade receivables with an aggregate balance of HK$205,000 (2014: HK$138,000) which have either been placed under liquidation or are in severe financial difficulties.

During the year ended 31 December 2015, the Company reversed the impairment losses on trade receivables amounting to nil (2014: HK$1,361,000) upon settlement of these balances.

Movement in the allowance for other receivables

	2015	2014
	HK$'000	*HK$'000*
Balance at beginning of the year	**16,429**	18,089
Impairment losses recognized	**–**	99
Written off	**–**	(1,339)
Exchange realignment	**(880)**	(420)
Balance at end of the year	**15,549**	16,429

Included in other receivables are amounts of individually impaired receivables amounting to HK$15,549,000 (2014: HK$16,429,000). The amount represents the advances granted to an operator in respect of lottery retail outlets where some of them have been closed down in previous years. No additional allowance was provided during the year.

Included in the allowance for other receivables are individually impaired other receivables with an aggregate balance of nil (2014: HK$1,339,000) which have either been placed under liquidation or are in severe financial difficulties.

19. AMOUNTS DUE TO RELATED COMPANIES/A SHAREHOLDER OF A JOINT VENTURE/A FELLOW SUBSIDIARY

The amounts due to related companies represent balances due to companies beneficially owned by a substantial shareholder of the Company, which are unsecured, interest-free and repayable on demand.

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

The amount due to a fellow subsidiary is unsecured, interest-free are repayable on demand.

The amounts due to related companies/a shareholder of a joint venture/a fellow subsidiary are denominated in currencies other than the functional currency of the relevant group entity.

20. BANK DEPOSITS WITH ORIGINAL MATURITY OVER THREE MONTHS/ BANK BALANCES AND CASH

Bank deposits with an original maturity over three months carry a fixed interest rate at about 1.34% (2014: 1.29%) per annum. Bank balances and cash comprised of cash held by the Group and short-term bank deposits with an original maturity of three months or less carrying a prevailing deposit interest rate at about 0.41% (2014: 0.39%) per annum.

21. TRADE AND OTHER PAYABLES

	2015	2014
	HK$'000	*HK$'000*
Trade payables	**24,600**	10,157
Advance of earnest money from a project partner *(Note)*	**56,496**	58,350
Other payables	**5,372**	9,387
Accruals	**4,210**	1,981
	90,678	79,875

The average credit period on purchases of goods is 30 days.

Note: The amount represents the first advance payment received from a project partner, Firich Enterprises Co., Ltd ("Firich") in relation to the subscription of new shares of Express Wealth Enterprise Limited ("Express Wealth") (the "Subscription") pursuant to the subscription agreement signed between the Group and Firich on 20 November 2014 (the "Subscription Agreement"). Express Wealth was formed for the purpose of obtaining the gaming license and undertaking the proposed casino project situated in a project site wholly owned by Dhabi Group Georgia, LLC located in Tbilisi, Georgia (the "Casino Project").

As announced by the Company on 10 February 2016, the conditions precedent to the completion of this transaction, including those related to the Subscription and the Casino Project, cannot be satisfied and hence the transaction will not proceed further. Pursuant to the Subscription Agreement, the entire balance of the advance of earnest money from the project partner after deduction of the relevant part of the preliminary costs and expenses incurred for the Casino Project, will be returned to the project partner.

21. TRADE AND OTHER PAYABLES *(Continued)*

The following is an aged analysis of trade payables based on the invoice date at the end of the reporting period:

	2015	2014
	HK$'000	*HK$'000*
Within 30 days	**24,492**	10,042
91 – 180 days	**–**	–
181 – 365 days	**–**	–
Over 365 days	**108**	115
	24,600	10,157

As at 31 December 2015, an amount of HK$4,077,000 (2014: HK$4,384,000) included in other payables and an amount of HK$56,496,000 (2014: HK$58,350,000) included in advance of earnest money from a project partner, are denominated in a currency other than the functional currency of the relevant group entity.

22. SHARE CAPITAL OF THE COMPANY

	Number of ordinary shares	**Amount**
		HK$'000
Ordinary shares of HK$0.01 each:		
Authorized:		
At 1 January 2014, 31 December 2014, 1 January 2015 and 31 December 2015	5,500,000,000	55,000
Issued and fully paid:		
At 1 January 2014	2,408,041,487	24,081
Exercise of share options	12,279,116	122
Issue of new shares upon open offer *(Note)*	725,224,723	7,252
At 31 December 2014 and 1 January 2015	3,145,545,326	31,455
Exercise of share options	111,574	1
At 31 December 2015	3,145,656,900	31,456

Note: On 29 May 2014, the Company raised gross proceeds of approximately HK$652,702,000 by issuing 725,224,723 new shares in the Company of HK$0.01 each in an open offer on the basis of three offer shares for every ten then existing shares at a subscription price of HK$0.90 per offer share (the "Open Offer"). The closing price of the Company's shares was HK$1.18 per share on 11 April 2014, being the date on which the terms of the Open Offer were fixed. The net price per offer share was approximately HK$0.88. After deduction of related expenses, out of the net proceeds of HK$635,926,000, approximately HK$251,576,000 has been used to repay the loan from the immediate holding company, and the remaining balance is intended to be applied to the development of the Group's existing lottery projects and financing of new investment opportunities.

23. SHARE-BASED PAYMENT TRANSACTIONS

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations and to encourage the participants to work towards enhancing value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

The share option scheme which was adopted by the shareholders of the Company on 20 April 2002 expired on 20 April 2012 (the "Old Share Option Scheme"). Following the expiry of the Old Share Option Scheme, the shareholders of the Company adopted a new share option scheme on 18 May 2012 (the "2012 Share Option Scheme"). Under the 2012 Share Option Scheme, the directors of the Company may, at their discretion, grant to any participants share options to subscribe for the Company's shares (each a "Share" or collectively the "Shares"), subject to the terms and conditions stipulated therein. Notwithstanding the expiry of the Old Share Option Scheme, the share options which had been granted during the life of the Old Share Option Scheme shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects its provisions shall remain in full force and effect.

The following is a summary of the principal terms of the Old Share Option Scheme and 2012 Share Option Scheme:

(i) Purpose of the schemes

The purpose of the Old Share Option Scheme is to encourage the eligible participants to achieve the long-term performance targets set by the Group and at the same time allows its participants to enjoy the results of the Company attained through their efforts and contributions.

The purpose of the 2012 Share Option Scheme is to provide incentives and rewards to eligible participants for their contribution to the Group and to attract, retain and motivate high-caliber eligible participants to work towards enhancing value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

(ii) Participants of the schemes

The participants of the Old Share Option Scheme shall be the directors, employees, advisers or business consultants of the Company or any of its subsidiaries.

The participants of the 2012 Share Option Scheme shall be (1) any full time or part time employees of the Group (including any executive or non-executive directors of the Company or any of its subsidiaries) and (2) any suppliers, consultants, agents and advisers.

(iii) Total number of shares available for issue under the schemes

The total number of Shares which may be issued upon exercise of all share options to be granted under the Old Share Option Scheme, 2012 Share Option Scheme and any other schemes of the Company must not in aggregate exceed 10% of the Shares in issue on the respective dates of approval of each of the schemes. The 10% limit may be refreshed with the approval by ordinary resolution of the Company's shareholders. Following the expiry of the Old Share Option Scheme, no further share options can be granted thereunder.

The maximum number of Shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the 2012 Share Option Scheme and any other schemes of the Company must not exceed 30% of the Shares in issue from time to time. As at the date of this annual report, the number of Shares available for issue under the 2012 Share Option Scheme is 109,962,383, representing approximately 3.50% of the issued shares.

23. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(iv) Maximum entitlement of each participant under the schemes

The total number of Shares issued and to be issued upon exercise of the share options granted or to be granted to each participant (including exercised, cancelled and outstanding options) in any twelve-month period must not exceed 1% of the Shares in issued unless the same is approved by the Company's shareholders in general meeting.

In addition, for any grant of share options to a substantial shareholder and/or an independent non-executive director of the Company or any of their respective associates, and where the total number of the Shares issued and to be issued upon exercise of all options granted or to be granted to such person in any twelve-month period exceed 0.1% of the Shares in issue and with an aggregate value in excess of HK$5 million, then the proposed grant is also subject to the approval of the Company's shareholders in general meeting.

(v) The period within which the shares must be taken up under an option

The period during which an option may be exercised is determined by the Board at its absolute discretion, save that such period shall not be longer than 10 years from the date of grant.

(vi) The minimum period for which an option must be held before it can be exercised

As determined by the Board upon the grant of an option.

(vii) The amount payable on acceptance of an option and the period within which payments shall be made

Under the Old Share Option Scheme and 2012 Share Option Scheme, the acceptance of an offer of the grant of the share options must be made within 28 days from the date of grant and HK$1.00 is payable on acceptance of the grant of an option.

(viii) The basis of determining the exercise price

The exercise price is determined by the Board which shall be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date when an option is offered; (ii) a price being the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which an option is offered; and (iii) the nominal value of the Share.

(ix) The remaining life of the scheme

The Old Share Option Scheme expired on 20 April 2012 and all the outstanding share options granted under the Old Share Option Scheme and yet to be exercised remain valid. The 2012 Share Option Scheme shall be valid and effective for a period of ten years from the date of adoption until 17 May 2022.

23. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(a) The Old Share Option Scheme

Movements of the share options under the Old Share Option Scheme during the year ended 31 December 2015 are set out below:

	Number of share options												
		Before the Open Offer		After the Open Offer									
Category of participants	Outstanding at 1.1.2014	Exercised during the year	Adjustment for Open Offer	Exercised during the year	Lapsed during the year	Reclassified during the year	Outstanding at 31.12.2014 & 1.1.2015	Granted during the year	Exercised during the year	Outstanding at 31.12.2015	Date of grant of share options	Share price at date of grant of share options	Exercise price of share options
			(Note 1)										*(Note 1)*
												HK$	*HK$*
Director[5]	262,060	–	16,876	–	–	–	278,936	–	–	278,936	10.7.2009	0.32	0.263
Director[6]	262,060	–	16,876	–	–	–	278,936	–	–	278,936	18.11.2010	0.15	0.109
Sub-total:	524,120	–	33,752	–	–	–	557,872	–	–	557,872			
Employees[3]	3,202,372	(1,834,420)	88,093	–	–	(1,255,214)	200,831	–	–	200,831	31.3.2008	0.89	0.638
Employees[5]	969,622	(719,400)	16,112	(41,840)	(1,346)	–	223,148	–	(111,574)	111,574	10.7.2009	0.32	0.263
Employees[6]	608,351	(385,600)	14,344	(69,734)	–	–	167,361	–	–	167,361	18.11.2010	0.15	0.109
Sub-total:	4,780,345	(2,939,420)	118,549	(111,574)	(1,346)	(1,255,214)	591,340	–	(111,574)	479,766			
Others[2,7]	583,082	–	37,548	(568,330)	–	–	52,300	–	–	52,300	12.1.2007	0.09	0.063
Others[3,7]	1,768,905	–	113,914	(195,254)	–	1,255,214	2,942,779	–	–	2,942,779	31.3.2008	0.89	0.638
Others[4,7]	3,380,574	(602,738)	178,892	–	–	–	2,956,728	–	–	2,956,728	16.2.2009	0.30	0.215
Others[5,7]	5,241,200	(5,241,200)	–	–	–	–	–	–	–	–	10.7.2009	0.32	0.263
Others[6,7]	3,930,900	(2,620,600)	84,383	–	(1,394,683)	–	–	–	–	–	18.11.2010	0.15	0.109
Sub-total	14,904,661	(8,464,538)	414,737	(763,584)	(1,394,683)	1,255,214	5,951,807	–	–	5,951,807			
Total	20,209,126	(11,403,958)	567,038	(875,158)	(1,396,029)	–	7,101,019	–	(111,574)	6,989,445			
Share options exercisable at year end	20,209,126						7,101,019			6,989,445			

23. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(a) The Old Share Option Scheme *(Continued)*

Notes:

1. Upon the completion of the Open Offer, the exercise price per share and the number of shares which may be issued in respect of the outstanding share options have been adjusted pursuant to the terms of the share option schemes adopted on 20 April 2002 and 18 May 2012 respectively, details of which were set out in the announcement of the Company dated 28 May 2014.

2. The share options granted on 12 January 2007 are divided into 4 tranches exercisable from 12 January 2008, 12 January 2009, 12 January 2010 and 12 January 2011 respectively to 11 January 2017.

3. The share options granted on 31 March 2008 are divided into 2 tranches exercisable from 30 September 2008 and 31 March 2009 respectively to 30 March 2018.

4. The share options granted on 16 February 2009 are divided into 3 tranches exercisable from 16 February 2010, 16 February 2011 and 16 February 2012 respectively to 15 February 2019.

5. The share options granted on 10 July 2009 are divided into 3 tranches exercisable from 10 July 2010, 10 July 2011 and 10 July 2012 respectively to 9 July 2019.

6. The share options granted on 18 November 2010 are divided into 2 tranches exercisable from 18 May 2011 and 18 November 2011 respectively to 17 November 2020.

7. The category "Others" represents the former directors or consultants of the Group. Consultants are individuals who rendered consultancy services in respect of the business development to the Group without receiving any compensation. The Group granted share options to them for recognizing their services similar to those rendered by employees of the Group.

In respect of the share options exercised during the year, the weighted average closing price of the shares of the Company immediately before and on the date on which the share options were exercised was HK$0.490 and HK$0.485, respectively.

23. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(b) The 2012 Share Option Scheme

Movements of the share options under the 2012 Share Option Scheme during the year ended 31 December 2015 are set out below:

	Number of share options												
Category of participants	Outstanding at 1.1.2014	Adjustment for Open Offer	Granted during the year	Outstanding at 31.12.2014 & 1.1.2015	Granted during the year	Exercised during the year	Lapsed during the year	Modified during the year	Cancelled during the year	Outstanding at 31.12.2015	Date of grant of share options	Share price at date of grant of share options	Exercise price of share options
		(Note 1)	*(Note 2)*		*(Note 4)*			*(Note 4)*	*(Note 4)*				
												HK$	*HK$*
Directors[3]	21,000,000	1,352,400	–	**22,352,400**	–	–	–	–	–	**22,352,400**	2.7.2013	0.540	0.511
Directors[2,4]	–	–	67,744,000	**67,744,000**	–	–	–	**(67,744,000)**	–	–	11.8.2014	1.140	1.140
Directors[4]	–	–	–	–	–	–	–	**61,724,000**	–	**61,724,000**	9.10.2015	0.465	0.465
Sub-total:	21,000,000	1,352,400	67,744,000	**90,096,400**	–	–	–	**(6,020,000)**	–	**84,076,400**			
Substantial shareholder[3]	6,939,000	446,871	–	**7,385,871**	–	–	–	–	–	**7,385,871**	2.7.2013	0.540	0.511
Substantial shareholder[2,4]	–	–	4,384,000	**4,384,000**	–	–	–	**(4,384,000)**	–	–	11.8.2014	1.140	1.140
Substantial shareholder[4]	–	–	–	–	**6,368,000**	–	–	**4,384,000**	–	**10,752,000**	9.10.2015	0.465	0.465
Sub-total:	6,939,000	446,871	4,384,000	**11,769,871**	**6,368,000**	–	–	–	–	**18,137,871**			
Employees[2,4]	–	–	1,216,000	**1,216,000**	–	–	–	**(868,000)**	**(348,000)**	–	11.8.2014	1.140	1.140
Employees[4]	–	–	–	–	–	–	–	**868,000**	–	**868,000**	9.10.2015	0.465	0.465
Sub-total:	–	–	1,216,000	**1,216,000**	–	–	–	–	**(348,000)**	**868,000**			
Others[3,5]	1,500,000	96,600	–	**1,596,600**	–	–	–	–	–	**1,596,600**	2.7.2013	0.540	0.511
Others[2,4,5]	–	–	8,364,000	**8,364,000**	–	–	–	**(8,364,000)**	–	–	11.8.2014	1.140	1.140
Others[4,5]	–	–	–	–	–	–	–	**8,364,000**	–	**8,364,000**	9.10.2015	0.465	0.465
Sub-total	1,500,000	96,600	8,364,000	**9,960,600**	–	–	–	–	–	**9,960,600**			
Total	29,439,000	1,895,871	81,708,000	**113,042,871**	**6,368,000**	–	–	**(6,020,000)**	**(348,000)**	**113,042,871**			
Share options exercisable at year end	–			**51,272,957**						**20,889,914**			

23. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(b) The 2012 Share Option Scheme *(Continued)*

Notes:

1. Upon the completion of the Open Offer, the exercise price per share and the number of shares which may be issued in respect of the outstanding share options have been adjusted pursuant to the terms of the share option schemes adopted on 20 April 2002 and 18 May 2012 respectively, details of which were set out in the announcement of the Company dated 28 May 2014.

2. The share options granted on 11 August 2014 (which were replaced by share options modification on 9 October 2015 as stated in note 4 below) were divided into 3 tranches exercisable from 11 August 2014, 11 August 2015 and 11 August 2016 respectively to 10 August 2024.

3. The share options granted on 2 July 2013 are divided into 4 tranches exercisable from 2 July 2013, 2 July 2014, 2 July 2015 and 2 July 2016 respectively to 1 July 2023.

4. On 9 October 2015, (1) a total of 81,708,000 share options (the "2014 Share Options") previously granted by the Company to its directors, employees, consultants and substantial shareholder (the "Grantees") under the 2012 Share Option Scheme on 11 August 2014, which had not been exercised or lapsed since they were granted, were cancelled (the "2014 Cancelled Share Options"); and (2) a total of 81,708,000 new share options (the "Replacement Share Options") were granted under the 2012 Share Option Scheme to the Grantees in replacement of the 2014 Share Options, which effectively comprised modification of 75,340,000 share options (the "Modified Share Options") and the grant of 6,368,000 New Options. All the Grantees had given their written consent to cancel their respective 2014 Share Options.

   The Replacement Share Options granted on 9 October 2015 are divided into 3 tranches exercisable from 9 October 2015, 9 October 2016 and 9 October 2017 respectively to 8 October 2025. As a condition of the issue of the Replacement Share Options, the Grantees are not permitted to exercise the Replacement Share Options or any part thereof until after the earlier of (a) completion of the sale and purchase transaction relating to the shares in Melco Property Development Limited and the issue of consideration shares by the Company to Melco or its nominee(s) pursuant to the share purchase agreement dated 9 October 2015 entered into between Melco and the Company (the "Share Purchase Agreement"); or (b) the termination of the Share Purchase Agreement.

5. The category "Others" represents the former directors or consultants of the Group. Consultants are individuals who rendered consultancy services in respect of the business development to the Group without receiving any compensation. The Group granted share options to them for recognizing their services similar to those rendered by employees of the Group.

23. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(b) The 2012 Share Option Scheme *(Continued)*

During the year ended 31 December 2015, the Company granted a total of 81,708,000 Replacement Share Options to the Grantees under the 2012 Share Option Scheme. The validity period of the options is ten years, from 9 October 2015 to 8 October 2025. The options will entitle the grantees to subscribe for a total of 81,708,000 new shares at an exercise price of HK$0.465 per share of the Company. The closing prices of the shares of the Company immediately before and on the date on which the options were granted were HK$0.229 and HK$0.465 respectively. The estimated fair values of the 2014 Cancelled Share Options was approximately HK$64,316,000 and HK$22,313,000 at the date of grant and date of cancellation, respectively. The estimated fair value of the 75,340,000 Modified Share Options was approximately HK$24,366,000 and the incremental fair value at date of grant of HK$2,053,000 will be expensed over the vesting period of 3 years. The estimated fair value of the 6,368,000 New Options was approximately HK$2,059,000.

The fair value of share options granted during the year ended 31 December 2015 were calculated using the Black-Scholes Option Pricing model (2014: Binomial model). The inputs into the model were as follows:

	Replacement Share Options granted on 9 October 2015	**2014 Cancelled Share Options granted on 11 August 2014**
Number of options granted	81,708,000	81,708,000
Closing share price immediately before date of grant	HK$0.465	HK$1.14
Exercise price	HK$0.465	HK$1.14
Exercise multiplier	2.8 – 3.3	2.8 – 3.3
Expected volatility	91%	86%
Option life	10 years	10 years
Risk-free interest rate	1.55%	1.97%
Expected dividend yield	0%	0%
Fair value of an option	HK$0.3015 – HK$0.3563	HK$0.7286 – HK$0.8267

The models involve assumptions and variables based on the management's best estimates. Such fair value varies when different assumptions, which are necessarily subjective, and variables are used.

The expected multiplier was determined by the Company's share options exercise history.

The expected volatility was determined by using the annualized historical volatility of the Company's share price over the past years up to the valuation date.

The Group recognized a total expense of HK$22,439,000 (2014: HK$46,383,000) for the year ended 31 December 2015 in relation to share options granted by the Company.

24. COMPANY'S FINANCIAL POSITION AND RESERVES

Financial information of the Company at the end of the reporting period are set out as follows:

	2015	2014
	HK$'000	*HK$'000*
NON-CURRENT ASSETS		
Property, plant and equipment	**38**	33
Investments in subsidiaries	**21,741**	23,342
Structured notes	**50,025**	–
	71,804	23,375
CURRENT ASSETS		
Deposits and prepayments	**1,522**	2,934
Amount due from subsidiaries	**2,569**	517
Bank deposits with original maturity over three months	**322,698**	200,557
Bank balances and cash	**18,373**	201,762
	345,162	405,772
CURRENT LIABILITIES		
Other payables and accruals	**7,388**	5,340
Amounts due to subsidiaries	**759**	1,143
Amount due to a related company	**267**	217
Amount due to a fellow subsidiary	**1,015**	151
	9,429	6,851
NET CURRENT ASSETS	**335,733**	398,921
NET ASSETS	**407,537**	422,296
CAPITAL AND RESERVES		
Share capital	**31,456**	31,455
Reserves *(Note)*	**376,081**	390,841
TOTAL EQUITY	**407,537**	422,296

24. COMPANY'S FINANCIAL POSITION AND RESERVES *(Continued)*

Note:

	Share premium *HK$'000*	Share-based payment reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2014	906,442	18,557	(1,155,784)	(230,785)
Loss for the year	–	–	(56,888)	(56,888)
Recognition of equity-settled share-based payments	–	46,383	–	46,383
Transfer of share-based payment reserve upon forfeiture of share options	–	(69)	69	–
Issue of ordinary shares upon exercise of share options	5,321	(1,864)	–	3,457
Issue of new shares upon open offer	645,450	–	–	645,450
Transaction costs attributable to issue of new shares	(16,776)	–	–	(16,776)
At 31 December 2014 and 1 January 2015	**1,540,437**	**63,007**	**(1,212,603)**	**390,841**
Loss for the year	**–**	**–**	**(37,228)**	**(37,228)**
Recognition of equity-settled share-based payments	**–**	**22,439**	**–**	**22,439**
Transfer of share-based payment reserve upon cancellation of share options	**–**	**(274)**	**274**	**–**
Issue of ordinary shares upon exercise of share options	**44**	**(15)**	**–**	**29**
Elimination of accumulated loss with share premium *(Note)*	**(1,212,603)**	**–**	**1,212,603**	**–**
At 31 December 2015	**327,878**	**85,157**	**(36,954)**	**376,081**

Note: Pursuant to the Companies Law (Cap. 22) of the Cayman Islands and the Articles of Association of the Company, the Board of Directors of the Company passed a resolution on 19 March 2015 to set off the accumulated losses of the Company amounting to HK$1,212,603,000 as at 31 December 2014 against the amount standing to the credit of the share premium account of the Company.

Under the Companies Law (Revised) of the Cayman Islands, share premium is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realizable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital account.

25. 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 maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remained unchanged from the prior year.

The capital structure of the Group consists of cash and cash equivalents and bank deposits and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a regular basis. 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 new share issues as well as the issue of new debt or the redemption of existing debt.

26. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2015	2014
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	**525,468**	522,216
Financial liabilities		
Amortized cost	**92,802**	81,498

(b) Financial risk management objectives and policies

The Group's major financial instruments include structured notes, trade and other receivables, bank deposits with original maturity over three months, bank balances and cash, trade and other payables, amount due to a fellow subsidiary, amounts due to related companies, and amount due to a shareholder of a joint venture. Details of these financial instruments are disclosed in the respective notes. The risk associated with these financial instruments include market risk (including interest rate risk and foreign currency risk), credit risk and liquidity risk.

There has been no significant change to the Group's exposure to financial risks or the manner in which it manages and measures the risk.

The directors of the Company review and agree policies for managing each of these risks and they are summarized below.

26. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank deposits with an original maturity over three months (note 20). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (note 20).

The Group currently does not have any interest rate hedging policy in relation to fair value and cash flow interest rate risk. However, management monitors interest rate exposure on an ongoing basis and will consider hedging significant interest rate changes should the need arise.

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments. The analyses are prepared assuming the amount of assets and liabilities outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2015 would decrease/increase by approximately HK$483,000 (2014: HK$786,000). This is mainly attributable to the Group's exposure to interest rates on its fixed-rate amount due to immediate holding company and variable-rate bank balances.

Foreign currency risk

The Group's exposure to foreign currency risk related primarily to trade and other receivables, cash and cash equivalents, trade and other payables, amounts due to related companies, amount due to a shareholder of a joint venture and amount due to a fellow subsidiary that are denominated in currencies other than the functional currency of the relevant group entities.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		**Liabilities**	
	2015	2014	**2015**	2014
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**388,975**	406,685	**(5,347)**	(3,011)
US$	**96,762**	89,448	**(60,261)**	(62,427)

26. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

Sensitivity analysis

If the RMB had strengthened by 5% against the HK$, the Group's post-tax loss for the year ended 31 December 2015 would have been increased by approximately HK$16,016,000 (2014: HK$16,853,000). If the RMB had strengthened by 5% against the US$, the Group's post-tax loss for the year ended 31 December 2015 would have been increased by HK$1,524,000 (2014: HK$1,128,000). For a 5% weakening of the RMB against the relevant currency, there would be an equal and opposite impact on the profit or loss for both years.

Credit risk

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 perform an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position.

In order to minimize the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other 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 debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk as 100% (2014: 100%) of the Group's trade receivables which are due from the Group's five largest customers which operate in the PRC. The principal activities of which are mainly including trading of lottery terminals and distribution of lottery products. In respect of these customers, given their good repayment history, the directors of the Group consider that the credit risk associated with the balances of the customers are low.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

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

26. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk

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

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities with the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate	Less than 3 months or on demand	Total undiscounted cash flows	Carrying amount at 31.12.2015
	%	*HK$'000*	*HK$'000*	*HK$'000*
2015				
Non-derivative financial liabilities				
Trade and other payables	–	86,412	86,412	86,412
Amounts due to related companies	–	1,310	1,310	1,310
Amount due to a shareholder of a joint venture	–	2,334	2,334	2,334
Amount due to a fellow subsidiary	–	2,746	2,746	2,746
Total		92,802	92,802	92,802

	Weighted average interest rate	Less than 3 months or on demand	Total undiscounted cash flows	Carrying amount at 31.12.2014
	%	*HK$'000*	*HK$'000*	*HK$'000*
2014				
Non-derivative financial liabilities				
Trade and other payables	–	77,835	77,835	77,835
Amounts due to related companies	–	1,178	1,178	1,178
Amount due to a shareholder of a joint venture	–	2,334	2,334	2,334
Amount due to a fellow subsidiary	–	151	151	151
Total		81,498	81,498	81,498

(c) Fair value measurements of financial instruments

None of the Group's financial assets and financial liabilities are measured at fair value on a recurring basis.

27. DISPOSAL OF A SUBSIDIARY

On 2 December 2015, the Group entered into an agreement to dispose of its 65% equity interest in an indirect non-wholly owned subsidiary, 山東省開創紀元電子商務信息有限公司 ("Shandong KCJY"), which is engaged in value added telecommunication service to Shandong Welfare Lottery Center, at a consideration of RMB1,500,000 resulting in gain of approximately HK$3,731,000. The disposal was completed on 18 December 2015.

For the year ended 31 December 2015, the sales consideration for the disposal of Shandong KCJY is to be received by instalments pursuant to the share transfer agreement and the last portion amounting to HK$944,000 will only be settled in June 2016. Accordingly, this balance was outstanding as of 31 December 2015 and was included in trade and other receivables.

	HK$'000
Total cash consideration	1,770

	HK$'000
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	10
Trade and other receivables	218
Bank balances and cash	284
Trade and other payables	(3,529)
Net liabilities disposed of	(3,017)
Gain on disposal of a subsidiary:	
Consideration received and receivable	1,770
Net liabilities disposed of	3,017
Non-controlling interests	(1,056)
Gain on disposal	3,731
Net cash inflow arising on disposal:	
Cash consideration received	826
Less: bank balances and cash disposed of	(284)
	542

28. RETIREMENT BENEFITS PLAN

The Group contributes to a local municipal government retirement scheme for all qualifying employees in the PRC. The employers and its employees are each required to make contributions to the scheme at the rates specified in the scheme's rules. The only obligation of the Group with respect to the retirement scheme is to make the required contributions under the scheme.

In addition, the Group operates a MPF Scheme for its qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes at the lower of HK$1,500 or 5% of relevant payroll costs monthly to the MPF Scheme, which contribution is matched by the employees.

The total cost charged to the profit or loss of HK$785,000 (2014: HK$698,000) represents contributions paid and payable to the above schemes by the Group in respect of the current accounting period. As at 31 December 2015, all contributions in respect of the reporting period had been paid to the above schemes.

29. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2015	2014
	HK$'000	*HK$'000*
Within one year	**437**	1,202
In the second to fifth year inclusive	**–**	352
	437	1,554

The lease payments represent rentals payable by the Group for its office properties. The lease terms vary from one year to three years. Rentals are fixed over the relevant lease terms.

30. RELATED PARTY DISCLOSURES

(a) The Group had the following transactions with related parties during the year:

Class of related parties	Nature of transactions	2015 HK$'000	2014 HK$'000
Associate of a 37.5% non-controlling shareholder of a group company*	Sales of lottery terminals	**N/A**	574
	Dividend paid	**N/A**	9,835
Fellow subsidiary of the Company	Expenses recharge	**4,358**	1,754
Immediate holding company	Interest expense	–	3,084
Non-controlling shareholder of a group company	Income from expenses recharge	–	(212)
Subsidiary of a 49% non-controlling shareholder of a group company	Purchase of lottery terminals and parts	**48,207**	38,302

* During the year ended 31 December 2014, the non-controlling shareholder of a group company disposed of its entire interest in the subsidiary and accordingly it is no longer a related party of the Group in 2015.

The Company also entered into a deed of license dated 20 November 2014 with its ultimate holding company pursuant to which its ultimate holding company agreed to grant to the Company, at nil consideration, a revocable but non-transferable and non-exclusive license to use Melco's name bearing the English word "Melco" and/or Chinese word "新濠" and logo in connection with the business of the Company commencing from 20 November 2014 until its ultimate holding company ceases to have more than a 35% beneficial interest in the Company, subject to the terms and conditions as set out in the aforesaid deed.

(b) Compensation of key management personnel

The remuneration of directors and the chief executive, who are key management personnel, during the year is as follows:

	2015 HK$'000	2014 HK$'000
Short-term benefits	**3,881**	4,571
Post-employment benefits	**18**	18
Share-based payments	**17,128**	37,900
	21,027	42,489

The emoluments of directors and key executives are determined by the remuneration committee and management, respectively having regard to the performance of the individuals and market trends.

(c) Details of the share options granted to the directors are set out in note 23.

(d) The Group's outstanding balances with related parties are set out in the consolidated statement of financial position and in note 19.

31. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Name of the company	Place of incorporation or establishment and operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company				Principal activities
			2015		2014		
			Directly	Indirectly	Directly	Indirectly	
Rising Move International Limited	BVI	US$100	**100%**	**–**	100%	–	Investment holding
Precious Success Holdings Limited ("Precious Success")	BVI	US$200	**–**	**51%**	–	51%	Investment holding
PAL Development Limited	Hong Kong	HK$250,000,000	**–**	**51%**	–	51%	Investment holding
Global Score Asia Limited	BVI	US$20,000	**–**	**100%**	–	100%	Investment holding
Trade Express Services Inc.	BVI	US$20,000	**–**	**100%**	–	80%	Investment holding
Instant Glory Holdings Limited	BVI	US$100	**100%**	**–**	100%	–	Investment holding
Express Wealth	Hong Kong	US$3,000,000	**100%**	**–**	100%	–	Investment holding
Rise Accord Holdings Limited	BVI	US$100	**–**	**100%**	–	100%	Investment holding
China Excellent Net Technology Investment Limited ("China Excellent")	Hong Kong	HK$200,000	**–**	**95%**	–	95%	Provision of services for distribution of mobile lottery products
寶加（北京）信息技術有限公司	PRC#	HK$150,000,000	**–**	**51%**	–	51%	Provision of management services for distribution of lottery products
北京華盈風彩科技有限公司	PRC*	RMB18,000,000	**–**	**51%**	–	51%	Provision of management services for distribution of lottery products
精利風彩網路科技（上海）有限公司	PRC#	HK$500,000	**–**	**95%**	–	95%	Provision of services for distribution of mobile lottery products
Beijing Telenet	PRC#	RMB10,000,000	**–**	**52.5%**	–	51%	Distribution of lottery terminals
Shandong KCJY	PRC*	RMB10,000,000	**–**	**– ^**	–	33%	Provision of services for distribution of mobile lottery products

These are wholly foreign owned enterprises established in the PRC.
* These are private limited liability companies established in the PRC.
^ Shandong KCJY was disposed of during the year (Note 27).

None of the subsidiaries of the Company had issued any debt securities at the end of the year.

The above table only lists the 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.

31. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

The table below shows details of non wholly-owned subsidiaries of the Company that have material non-controlling interests:

Name of subsidiary	Place of incorporation or establishment and operations	Proportion of equity interest and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2015	2014	**2015**	2014	**2015**	2014
				HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Beijing Telenet *(Note)*	PRC	**47.5%**	49%	**948**	1,226	**6,221**	5,076
Precious Success and its subsidiaries ("PS Group")	BVI	**49%**	49%	**492**	(2,076)	**2,681**	410
China Excellent and its subsidiary	Hong Kong	**5%**	5%	**(10)**	(6)	**(106)**	(95)
Others				**–**	(290)	**–**	(290)
				1,430	(1,146)	**8,796**	5,101

Note: In 2014, the Group indirectly holds 51% equity interest in Beijing Telenet through Trade Express and another subsidiary. In June 2015, the Group completed the acquisition of an additional 20% equity interest in Trade Express, resulting a reduction in equity interest held by non-controlling interests from 49% to 47.5%.

31. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Summarized financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarized financial information below represents amounts before intragroup eliminations.

Beijing Telenet

	2015	2014
	HK$'000	*HK$'000*
Current assets	**37,340**	21,401
Non-current assets	**171**	284
Current liabilities	**(25,801)**	(11,326)
Equity attributable to owners of the Beijing Telenet	**11,710**	10,359
Revenue	**51,716**	42,268
Expenses	**(49,732)**	(39,766)
Profit for the year	**1,984**	2,502
Other comprehensive expense	**(633)**	(298)
Total comprehensive income	**1,351**	2,204
Dividend to non-controlling interests	**–**	3,040
Profit and total comprehensive income for the year	**1,984**	2,502
Net cash inflow from operating activities	**602**	25,080
Net cash (outflow) inflow from investing activities	**(481)**	28
Net cash outflow from financing activities	**–**	(20,133)
Dividend to non-controlling interests	**–**	3,040
Effect of foreign exchange rate changes	**(578)**	(191)
Net cash (outflow) inflow	**(457)**	4,784

31. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

PS Group

	2015	2014
	HK$'000	*HK$'000*
Current assets	**5,822**	7,332
Non-current assets	**134**	259
Current liabilities	**(1,795)**	(4,667)
Equity attributable to owners of PS Group	**4,161**	5,069
Non-controlling interests	**–**	(2,145)
Revenue recognized in profit or loss	**9,448**	5,443
Expenses recognized in profit or loss	**(9,468)**	(9,460)
Loss for the year	**(20)**	(4,017)
Loss and total comprehensive expense for the year attributable to:		
– Owners of PS Group	**(1,005)**	(3,804)
– Non-controlling interests	**985**	(213)
Loss for the year	**(20)**	(4,017)
Other comprehensive income attributable to owners of PS Group	**96**	302
Other comprehensive income attributable to the non-controlling interests of PS Group	**104**	55
Other comprehensive income for the year	**200**	356
Total comprehensive expense attributable to owners of PS Group	**(909)**	(3,502)
Total comprehensive income (expense) attributable to the non-controlling interests of PS Group	**1,089**	(158)
Total comprehensive expense for the year	**180**	3,660
Net cash outflow from operating activities	**(134)**	(105)
Net cash inflow (outflow) from investing activities	**512**	(49)
Effect of foreign exchange rate changes	**(209)**	97
Net cash inflow (outflow)	**169**	(57)

32. MAJOR NON-CASH TRANSACTION

For the year ended 31 December 2014, the investment cost of HK$311,000 in relation to the 50% equity interest in BCN had not yet been paid as of 31 December 2014 and was included in trade and other payables.

FIVE-YEAR FINANCIAL SUMMARY

	Year ended 31 December				
	2011	2012	2013	2014	**2015**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
RESULTS					
Revenue	96,622	86,940	54,561	45,284	**57,163**
(Loss) profit for the year	(215,932)	70,541	(12,970)	(66,549)	**(34,504)**
Attributable to:					
Owners of the Company	(209,219)	78,981	(17,117)	(65,403)	**(35,934)**
Non-controlling interests	(6,713)	(8,440)	4,147	(1,146)	**1,430**
	(215,932)	70,541	(12,970)	(66,549)	**(34,504)**

	As at 31 December				
	2011	2012	2013	2014	**2015**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
ASSETS AND LIABILITIES					
Total assets	304,521	102,250	104,049	525,769	**526,783**
Total liabilities	(895,026)	(323,207)	(305,481)	(104,778)	**(118,236)**
	(590,505)	(220,957)	(201,432)	420,991	**408,547**
(Deficiency of equity)/equity attributable to owners of the Company	(615,405)	(232,864)	(210,738)	415,890	**399,751**
Non-controlling interests	24,900	11,907	9,306	5,101	**8,796**
	(590,505)	(220,957)	(201,432)	420,991	**408,547**