中彩網通控股有限公司
China Netcom Technology Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8071)

2016
ANNUAL REPORT

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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

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

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

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CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Leung Ngai Man *(Chairman)*
Ms. Wu Wei Hua

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cai Wei Lun
Mr. Qi Ji
Ms. Xuan Hong

COMPANY SECRETARY

Mr. Wong Chun Kit (appointed on 30 June 2016)

COMPLIANCE OFFICER

Mr. Leung Ngai Man

AUTHORISED REPRESENTATIVES

Mr. Leung Ngai Man
Mr. Wong Chun Kit (appointed on 30 June 2016)

AUDIT COMMITTEE

Ms. Xuan Hong *(Chairman)*
Mr. Cai Wei Lun
Mr. Qi Ji

REMUNERATION COMMITTEE

Ms. Xuan Hong *(Chairman)*
Mr. Leung Ngai Man
Mr. Cai Wei Lun
Mr. Qi Ji

NOMINATION COMMITTEE

Mr. Leung Ngai Man *(Chairman)*
Mr. Cai Wei Lun
Mr. Qi Ji
Ms. Xuan Hong

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

PRINCIPAL BANKERS

Bank of Communications Co., Ltd
China CITIC Bank International Limited

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1006, 10th Floor
Tower One Lippo Centre
89 Queensway
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT IN THE CAYMAN ISLANDS

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

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

STOCK CODE

8071

WEBSITE

www.chinanetcomtech.com

CHAIRMAN'S STATEMENT

On behalf of the board (the "**Board**") of Directors, I hereby present to our shareholders (the "**Shareholders**") the annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2016.

FINANCIAL HIGHLIGHTS

During the year, the revenue of the Group for the year ended 31 December 2016 was approximately HK$336,000, representing a decrease of approximately 65% as compared with that in 2015. The revenue was mainly derived from the provision of management, marketing and operating services for lottery system and lottery halls. The loss attributable to owners of the Company was approximately HK$37,043,000 for the year ended 31 December 2016, representing a decrease of approximately 32% as compared with that in 2015.

BUSINESS OVERVIEW

The Group is principally engaged in the provision of lottery system management service and the operation of lottery sales halls services in the People's Republic of China (the "**PRC**"). The Company focused on consolidating and optimising the Group's existing lottery business, and continued to deepen the wearable devices business under research and development, while keep looking for new opportunities to maximise the shareholders' return.

INDUSTRY OVERVIEW

China's lottery industry enjoyed a healthy boost in 2016 as the Euro 2016 football tournament helped offset the ongoing online lottery prohibition.

Total sales of lottery in 2016 amounting to Renminbi ("**RMB**") 394.6 billion, representing a year-on-year improvement of 7.3%. Welfare lottery and sports lottery contributed approximately RMB206.5 billion and approximately RMB188.1 billion, gained approximately 2.5% and 13.1 % year on year respectively.

While the Euro 2016 was a major growing factor for the sports lottery in 2016, the frequent policies in support of China's sports undertakings, sports lottery — especially match-betting lottery — will undoubtedly become an important monetization channel for China's sports industry and a major contributor to lottery sales.

As an emerging industry with over 200 million consumers, our Group still believes that the PRC's lottery industry will have a sustainable development along with the richer non-paper lottery products, enlarging lottery market, updating lottery types, plentiful lottery buying channels, enlarging lottery consumer group and enriching lottery cultural content in the coming years.

PROSPECT

The Group will seek new investment opportunity to generate investment returns for the Shareholders according to the national economic development plan.

APPRECIATION

Lastly, I would like to extend my heartfelt appreciation to our valued Shareholders, business partners, advisors, management and staff for their continued support of our efforts to capitalise on this promising industry.

Leung Ngai Man
Chairman of the Board

Hong Kong, 21 March 2017

OPERATIONAL AND BUSINESS REVIEW

The Group is principally engaged in the provision of lottery system management service and the operation of lottery sales halls services in the PRC. The Company focused on consolidating and optimising the Group's existing lottery business, and continued to deepen the research and development of wearable devices business, while keep looking for new opportunities to maximise the shareholders' return.

MAJOR EVENTS

Termination of Dr. Wang's appointment

Doctor Wang Xin ("**Dr. Wang**") was appointed as the chief technology officer of the Group (the "**Chief Technology Officer**") with effect from 26 April 2016 (the "**Appointment**"), being responsible for the development of and research on wearable intelligent medical devices of the Group. Details of the Appointment were set out in the Company's announcement dated 29 April 2016. On 3 August 2016, pursuant to the employment contract (the "**Contract**") entered into between the Group and Dr. Wang, the Appointment of Dr. Wang as the Chief Technology Officer and the Contract were terminated by the Group.

Cooperation with Hainan Xinsheng

On 17 June 2016, 深圳高榮財智科技有限公司 (transliterated as Shenzhen Gaorong Caizhi Technology Company Limited), a wholly-owned subsidiary of the Company ("**Shenzhen Gaorong**"), entered into a memorandum of understanding (the "**Memorandum of Understanding**") with 海南新生中彩科技有限公司 (transliterated as Hainan Xinsheng Zhongcai Technology Co., Ltd.) ("**Hainan Xinsheng**"), an independent third party.

The parties agreed to cooperate on the business development of the sales and related value-added services of KTV lottery in the Hainan Province. Hainan Xinsheng shall be responsible for the arrangement of entering into the agreement with Hainan Sports Lottery Administrative Centre (海南省體育彩票管理中心) in relation to sale of sports lottery through KTV channels in Hainan Province. Shenzhen Gaorong shall be responsible for providing the technology platforms, other relevant technology and documentation support for the KTV lottery sales. In addition, Shenzhen Gaorong shall be responsible for the promotion of KTV channel lottery sales and payment for the relevant expenses incurred by the KTV channel co-operation partners in lottery sales. The way of allocation of income will be confirmed at the time of the entering into the formal co-operation agreement between the parties. The Memorandum of Understanding will be expired upon the entering into the formal co-operation agreement.

Hainan Xinsheng is a professional lottery operating company in Hainan Province, the PRC which has long co-operation history with Hainan Sports Lottery Administrative Centre (海南省體育彩票管理中心). Considering that Shenzhen Gaorong has entered into an agreement with 北京雷石世紀科技有限公司 (transliterated as Beijing Thunderstone Technology Limited), the biggest provider of KTV technologies, platforms and music copyrights in the world, for sale of Chinese lotteries at the KTV bars/clubs it operates in China, the Directors are of the view that the cooperation is consistent with the Group's strategy to develop its lottery business and will benefit the Company and the shareholders of the Company as a whole. The Directors consider the terms of the Memorandum of Understanding are fair and reasonable and the cooperation is in the interest of the Company and Shareholders as a whole. Details of the cooperation were set out in the Company's announcement dated 17 June 2016.

OTHER INFORMATION

Early redemption of Convertible Bond

On 18 January 2016, the Company early redeemed a portion of the convertible bond in the aggregate principal amount of HK$797.5 million issued by the Company to Mr. Leung Ngai Man ("**Mr. Leung**") on 27 August 2010 (the "**Convertible Bond**") in the aggregate principal amount of approximately HK$10,080,000.

On 2 April 2016, the Company early redeemed a portion of the Convertible Bond in the aggregate principal amount of approximately HK$15,000,000.

On 28 June 2016, the Company early redeemed a portion of the Convertible Bond in the aggregate principal amount of approximately HK$11,004,000.

Grant of share options

On 6 May 2016, the Company granted share options to certain eligible participants to subscribe for a total of 100,000,000 new shares of the Company pursuant to the share option scheme adopted on 29 June 2007 (the "**Share Option Scheme**") at an exercise price of HK$0.105 per share of the Company. Details of which were set out in the announcement of the Company dated 6 May 2016.

Change of Company Secretary

Mr. Wong Ka Bong resigned as the company secretary of the Company (the "**Company Secretary**") with effect from 30 June 2016 and Mr. Wong Chun Kit has been appointed as the Company Secretary in place of Mr. Wong Ka Bong with effect from 30 June 2016 (the "**Change of Company Secretary**"). Details of the Change of Company Secretary were set out in the announcement of the Company dated 30 June 2016.

FINANCIAL REVIEW

For the year, the Group's audited revenue and the loss attributable to owners of the Company were approximately HK$336,000 and approximately HK$37,043,000 respectively, representing a decrease of approximately HK$628,000 and a decrease of approximately HK$17,636,000 respectively as compared with the audited revenue of approximately HK$964,000 and the loss attributable to owners of the Company of approximately HK$54,679,000 for the year ended 31 December 2015. The decrease of the loss attributable to owners of the Company for the year under review was mainly attributable to the decrease of the finance cost and administrative expenses.

Management has reviewed concession rights for impairment testing purpose by making estimations and taking reference with a valuation performed by an independent valuer. The income approach has been consistently adopted for impairment testing of concession rights. The valuation of the lottery business employing the income approach projects the five-year cash flows and discount these cash flows to its present value at a discount rate reflecting the risks associated with the cash flows. The market approach is not adopted as there are insufficient relevant comparable transaction for reference and the asset approach is not applied as it may ignore the future economic benefits of the business. Therefore, only income approach is employed for the valuation. The cash flow projection has been prepared by referring to the current operation environment and market conditions. The major inputs of the valuation include the pre-tax discount rate, revenue growth rate and terminal growth rate. The pre-tax discount rate of 33.15% reflects the minimum required return of the lottery business plus other specific risk of the underlying business. The revenue growth rate of 10% is determined by referring to the industry growth rate. Terminal growth rate of zero is used for the cash flows extrapolated beyond the five-year projection period.

As at 31 December 2016, the Group recorded total assets of approximately HK$92,088,000 (2015: approximately HK$173,145,000), and recorded total liabilities of approximately HK$71,417,000 (2015: approximately HK$95,588,000).

As at 31 December 2016, the Group has cash and bank balances (excluding pledged bank deposit) of approximately HK$23,817,000 (2015: approximately HK$78,077,000). The cash and bank balances were placed in short term deposit.

CAPITAL STRUCTURE

As at 31 December 2016, the Company's total number of issued ordinary shares was 3,120,035,049 Shares of HK$0.005 each (2015: 3,120,035,049 ordinary shares of HK$0.005 each).

As at 31 December 2016, the Company's total number of issued non-redeemable convertible preferred shares was 1,003,333,333 preferred shares of HK$0.005 each (2015: 1,003,333,333 preferred shares of HK$0.005 each).

SEGMENT REVIEW

During the year, the ordinary activities had been mainly derived from the following business segment:

Lottery business — Development of computer software, hardware and application system, sale of self-developed technology or results, provision of relevant technical consultancy services in the PRC and development and provision of operation system sector of the PRC lottery market.

EMPLOYEE INFORMATION

As at 31 December 2016, the Group employed a total of 38 (2015: 31) employees. The staff costs, including Directors' remuneration and share-based payment, were approximately HK$13,306,000 (2015: approximately HK$11,742,000) for the year ended 31 December 2016.

The salaries and benefits of the Group's employees are kept at a competitive level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. The Group also operates the Share Option Scheme where options to subscribe for Shares may be granted to the Directors, employees and consultants of the Group. The aim of the Share Option Scheme is to motivate and give incentive to the eligible participants as defined in the Share Option Scheme for their contributions to the Group.

CHARGE ON GROUP ASSETS

As at 31 December 2016, a fixed deposit of approximately HK$216,000 was pledged for obtaining the corporate card services (2015: approximately HK$215,000).

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this report, there was no specific plan for material investments and acquisition of material capital assets as at 31 December 2016. However, the Group will continue to seek new business development opportunities especially in the sector of the PRC lottery market.

GEARING RATIO

As at 31 December 2016, the gearing ratio of the Group was approximately 212% (2015: approximately 77%), based on the total borrowings of approximately HK$43,923,000 (2015: approximately HK$59,633,000) and the total equity of approximately HK$20,671,000 (2015: approximately HK$77,557,000).

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

The Group has no significant foreign exchange risk due to limited foreign currency translations.

CONTINGENT LIABILITIES

As at 31 December 2016, the Group had no significant contingent liabilities (2015: Nil).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Leung Ngai Man, aged 56, joined the Group on 2 April 2007 as executive Director and was appointed as the chief executive officer of the Company on 29 June 2007 and subsequently re-designated as the chairman of the Board on 31 March 2008. Mr. Leung is also the compliance officer, an authorised representative, the chairman of each of the senior management committee (the "**Senior Management Committee**") and the nomination committee (the "**Nomination Committee**"), a member of the remuneration committee (the "**Remuneration Committee**") and director of various subsidiaries of the Company. Mr. Leung is also the chairman of the board of directors, an executive director and a member of the remuneration committee of Sino Prosper (Group) Holdings Limited ("**Sino Prosper**") (stock code: 766).

Ms. Wu Wei Hua, aged 46, joined the Group on 11 December 2007 as executive Director. Ms. Wu is also a member of the Senior Management Committee. She graduated from Donghua University in the PRC and obtained a Bachelor Degree in Textile Engineering. Ms. Wu has been working in the industry of finance and administration management in the PRC since 1995 and has gained extensive management experience throughout these years. She is also the finance director of Sino Prosper and its subsidiaries in the PRC.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cai Wei Lun, aged 61, joined the Group on 11 August 2009 as independent non-executive Director. Mr. Cai is also a member of each of the audit committee (the "**Audit Committee**"), the Remuneration Committee and the Nomination Committee of the Company. He has over 26 years' experience in the property development sector in the PRC. Mr. Cai is also an independent non-executive director and a member of each of the audit committee and the remuneration committee of Sino Prosper.

Mr. Qi Ji, aged 29, joined the Group on 29 February 2012 as independent non-executive Director. Mr. Qi is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee. He graduated from Changchun University of Technology with a degree in Computer Network Technology. Mr. Qi has been engaged in computer software and hardware development and programming. He has extensive experience in web design, website production and management.

Ms. Xuan Hong, aged 52, joined the Group on 3 December 2013 as independent non-executive Director. Ms. Xuan is also the chairman of each of the Audit Committee and the Remuneration Committee and a member of the Nomination Committee. She has the qualification of certified public accountant in the PRC and is a senior accountant, and has worked in several accounting firms. She has extensive working experience in accounting, auditing and taxation, and has substantial experience in accounting policy, tax law and judicial accounting sectors. Currently, Ms. Xuan is also an independent non-executive director and the chairman of each of the audit committee and the remuneration committee of Sino Prosper.

SENIOR MANAGEMENT

Mr. Lin Zhi Wei, aged 43, the chief technology officer of the Group. Mr. Lin graduated from Tsinghua University in the PRC majoring in automatic control. He is Senior Engineer of Chinese Academy of Sciences and was appointed as one of the first batch of expert members of the National E-Government Consultant and Training Expert Committee (國家電子政務諮詢培訓專家委員會) where he took charge of various major government informatisation construction projects, and developed the first 彩證通 (selling lotteries on securities trading platforms) and 銀彩通 (selling lotteries on banking platforms) systems of the PRC. Mr. Lin has rich experience in lottery operation and major information system construction. In 2002, he was engaged in establishing Shenzhen Bozone IT Co. Ltd., and served as its chief operating officer. Besides, Mr. Lin was also the first one to bring forward the conception of selling lotteries on mobile phone, digital television, movable termination and internet. He focuses on developing and using new public platforms to expand lottery-related businesses.

REPORT OF THE DIRECTORS

The Directors present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its principal subsidiaries were set out in note 33 to the consolidated financial statements. An analysis of the Group's performance for the year ended 31 December 2016 by business segments was set out in note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's loss for the year ended 31 December 2016 and the state of affairs of the Group and of the Company as at that date were set out in the consolidated financial statements on pages 36 to 107.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2016 (2015: Nil).

BUSINESS REVIEW

A fair review of the Group's business, a description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2016, and an indication of likely future development in the Group's business, are set out in the "CHAIRMAN'S STATEMENT", "MANAGEMENT DISCUSSION AND ANALYSIS" and "NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS" sections of this report.

ENVIRONMENTAL POLICY

Our commitment to protecting the environment is well reflected by our continuous efforts in promoting green measures and awareness in our daily business operations. Our Group encourages environmental protection and promote awareness towards environmental protection to the employees. Our Group also implements green office practices such as promoting the use of recycled papers and reducing energy consumption by switching off idle lighting and electrical appliances.

Our Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the operation of our Group's businesses and enhance environmental sustainability.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by our Group that has a significant impact on the business and operations of our Group.

RELATIONSHIPS WITH STAKEHOLDERS

The Company recognises that employees are our valuable assets. Thus our Group provides competitive remuneration package to attract and motivate the employees. Our Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard.

Our Group also understands that it is important to maintain good relationship with business partners to achieve its long-term goals. Accordingly, our senior management have kept good communication, promptly exchanged ideas and shared business update with them when appropriate. During the year, there was no material and significant dispute between our Group and its business partners.

SHARE CAPITAL, SHARE OPTIONS, UNLISTED WARRANTS AND CONVERTIBLE BONDS

Details of the movements in the Company's share capital, share options, unlisted warrants and convertible bonds during the year, together with the reasons thereof, were set out in notes 24, 27, 26 and 22 to the consolidated financial statements respectively.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year were set out in note 34 to the consolidated financial statements and the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

In accordance with the law of the Cayman Islands, the share premium account is distributable to the Shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business. As at 31 December 2016, the Company did not have any reserves available for distribution (2015: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year were set out in note 14 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

Under the Company's articles of association ("**Articles**"), in the event that the Company shall at any time issue to holders of new ordinary shares securities convertible into ordinary shares, the Company shall not be obliged to offer such shares or securities to the holders of preferred shares.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and the assets and liabilities of the Group for the last five financial years as extracted from the audited consolidated financial statements of the Group was set out on page 108 of the annual report of the Company for the year ended 31 December 2016, of which this report forms part.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

CHARITABLE DONATIONS

During the year, no charitable donations were made by the Group (2015: nil).

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. There is appropriate directors' and officers' liability insurance coverage for the directors and officers of the Group.

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme, the Convertible Bond and the Convertible Preferred Shares (as defined below) as disclosed in the below sections headed "SHARE OPTION SCHEME" and "INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS" respectively, no equity-linked agreements were entered into by the Group, or existed during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the purchases and sales percentage from the major customers and suppliers of the Group was set out below:

		Percentage of total purchases
(1)	**Purchases**	
	— the largest supplier	42%
	— the five largest suppliers combined	58%

		Percentage of total sales
(2)	**Sales**	
	— the largest customer (Note)	75%
	— the five largest customers combined	100%

As far as the Directors are aware, none of the Directors or any of their close associates, or any Shareholders (which, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers for the year.

Note: The largest customers are 美彩科技(中國)有限公司 and 遼寧省彩票發行中心 which accounted for approximately 21% and 75% respectively of the total sales of the Group.

DIRECTORS

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

EXECUTIVE DIRECTORS

Mr. Leung Ngai Man *(Chairman)*
Ms. Wu Wei Hua

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cai Wei Lun
Mr. Qi Ji
Ms. Xuan Hong

In accordance with articles 87 (1) and (2) of the Articles, Mr. Cai Wei Lun and Mr. Qi Ji will retire as Directors by rotation and, being eligible, offer themselves for re-election as Directors at the forthcoming annual general meeting of the Company (the "**AGM**").

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received annual written confirmations from each of its independent non-executive Directors in respect of their independence during the year in accordance with the relevant requirements of the GEM Listing Rules and all independent non-executive Directors are still being considered to be independent.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on page 8 of this report.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Each of the executive Directors, Mr. Leung Ngai Man and Ms. Wu Wei Hua had entered into a service contract with the Company for a term of two years commencing from June 2016 and February 2016 respectively, which may be terminated by one month prior notice in writing served by either party to the other one.

Each of the independent non-executive Directors, Mr. Cai Wei Lun, Mr. Qi Ji and Ms. Xuan Hong had entered into a service contract with the Company for a term of one year commencing from August 2016, February 2017 and December 2016 respectively, which may be terminated by one month prior notice in writing served by either party to the other one.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in this report, no transactions, arrangements or contracts of significance in relation to the Group's business to which any of the Company's subsidiaries and fellow subsidiaries was a party, and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at any time during the year or at the end of the year.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 31 December 2016, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**") as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings in securities by directors of listed issuer as referred to in rule 5.46 of the GEM Listing Rules (the "**Required Standard of Dealings**"), were as follows:

LONG POSITION IN THE SHARES AND UNDERLYING SHARES

	Number of Shares				
Name of Director	**Personal interest**	**Corporate interest**	**Equity derivatives**	**Total**	**Approximate percentage of issued share capital** *(Note 8)*
Mr. Leung	906,335,000 *(Note 1)*	294,880 *(Notes 1 & 2)*	1,060,013,333 *(Notes 3, 4 & 5)*	1,966,643,213	63.03%
Ms. Wu Wei Hua ("**Ms. Wu**")	–	–	22,000,000 *(Note 6 & 7)*	22,000,000	0.71%

Notes:

1. As a result of the 2012 Share Consolidation (as defined below), these Shares were adjusted.

2. These Shares were held by Speedy Well Investments Limited ("**Speedy Well**") which was wholly and beneficially owned by Mr. Leung. By virtue of the SFO, Mr. Leung was deemed to be interested in the Shares held by Speedy Well.

3. These equity derivatives comprise 56,680,000 Shares to be issued upon exercise of conversion rights attaching to the Convertible Bond which were issued by the Company on 27 August 2010 and 1,003,333,333 Convertible Preferred Shares (as defined below) were allotted and issued by the Company on 17 December 2012.

4. The Convertible Bond in an aggregate principal amount of HK$797,500,000 at a conversion price of HK$0.240 per share were issued to Mr. Leung on 27 August 2010. Upon full conversion of the Convertible Bond, a maximum of 3,322,916,666 shares of HK$0.001 each in the share capital of the Company shall be issued to Mr. Leung. As at 31 December 2016, the Convertible Bond in the amount of HK$68,016,000 remained outstanding. As a result of the consolidation of every five shares of HK$0.001 each in both issued and unissued share capital of the Company into one consolidated share of HK$0.005 each which became effective on 27 February 2012 (the "**2012 Share Consolidation**"), the relevant conversion price was adjusted from HK$0.240 to HK$1.200 per Share and the number of Shares falling to be issued under the outstanding Convertible Bond was adjusted from 283,400,000 shares of HK$0.001 each in the share capital of the Company to 56,680,000 consolidated shares. Such interests constituted a long position of the Director in a physically settled equity derivatives for the purpose of the SFO.

5. 1,563,333,333 convertible preferred shares at an issue price of HK$0.600 per convertible preferred share were allotted and issued to Mr. Leung on 17 December 2012 (the "**Convertible Preferred Shares**") to capitalise the outstanding amount of approximately HK$938,000,000 due by the Company to Mr. Leung pursuant to the promissory note issued by the Company to Mr. Leung on 27 August 2010 as part of the consideration for the acquisition of the entire equity interest in Pearl Sharp Limited. Such interests constituted a long position of the Director in a physically settled equity derivatives for the purpose of the SFO. As at 31 December 2016, 1,003,333,333 allotted and issued Convertible Preferred Shares were not converted yet.

6. On 10 July 2008, Ms. Wu was granted share options pursuant to the Share Option Scheme to subscribe for a total of 20,000,000 shares of HK$0.0005 each in the share capital of the Company at an exercise price of HK$0.1328 per share. Such share options would be exercisable during the period from 10 July 2008 to 29 June 2017. As a result of the consolidation of every two shares in both issued and unissued share capital of the Company into one consolidated share of HK$0.001 each which became effective on 21 October 2008, the relevant subscription price was adjusted from HK$0.1328 to HK$0.2656 per consolidated share and the number of consolidated shares falling to be issued under the outstanding share options was adjusted from 20,000,000 shares to 10,000,000 consolidated shares. As a result of the 2012 Share Consolidation, the relevant subscription price was further adjusted from HK$0.2656 to HK$1.3280 per Share and the number of Shares falling to be issued under the outstanding share options was adjusted from 10,000,000 consolidated shares to 2,000,000 Shares. Such interests constituted a long position of the Director in a physically settled equity derivatives for the purpose of the SFO.

7. On 10 July 2014, Ms. Wu was further granted share options pursuant to the Share Option Scheme to subscribe for a total of 20,000,000 Shares at an exercise price of HK$0.280 per share. Such share options would be exercisable during the period from 10 July 2014 to 29 June 2017. Such interests constituted a long position of the Director in a physically settled equity derivatives for the purpose of the SFO.

8. The percentage is calculated on the basis of 3,120,035,049 Shares in issue as at 31 December 2016.

Save as disclosed above, as at 31 December 2016, none of the Directors and the chief executive of the Company had any interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Required Standard of Dealings.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

Save as disclosed above, as at 31 December 2016, the Company had not been notified by any person or company, other than the Directors or the chief executive of the Company whose interest are set out in the section headed "INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS" in this report, who had interest or short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections "INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS" above and "SHARE OPTIONS SCHEME" below in this report, at no time during the year and up to the date of this report, was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined in the GEM Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporation as defined in the SFO or to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEME

Details of the Share Option Scheme which replaced its old share option scheme adopted on 29 June 2007 are set out in note 27 to the consolidated financial statements. Details of the share options granted under the Share Option Scheme and remain outstanding as at 31 December 2016 are as follows:

		Movements of share options (adjusted) during the period								
Name or category of participant	Share Option type	As at 1 January 2016	Granted	Exercised	Lapsed/ Cancelled/ Forfeited	As at 31 December 2016	Date of grant	Exercise price *HK$*	Exercise period	Closing price of Shares immediately before the date of grant of options *HK$*
Director										
— Ms. Wu	2008	2,000,000*	–	–	–	2,000,000*	10 July 2008	1.328*	10 July 2008–29 June 2017	0.258
	2014(c)	20,000,000	–	–	–	20,000,000	10 July 2014	0.280	10 July 2014–29 June 2017	0.270
Sub-total		**22,000,000***	**–**	**–**	**–**	**22,000,000***				
Other Participants	2007(a)	9,600,000*	–	–	–	9,600,000*	9 July 2007	1.425*	9 July 2007–29 June 2017	0.248
	2007(b)	8,200,000*	–	–	–	8,200,000*	22 August 2007	2.030*	22 August 2007–29 June 2017	0.364
	2008	7,200,000*	–	–	–	7,200,000*	10 July 2008	1.328*	10 July 2008–29 June 2017	0.258
	2013	16,000,000	–	–	–	16,000,000	10 October 2013	0.087	10 October 2013–29 June 2017	0.086
	2014(a)	32,000,000	–	–	–	32,000,000	25 March 2014	0.364	25 March 2014–29 June 2017	0.360
	2014(b)	2,700,000	–	–	–	2,700,000	26 March 2014	0.365	26 March 2014–29 June 2017	0.345
	2015(a)	66,000,000	–	–	–	66,000,000	27 May 2015	0.290	27 May 2015–29 June 2017	0.220
	2015(b)	10,000,000	–	–	–	10,000,000	4 June 2015	0.270	4 June 2015–29 June 2017	0.236
	2016	–	100,000,000	–	–	100,000,000	6 May 2016	0.105	6 May 2016–29 June 2017	0.107
Sub-total		**151,700,000***	**100,000,000**	**–**	**–**	**251,700,000***				
Total		**173,700,000***	**100,000,000**	**–**	**–**	**273,700,000***				
Weighted average exercise price		**HK$0.4836***	**HK$0.105**	**–**	**–**	**HK$0.3453***				

Note:

* The number of share options granted and the exercise price of the share options was adjusted as a result of the 2012 Share Consolidation.

CONTRACT OF SIGNIFICANCE

During the year, the Group did not enter into any contract of significance with its controlling Shareholders or any of its subsidiaries.

During the year, no contract of significance for the provision of services to the Group by a controlling Shareholder or any of its subsidiaries was made.

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year are set out in note 32 to the consolidated financial statements and such related party transactions do not fall under the definition of "connected transaction" or "continuing connected transaction" in chapter 20 of the GEM Listing Rules.

COMPETITION AND CONFLICT OF INTERESTS

During the year under review, none of the Directors or controlling Shareholders or any of their respective close associates (as defined in the GEM Listing Rules) has any interest in a business which causes or may cause any significant competition with the business of the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report. The Company has maintained a sufficient public float in compliance with Rule 18.08B of the GEM Listing Rules.

EVENT AFTER THE REPORTING PERIOD

LETTER OF INTENT FOR STRATEGIC COOPERATION AGREEMENT WITH CAISSA TRAVEL AND AIRPORTS CORPORATION OF VIETNAM

On 3 January 2017, Max Choice Holdings Limited (a wholly-owned subsidiary of the Company) entered into a letter of intent for strategic cooperation agreement (the "**Letter of Intent**") with Caissa Tongsheng Travel Service (Group) Co., Ltd., and Airports Corporation of Vietnam regarding the business development in relation to Phu Quoc (富國島). The Directors are of the view that the cooperation as contemplated under the Letter of Intent, if materialises, can enable the Group to be benefited from diversifying the Group's existing business which is expected to increase the Shareholders' value. Details of the Letter of Intent were set out in the Company's announcement dated 9 January 2017.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in compliance with the GEM Listing Rules. During the year, the Audit Committee comprised three independent non-executive Directors, namely, Ms. Xuan Hong (chairman of the Audit Committee), Mr. Cai Wei Lun and Mr. Qi Ji.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control of the Group. During the year, the Audit Committee held four meetings. The annual results of the Group for the year ended 31 December 2016 have been reviewed by the Audit Committee which is of the opinion that the preparation of such results complied with the applicable accounting standards, the GEM Listing Rules and other legal requirements, and that adequate disclosures have been made.

CORPORATE GOVERNANCE

A report detailed corporate governance was set out on pages 17 to 25 in this report.

AUDITORS

The accounts for the years ended 31 December 2014, 2015 and 2016 were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the AGM. A resolution for the re-appointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company for the subsequent year is to be proposed at the AGM.

By order of the Board
China Netcom Technology Holdings Limited
Leung Ngai Man
Chairman and Executive Director

Hong Kong, 21 March 2017

CORPORATE GOVERNANCE PRACTICES

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

During the financial year under review, the Company complied with all the code provisions in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 15 to the GEM Listing Rules except for the following:

CODE PROVISION A.2.1

Code provision A.2.1 of the CG Code stipulates that the role of chairman and chief executive should be separate and should not be performed by the same individual.

Currently, the role of the chairman of the Board is performed by Mr. Leung who possesses essential leadership skills and has extensive knowledge in the business of the Group. The Board believes that vesting the role of the chairman in Mr. Leung provides the Company with strong and consistent leadership, facilitates effective and efficient planning, implementation of business decisions and strategies, and ensures the generation of benefits to the Shareholders.

Although the appointment of the chief executive officer of the Company remains outstanding, the overall management of the Company was performed by Mr. Leung and Ms. Wu whom have extensive experience in the business of the Group. Their respective areas of profession spearheaded the Group's overall development and business strategies.

The Company is still looking for a suitable candidate to fill the vacancy of the chief executive officer in order to comply with the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct for securities transactions by Directors (the "**Code**") which is on terms no less exacting than the Required Standard of Dealings. The Company was made specific enquiry with all Directors and has not been notified of any non-compliance with the Required Standard of Dealings and the Code by the Directors during the year.

THE BOARD OF DIRECTORS AND MEETINGS

The Board comprises the following Directors during the year and up to the date of this report:

EXECUTIVE DIRECTORS:

Mr. Leung Ngai Man *(Chairman)*
Ms. Wu Wei Hua

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Cai Wei Lun
Mr. Qi Ji
Ms. Xuan Hong

The biographical details of the Directors were set out under the section headed "BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT" of this report.

The updated list of Directors and their role and function were published on the websites of GEM and the Company.

The Board meets regularly (at least four times a year at quarterly intervals) for reviewing and approving the financial and operating performance, considering and approving the overall strategies and policies of the Company. Additional meetings are convened as and when the Board considers necessary. Five Board meetings (four of which were regular Board meetings) were held during the year. The Directors attended those meetings in person, by phone or through other electronic means of communication. The attendance record of each Director at the meeting of the Board and Board Committees (as defined below) and general meetings during the year is set out below:

	Attendance/Number of Meetings				
Name of Directors	Board	Audit Committee	Nomination Committee	Remuneration Committee	General Meeting
Executive Directors					
Mr. Leung Ngai Man	5/5	–	1/1	1/1	1/1
Ms. Wu Wei Hua	5/5	–	–	–	1/1
Independent Non-executive Directors					
Mr. Cai Wei Lun	4/5	4/4	1/1	1/1	1/1
Mr. Qi Ji	4/5	4/4	1/1	1/1	1/1
Ms. Xuan Hong	4/5	4/4	1/1	1/1	1/1

The Board has overall responsibility for the stewardship of the Group, including the responsibilities for the adoption of long-term strategies and appointing and supervising senior management to ensure that the operation of the Group is conducted in accordance with the objective of the Group. Execution of daily operational matters is delegated to the management.

The Senior Management Committee was established on 27 June 2005 and of its members are Mr. Leung (chairman of the committee) and Ms. Wu, all being the executive Directors.

Currently, Mr. Cai Wei Lun, Mr. Qi Ji and Ms. Xuan Hong are the independent non-executive Directors. All of them are under a term of service of one year commencing from the date of their respective appointment or the date of entering into their respective service contract. All Directors, including the independent non-executive Directors, are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles, provided that the appointment may be terminated by the Company or the Director concerned with a written notice pursuant to their service contract.

Save for the co-directorship of Mr. Leung, Mr. Cai Wei Lun and Ms. Xuan Hong in Sino Prosper, and Ms. Wu, being the finance director of Sino Prosper group in the PRC, there is no other relationship (including financial, business, family or other material/relevant relationships) among members of the Board. All of them are free to exercise their independent judgement during the year. The Company has received annual written confirmations from Mr. Cai Wei Lun, Mr. Qi Ji and Ms. Xuan Hong, being the independent non-executive Directors during the year in respect of their independence pursuant to the GEM Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the GEM Listing Rules.

In accordance with the Articles, one-third of the Directors are subject to retirement by rotation or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from the office and being eligible offer themselves for re-election provided that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. The Directors to be retired by rotation shall be those who have been longest in office since their last appointment or re-appointment.

In case where conflict of interest arises involving a substantial Shareholder or a Director, such matter will not be dealt with by written resolutions. Independent non-executive Directors with no conflict of interest will be dealt with such conflict issues.

The board committees, including the Audit Committee, the Remuneration Committee and the Nomination Committee (collectively, the "**Board Committees**") save all adopted the applicable practices and procedures used in the Board meetings for all committee meetings.

The Company has arranged for appropriate insurance cover in respect of legal action against the Directors.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF THE DIRECTORS

In order to comply with the code provision A.6.5 of the CG Code, the Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. According to the confirmation/records provided by the Directors, all the Directors have participated in the continuous professional developments for the year ended 31 December 2016. During the year, the Directors have participated in the continuous professional developments in the following manners:

Directors	Attending in-house briefings	Reading materials relevant to director's duties and responsibilities
Executive Directors		
Mr. Leung Ngai Man	✓	✓
Ms. Wu Wei Hua	✓	✓
Independent non-executive Directors		
Mr. Cai Wei Lun	✓	✓
Mr. Qi Ji	✓	✓
Ms. Xuan Hong	✓	✓

CHAIRMAN AND CHIEF EXECUTIVE

The chairman of the Board is Mr. Leung, who possesses essential leadership skills and has extensive knowledge in the business of the Group. The appointment of the chief executive officer of the Company remains outstanding. The role of the chief executive is currently taken up by Mr. Leung and all the executive Directors who have extensive experience in the business of the Group. The roles of the chairman of the Board and the chief executive are not separate and exercised by the same person together with all the executive Directors.

The Company is still looking for a suitable candidate to fill the vacancy of the chief executive officer in order to comply with the CG Code.

BOARD COMMITTEES

The Board has established the Nomination Committee, the Remuneration Committee and the Audit Committee in order to maintain high level of corporate governance standard of the Company.

NOMINATION COMMITTEE

The Company has established the Nomination Committee with written terms of reference on 23 March 2012 in order to comply with the CG Code. The committee is chaired by Mr. Leung, the chairman of the Board and executive Director. Other members include Mr. Cai Wei Lun, Mr. Qi Ji and Ms. Xuan Hong (all being independent non-executive Directors).

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board at least annually; identify individuals suitably qualified to become members of the Board, to assess the independence of the independent non-executive Directors and the make recommendation to the Board on relevant matters relating to the appointment or reappointment of directors.

During the year, the Nomination Committee is responsible for identifying potential directors, reviewing the credentials of the potential director based on his qualifications, skills, experience, credibility and reputation. Once the potential director(s) is/are confirmed, it will make recommendations to the Board for approval.

The Nomination Committee held one meeting during the year ended 31 December 2016. Individual attendance records of each member of the Nomination Committee were set out in the table on page 18 of this report.

Board Diversity Policy

The Board has adopted a board diversity policy (the "**Policy**") and measurable objectives which are set for the purpose of implementing the Policy with effect from 30 August 2013.

Summary of the Board Diversity Policy

The Company recognised and embraced the benefits of having a diverse Board to the quality of its performance. The Policy aimed to sets out the approach to achieve diversity on the Board. In designing the Board's composition, board diversity has been considered from a numbers of measurable aspects including skills, experience, knowledge, expertise, culture, independence, age and gender. All Board appointments will be based on merit while taking into account diversity (including gender diversity).

Measurable Objectives

The measurable objectives for the purpose of implementation of the Policy including the independence, educational background, professional qualifications and years of experience in the industry he/she is specialised in.

The Nomination Committee will review the Policy to ensure its effectiveness and report annually, in the corporate governance report, on the Board's composition under diversified perspectives, and monitor the implementation on this policy.

REMUNERATION COMMITTEE

The Company has established the Remuneration Committee on 27 June 2005 with written terms of reference in compliance with the GEM Listing Rules, comprising all the independent non-executive Directors and the chairman of the Board. The committee is currently chaired by Ms. Xuan Hong. Other members include Mr. Cai Wei Lun, Mr. Qi Ji, all being independent non-executive Directors and Mr. Leung, the chairman of the Board and an executive Director.

The role and functions of the Remuneration Committee include the determination of the specific remuneration packages of all Directors, which include benefits in kind, pension rights and compensation payments, comprising any compensation payable for loss or termination of their office or appointment.

The Remuneration Committee also considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration. The Remuneration Committee collects and reviews the remuneration plan and policy of all Directors and the senior management of the Group by reference to the prevailing rate which other companies listed on GEM adopt.

During the year, the Remuneration Committee assessed the performance of executive Directors and approval the terms of executive Directors' service contracts.

During the year ended 31 December 2016, one meeting of the Remuneration Committee was held. Individual attendance records of each member of the Remuneration Committee were set out in the table on page 18 of this report.

AUDIT COMMITTEE AND ACCOUNTABILITY

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The Board is also responsible for preparing the accounts of the Company, which give a true and fair view of the financial position of the Group on a going concern basis, and other price- sensitive announcements and financial disclosures. The management provides all relevant information and records to the Board enabling the Board to make the above assessment and to prepare the accounts and other financial disclosures. In full compliance with Rule 5.28 of GEM Listing Rules, the Audit Committee, which has been established since the listing of the Company, was composed of the three independent non-executive Directors as at the date of this report. The terms of reference have been reviewed and revised with reference to the changes to the CG Code during the year. The Audit Committee is currently chaired by Ms. Xuan Hong with the other members including Mr. Cai Wei Lun and Mr. Qi Ji (all being independent non-executive Directors). During the year, the following persons served as members of the Audit Committee:

Name	Service period
Mr. Cai Wei Lun	From 1 January 2016 to 31 December 2016
Mr. Qi Ji	From 1 January 2016 to 31 December 2016
Ms. Xuan Hong	From 1 January 2016 to 31 December 2016

During the year, no former partner of the Company's existing auditing firm acted as a member of the Audit Committee within one year on the date of his or her ceasing to be a partner or had any financial interest in the auditing firm. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors during the year. The Audit Committee's primary duties include ensuring the Group's consolidated financial statements, annual, interim and quarterly reports, and the auditors' report present a true and balanced assessment of the Group's financial position, reviewing the Group's financial control, internal control and risk management systems and reviewing the Group's financial and accounting policies and practices.

The works done by the Audit Committee during the year ended 31 December 2016 were set out as follows:

(a) reviewing and recommending the annual report, interim report and quarterly reports for the relevant period or year to the Board for approval;

(b) discussing the application of the new accounting policy;

(c) recommending the re-appointment of the auditors to the Board for approval; and

(d) reviewing the risk management and internal control systems and to make recommendation to the Board for improvement.

The Audit Committee is provided with sufficient resources enabling it to discharge its duties. For the financial year ended 31 December 2016, the Audit Committee held four meetings. Individual attendance records of each member of the Audit Committee were set out in the table on page 18 of this report. The company secretary of the Company (the "**Company Secretary**") keeps full minutes of all meetings of the Audit Committee. In line with practices of the meetings of the Board and other Board Committees, draft and final versions of the minutes of the meetings of the Audit Committee are circulated to all members of the Audit Committee for comments, approval and record as soon as practicable after each meeting.

The accounts for the year ended 31 December 2016 were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the AGM. The Audit Committee has recommended to the Board that HLB Hodgson Impey Cheng Limited be re-appointed as the auditors of the Company at the AGM.

The Audit Committee, the Remuneration Committee and the Nomination Committee have adopted specific terms of reference clearly defining their respective powers and responsibilities. These committees are required by their terms of reference to report to the Board in relation to their decisions, findings or recommendations, and in certain specific situations, to seek the Board's approval before taking any actions. The Board reviews, on a yearly basis, all delegations by the Board to each of the committees to ensure that such delegations are appropriate and continue to be beneficial to the Group as a whole.

AUDITORS' REMUNERATION

During the year ended 31 December 2016, the remuneration payable to the external auditors in respect of the audit and non-audit services are as follows:

Type of services	Amount (HK$'000)
Audit services	960
Non-audit services	Nil

DIRECTORS' AND AUDITORS' ACKNOWLEDGEMENT

All Directors acknowledged their responsibility for preparing the accounts for the year ended 31 December 2016 which give a true and fair view of the financial position of the Group. The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the auditors of the Company about their reporting responsibilities on the consolidated financial statements for the year ended 31 December 2016 was set out in the section "Independent Auditors' Report" of this report.

RISK MANAGEMENT AND INTERNAL CONTROL

The management has the responsibility to maintain appropriate and effective risk management and internal control systems, and the Board has the responsibility review and monitor the effectiveness of the Group's risk management and internal control systems at least annually covering material controls, including financial, operational and compliance controls, to ensure that the systems in place are adequate and effective. The Group adopts a risk management system which manages the risk associated with its business and operations. The system includes the following elements:

- identify significant risks in the Group's operation environment and evaluate the impacts of those risks on the Group's business;
- develop necessary measures to manage those risks; and
- monitor and review the effectiveness of such measures.

The Group's system of internal control includes a defined management structure with limits of authority, and is designed to help the Group achieve its business objectives, protects its assets against unauthorised use or disposition, ensures the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensures compliance with relevant laws and regulations.

The Group's risk management and internal control systems are, however, designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

With respect to the monitoring and disclosure of inside information, the Company has formulated its guidelines, with an aim to ensure that the insiders abide by the confidentiality requirement and fulfill the disclosure obligation of the inside information.

The Board reviews the risk management and internal controls annually. The Board conducted a review of, and is satisfied with the adequacy and effectiveness of the risk management and internal control systems for the year ended 31 December 2016 as well as the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions. The Board is not aware of any material internal control defects.

COMPANY SECRETARY

Mr. Wong Chun Kit ("**Mr. Wong**"), is engaged and appointed by the Company from an external secretarial services provider as its Company Secretary. The primary corporate contact person of the Company is Mr. Leung Ngai Man, the chairman of the Board and executive Director.

In accordance with Rule 5.15 of the GEM Listing Rules, Mr. Wong has taken no less than 15 hours of relevant professional training during the year ended 31 December 2016.

SHAREHOLDERS' RIGHTS

PROCEDURES FOR THE SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

Pursuant to the article 58 of the Articles, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting (the "**EGM**") to be called by the Board for the transaction of any business specified in such requisition.

Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so 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 the requisitionist(s) by the Company.

PROCEDURES FOR THE SHAREHOLDERS TO PUT THEIR ENQUIRIES TO THE BOARD

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its Shareholders. The Company delivers quarterly, interim annual results and reports and publication of the quarterly, interim and annual results announcements and other disclosed information on the websites of the Stock Exchange and the Company to all the Shareholders.

The Company endeavours to maintain two way communications with the Shareholders through various channels. The Shareholders are encouraged to put their enquiries about the Group through the Company's email at investorrelations@chinanetcomtech.com or by mail to the address of the Company's principle place of business in Hong Kong at Unit 1006, 10th Floor, Tower One Lippo Centre, 89 Queensway, Hong Kong. All the enquiries are dealt with in timely manner.

The Shareholders are also encouraged to attend the AGM and the EGM and to put their enquiries to the Board directly. Notices are duly circulated to the Shareholders in order to ensure each Shareholder is informed to attend the AGM and the EGM. The Shareholders' enquiries were responded in a prompt manner at the aforesaid meetings . Pursuant to the GEM Listing Rules, voting by poll is mandatory at all general meetings.

The detailed procedures for conducting a poll are set out in the proxy forms and will be explained by the chairman of the AGM and the EGM orally at the beginning of the aforesaid meetings. The poll results will be posted on the websites of the Stock Exchange and the Company after the AGM and the EGM.

INVESTOR RELATIONS

The Company believes that maintaining a high level of transparency is a key to enhancing investor relations. It is committed to a policy of open and timely disclosure of corporate information to its Shareholders and investment public.

The Company updates its Shareholders on its latest business developments and financial performance through its annual, interim and quarterly reports. The website of the Company (www.chinanetcomtech.com) has provided an effective communication platform to the public and the Shareholders.

During the year ended 31 December 2016, there is no significant change in the Company's memorandum and articles of association.

By order of the Board
China Netcom Technology Holdings Limited
Leung Ngai Man
Chairman and Executive Director

Hong Kong, 21 March 2017

Pursuant to Appendix 20 of the Environmental, Social and Governance Reporting Guide (the "**ESG Guide**") regarding the Rules Governing the Listing of Equity Securities on the Growth Enterprise Market ("**GEM**") of The Stock Exchange of Hong Kong Limited, the Group is committed to review, identify and disclose relevant information required in the ESG Guide. Measures have been taken to ensure that key performance indicators ("**KPIs**") on environmental and social issues and aspects have been set up to enable monitoring, assessment and improvement in line with the corporate principles and its responsibilities to the environment and society.

1. OUR MISSION, MANAGEMENT & APPROACH

China Netcom Technology Holdings Limited (the "**Company**", together with its subsidiaries referred to as "**the Group**") aims to be the most compliant and well-regulated lottery technology solutions services provider in China. The Group aims to improve its market penetration through continuous development of its consultancy services and products. Further investment and research on new products based on the latest information technology will continue to be the Group's future advancement plan.

The main business of the Group involves the provision of lottery system management service and operation of lottery sales halls services in the PRC. There are 2 operating offices, Hong Kong headquarters as the management and administrative centre, and Shenzhen as the software development and operation control centre.

The Group is committed to sustainable environmental, social and governance (ESG) standards in all of its operations. The Group has internal control and specialized personnel managing ESG related matters. The management intends to achieve the objectives of being responsible to all stakeholders and create value that can lead towards sustainable growth through implementations of company regulations and policies.

Based on the principles of ESG, the Group management ensures that the executed regulations and policies that conform to ESG standards are monitored and reviewed on a regular basis. These results are then collected and compiled according to reporting principles of ESG. Detailed analysis and report on ESG related issues are supported by independent professionals and consultants to recommend changes, improvements and/or solutions on ESG related weaknesses and problems periodically.

2. SUBJECT AREAS, ASPECTS, AND KEY PERFORMANCE INDICATORS (KPIS)

(A) ENVIRONMENTAL

The main business of the Group involves the provision of lottery system management service and operation of lottery sales halls services in the PRC, thus we only operate under normal office environment and do not have manufacturing plants or operations which might result in air pollution emissions or hazardous wastes. Production is mainly research related and supervision over subcontracted productions. However, as a responsible corporation supporting the "Global Green", the Group has implemented policies and taken measures to ensure our operation to be energy, water and resources saving.

A1 Emissions

The Group complies strictly with the environmental laws, rules and regulations in all our offices without producing significant air emissions, greenhouse gases or hazardous wastes. The usage of public transport and carpooling are encouraged by the Group. The Hong Kong office and its subsidiaries had no records of penalty or warning related to the air, water and wastes pollution and discharges from any environmental department or alerts from any environmental agencies in Hong Kong and China in the year 2016.

A2 Use of Resources

The Group currently consumes normal level of energy and water according to the size of its operation. There are no raw materials consumed in direct production. Efforts of encouraging reduction in the usage of resources namely on electricity and paper usage are made through selection of environmentally compliant subcontracted manufacturing companies and internal control.

The Group promotes smart electricity and paper usage. Following practices are promoted in the office environment:

Electricity Consumption Optimization:

— Air conditioning usage is at its minimal and controlled at an optimal temperature of 24°C to reduce the consumption of electricity.

— Electrical appliances are required to be unplugged to avoid small amount of power that might still be drawn.

— The monitors are automated to turn off after inactivity of more than 20 minutes. Both monitors and CPU are turned off after work or if the inactivity is longer than 2 hours. Electricity consumption is ideal under such arrangements, as running computer above the guideline consumes more energy than the surge during computer start-ups.

We target to reduce the use of electricity which will result in the reduction of indirect carbon dioxide generation and emission.

Paper Consumption Reduction:

— Reduce paper consumption through application of computer technology such as storage of documents in electronic version, communications via emails and messages;

— Double-sided printing;

— Encourage staff to reuse stationery such as used envelop and document folder;

— Use recycled papers.

Resources consumption on “Electricity and Paper” and “Carbon Dioxide Emission” monitoring records are maintained to ensure on-going green practices.

A3 The Environment and Natural Resources

Impacts of activities on the environment and natural resources due to the Group’s operations are insignificant but we still try to be an environmental responsible corporation.

(B) SOCIAL

Employment and Labour Practices

B1 Employment

The Group applies employment and labour practices according to the requirements of the labour law. The Group practices equal employment opportunities for all, without discrimination in hiring, promotion, dismissal, remuneration, benefits, job training, classification, referral, and other aspects of employment. The recruitment process of the Group is transparent. All positions open for hiring are advertised and applications received go through standard selection process according to the requirements of the position without any discrimination. Upon finalizing the employee selection, background check will be conducted and offer letter will be given. Contract will be signed within the first week of work and social insurance will be covered upon completion of the probation.

Regulations, policies and standards regarding compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare are well documented and executed accordingly.

Employment contract and employee handbook are written according to the labour laws, stating clearly the clauses that bind both the employer and the employee without any unfair or hidden clauses. There was no employment related legal dispute on the record for the year 2016.

B2 Health and Safety

The Group is committed to ensuring a healthy and safe working environment in its operation and supply chain. Occupational health and safety matters are covered in the general management policies issued including employee dormitory management policy. The most of permanent employees of the Group are covered by social insurance which includes medical. Strict execution of the policies is made to ensure the health and safety of the employees.

Even though offices are rented, it is compulsory for the rented property to undergo safety inspections conducted by the fire department and it is the owner’s responsibility to undertake any repairs or precautions required.

There were no fatalities, work injury, occupational health and safety hazard cases reported in the year 2016.

B3 Development and Training

The Group believes the importance of the employees’ advancement and strongly supports the development and training of its employee through on-going training arrangements. Apart from the encouragement of on-the-job development and training, additional development and training is being planned, targeted to enhance the personal development of the employees.

Detailed records of the development and training is maintained and monitored to ensure that the training received is productive and objectives are achieved. Progressive training and continuous improvement can be made based on the analysis of the record maintained. In the year 2016, over 16% of the staff including managerial employees received a total of 44 hours training, out of which 32 hours were external specialized programs.

B4 Labour Standards

The Group has compliant and follows strict labour standards without infringing child or forced labour in its workforce. The hiring of child or forced labour is condemned by the Group and ensures that the subcontracted manufacturing plant applies the same labour standards. No labour infringement charges were made in the year 2016.

Operating Practices

B5 Supply Chain Management

Supply chain management of the Group includes the management of sourcing, procurement, product quality assurance, research and development, and sales. The Group procures hardware from the suppliers and provide sales of the hardware along with the software and consultation services developed internally to its customer.

Strict assessment of the supplier is conducted to ensure that the suppliers are not only committed to the cost and quality of the products produced, but also committed to the compliance of laws, rules and regulations. All suppliers prior to being engaged are requested to submit all basic certifications (e.g. Company Registration Certificate, Tax Registration Certificate) and the Company will require to provide supporting documents required for manufacturing (e.g. China Compulsory Certificate, ISO 9001 Certificate, ISO 14001 Certificate, Product Test Report) if needed to ensure that the suppliers/manufacturers are compliant with the government and meets minimum regulation standards.

There is a minimum requirement of at least three suppliers to provide quotation during the large-scale sourcing stage for comparison and assessment. Regular supervision of the subcontracted manufacturing plant is made to ensure oversight and control. Procurement department is required to periodically obtain quotations from different suppliers not engaged by the company for selection and assessment management. Supplier management is conducted by the following departments to ensure that all aspects of consideration related to the outcome of the product undergo the supervision of the procurement department, quality assurance department, research department, production department and the general manager.

In order to ensure that the supply chain is well managed and regulated, a series of controls and procedures are implemented. Documentation of the procurement control policy and other financial related regulations, include "Warehouse Management Control Procedures", "Expense Claim Procedures", etc.

All the 31 suppliers of the operations in Shenzhen are local suppliers according to the GRI G4 Sustainability Reporting Guidelines. A local supplier is defined by the guideline as an organisation that provides a product or service to the reporting entity and that is based in the same geographical market as the reporting entity without transnational payments to the supplier made.

B6 Product Responsibility

The Group is committed to providing quality assured products. Research and development to constantly improve and enhance the products are on-going. Strict supervision on the subcontracted manufacturer ensures the products produced are compliant to the code of conduct and receives quality assurance checking.

During the research and development of our own software programs and products, the Group insists on the principle and has constantly reminded our software engineers not to infringe on others intellectual property rights.

There were no product defects, complaints or intellectual property right infringement filed in the year 2016.

B7 Anti-corruption and Privacy

Strict financial regulations and policies are implemented to ensure that the company is operating under a controlled environment. The Group has very detailed procurement control policy, procurement price comparison policy, travel and expense claims, financial related application forms, accounting and audit standards, and employment handbook to ensure that all employees will not commit any bribery and corruption acts. Privacy and confidentiality protection is strictly executed ensuring that the information of the suppliers and customers as well as our own technology are discreetly handled and safely secured. Leakage of sensitive information is a serious offence and will be subject to legal procedures.

There was no bribery, corruption or any other business misconduct reported or filed in the year 2016.

B8 Community Investment

The Group is proactive in its effort to give back to the society. The employees and the family members of the employees are encouraged to be involved in regular volunteer service activities. The Group believes that children are the pillars of the future. In 2016 the Group sponsored Po Leung Kuk monthly table-tennis classes, pizza lesson in New Year and celebration party in Christmas to children.

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

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

TO THE SHAREHOLDERS OF CHINA NETCOM TECHNOLOGY HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Netcom Technology Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 36 to 107, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter

Impairment assessment on concession rights

Refer to Note 15 to the consolidated financial statements and the accounting policies in Note 3 to the consolidated financial statements.

The carrying amount of the Group's concession rights as at 31 December 2016 was approximately HK$60,580,000.

The carrying amount of concession rights is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount of the cash-generating unit(s) ("CGU(s)") to which the rights belong was determined by management based on value-in-use calculations. Estimating the value-in-use of CGU(s) requires management to estimate the expected future cash flows from the CGU(s) and to apply a suitable pre-tax discount rate in order to calculate the present value of those cash flows. Significant estimation is required in determining the future cash flows expected to arise from the lottery business. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Management has concluded that, based on the impairment assessment, the Group recognised impairment loss of approximately HK$8,460,000 in relation to concession rights allocated to the lottery business's cash-generating unit.

Our procedures in relation to management's impairment assessment on concession rights included:

- Discussing indicators of possible impairment with the management and challenge the validity and completeness of indicators identified, where such indicators were identified, assessing the impairment testing performed by management;
- Assessing management's identification of CGU(s) based on the Group's accounting policies and our understanding of the Group's business;
- Assessing the value-in-use calculations methodologies adopted by the management;
- Engaging a valuation expert in assisting to assess the methodology used and the appropriateness of the key assumptions; and
- Reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets.

We consider the management conclusion to be consistent with the available information.

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF THE DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

The engagement director on the audit resulting in this independent auditors' report is Chan Ching Pang.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Chan Ching Pang
Practising Certificate Number: P05746

Hong Kong, 21 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Revenue	5	**336**	964
Cost of sales		**(649)**	(1,135)
Gross loss		**(313)**	(171)
Other income	7	**1,799**	1,120
Administrative expenses		**(29,364)**	(35,524)
Impairment loss of concession rights	15	**(8,460)**	(4,500)
Gain/(loss) on early redemption of convertible bonds		**656**	(1,655)
Finance costs	8	**(5,650)**	(16,394)
Other operating expenses		**(7,982)**	(10,357)
Loss before tax		**(49,314)**	(67,481)
Income tax credit	9	**6,170**	7,155
Loss for the year	10	**(43,144)**	(60,326)
Other comprehensive expense			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**(4,853)**	(4,961)
Other comprehensive expense for the year		**(4,853)**	(4,961)
Total comprehensive expense for the year		**(47,997)**	(65,287)
Loss attributable to:			
Owners of the Company		**(37,043)**	(54,679)
Non-controlling interests		**(6,101)**	(5,647)
		(43,144)	(60,326)
Total comprehensive expense attributable to:			
Owners of the Company		**(39,607)**	(57,306)
Non-controlling interests		**(8,390)**	(7,981)
		(47,997)	(65,287)
Loss per share	13		
Basic and diluted (HK cents per share)		**(1.19)**	(1.99)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment	14	**2,436**	1,215
Club debenture		**115**	115
Concession rights	15	**60,580**	81,526
		63,131	82,856
Current assets			
Inventories	16	**911**	–
Prepayments, deposits and other receivables	17	**2,516**	9,770
Amounts due from non-controlling interests of subsidiaries	18	**1,497**	2,227
Pledged bank deposit	19	**216**	215
Cash and bank balances	19	**23,817**	78,077
		28,957	90,289
Current liabilities			
Trade and other payables	20	**7,776**	7,884
Receipt in advance		**126**	–
Amount due to a director	21	**–**	136
Amount due to a non-controlling interest of a subsidiary	21	**472**	215
Current tax liabilities		**–**	1
		8,374	8,236
Net current assets		**20,583**	82,053
Total assets less current liabilities		**83,714**	164,909
Non-current liabilities			
Convertible bonds	22	**43,923**	59,633
Deferred tax liabilities	23	**19,120**	27,719
		63,043	87,352
Net assets		**20,671**	77,557

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Capital and reserves			
Share capital — ordinary shares	24	**15,600**	15,600
Share capital — non-redeemable convertible preferred shares	25	**5,017**	5,017
Reserves		**(20,869)**	27,627
Equity attributable to owners of the Company		**(252)**	48,244
Non-controlling interests		**20,923**	29,313
Total equity		**20,671**	77,557

The consolidated financial statements on pages 36 to 107 were approved and authorised for issue by the board of directors on 21 March 2017 and signed on its behalf by:

Leung Ngai Man
Director

Wu Wei Hua
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company												
	Share capital — ordinary shares HK$'000	Share capital — non-redeemable convertible preferred shares HK$'000	Share premium account HK$'000	Warrants reserve HK$'000	Capital redemption reserve HK$'000 (Note i)	Convertible bonds equity reserve HK$'000	Share options reserve HK$'000	Foreign currency translation reserve HK$'000	Other reserve HK$'000 (Note ii)	Accumulated losses HK$'000	Subtotal HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2015	11,085	7,317	3,286,855	1,740	1	54,771	21,718	120,883	(49)	(3,503,218)	1,103	35,294	36,397
Loss for the year	–	–	–	–	–	–	–	–	–	(54,679)	(54,679)	(5,647)	(60,326)
Other comprehensive expense for the year	–	–	–	–	–	–	–	(2,627)	–	–	(2,627)	(2,334)	(4,961)
Total comprehensive expense for the year	–	–	–	–	–	–	–	(2,627)	–	(54,679)	(57,306)	(7,981)	(65,287)
Recognition of equity-settled share-based payments	–	–	–	–	–	–	11,004	–	–	–	11,004	–	11,004
Conversion of non-redeemable convertible preferred shares	2,300	(2,300)	–	–	–	–	–	–	–	–	–	–	–
Issue of new ordinary shares	2,215	–	63,349	–	–	–	–	–	–	–	65,564	–	65,564
Transaction costs attributable to issue of new ordinary shares	–	–	(2,201)	–	–	–	–	–	–	–	(2,201)	–	(2,201)
Redemption of convertible bonds	–	–	–	–	–	(8,261)	–	–	–	8,231	(30)	–	(30)
Extension of convertible bonds upon maturity	–	–	–	–	–	(9,619)	–	–	–	46,885	37,266	–	37,266
Deferred tax relating to convertible bonds	–	–	–	–	–	(7,156)	–	–	–	–	(7,156)	–	(7,156)
Capital contribution by a non-controlling interest of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	2,000	2,000
Release of reserve upon lapse of warrants	–	–	–	(1,740)	–	–	–	–	–	1,740	–	–	–
Balance at 31 December 2015	15,600	5,017	3,348,003	–	1	29,735	32,722	118,256	(49)	(3,501,041)	48,244	29,313	77,557

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company											
	Share capital — ordinary shares HK$'000	Share capital — non-redeemable convertible preferred shares HK$'000	Share premium account HK$'000	Capital redemption reserve HK$'000 (Note i)	Convertible bonds equity reserve HK$'000	Share options reserve HK$'000	Foreign currency translation reserve HK$'000	Other reserve HK$'000 (Note ii)	Accumulated losses HK$'000	Subtotal HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2016	15,600	5,017	3,348,003	1	29,735	32,722	118,256	(49)	(3,501,041)	48,244	29,313	77,557
Loss for the year	-	-	-	-	-	-	-	-	(37,043)	(37,043)	(6,101)	(43,144)
Other comprehensive expense for the year	-	-	-	-	-	-	(2,564)	-	-	(2,564)	(2,289)	(4,853)
Total comprehensive expense for the year	-	-	-	-	-	-	(2,564)	-	(37,043)	(39,607)	(8,390)	(47,997)
Recognition of equity-settled share-based payments	-	-	-	-	-	4,061	-	-	-	4,061	-	4,061
Redemption of convertible bonds	-	-	-	-	(15,824)	-	-	-	444	(15,380)	-	(15,380)
Deferred tax relating to convertible bonds	-	-	-	-	2,430	-	-	-	-	2,430	-	2,430
Balance at 31 December 2016	15,600	5,017	3,348,003	1	16,341	36,783	115,692	(49)	(3,537,640)	(252)	20,923	20,671

Notes:

(i) The capital redemption reserve represents the nominal value of the share capital of the Company repurchased and cancelled.

(ii) Other reserve represents the difference between the consideration paid for the additional interest in the subsidiary and the non-controlling interest's share of the assets and liabilities reflected in the consolidated statement of financial position at the date of the acquisition of the non-controlling interests.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
Cash flows from operating activities		
Loss for the year	**(43,144)**	(60,326)
Adjustments for:		
Income tax credit recognised in profit or loss	**(6,170)**	(7,155)
Finance costs recognised in profit or loss	**5,650**	16,394
Interest income	**(31)**	(990)
Loss on disposal of property, plant and equipment	**65**	–
(Gain)/loss on early redemption of convertible bonds	**(656)**	1,655
Depreciation of property, plant and equipment	**1,100**	613
Amortisation of concession rights	**7,470**	8,357
Impairment loss of concession rights	**8,460**	4,500
Impairment loss on deposits and other receivables	**–**	2,000
Expense recognised in respect of equity-settled share-based payments	**4,061**	11,004
	(23,195)	(23,948)
Movements in working capital		
Increase in inventories	**(911)**	–
Decrease/(increase) in prepayments, deposits and other receivables	**7,254**	(7,584)
Decrease/(increase) in amounts due from non-controlling interests of subsidiaries	**730**	(2,000)
Decrease in trade and other payables	**(108)**	(1,777)
Increase in receipt in advance	**126**	–
(Decrease)/increase in amount due to a director	**(136)**	136
Increase in amount due to a non-controlling interest of a subsidiary	**257**	–
Net cash used in operating activities	**(15,983)**	(35,173)
Cash flows from investing activities		
Interest received	**31**	1,048
Increase in pledged bank deposit	**(1)**	(1)
Payment for property, plant and equipment	**(2,524)**	(9)
Proceed from disposal of property, plant and equipment	**1**	–
Net cash (used in)/from investing activities	**(2,493)**	1,038

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 **HK$'000**	2015 HK$'000
Cash flows from financing activities		
Capital contribution by a non-controlling interest of a subsidiary	**–**	2,000
Repayment of convertible bonds	**(36,084)**	(15,000)
Proceeds from issue of ordinary shares under share placing	**–**	65,564
Payment for transaction costs attributable to issue of new ordinary shares	**–**	(2,201)
Net cash (used in)/from financing activities	**(36,084)**	50,363
Net (decrease)/increase in cash and cash equivalents	**(54,560)**	16,228
Cash and cash equivalents at the beginning of year	**78,077**	61,790
Effect of foreign exchange rate changes, net	**300**	59
Cash and cash equivalents at the end of year	**23,817**	78,077
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	**23,817**	78,077

1. GENERAL INFORMATION

China Netcom Technology Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business in Hong Kong of the Company are disclosed in the corporate information section of the annual report.

During the year ended 31 December 2016, the Company and its subsidiaries (collectively referred to as the "Group") were involved in the provision of lottery system management service and operation of lottery sales halls services in the People's Republic of China (excluding Hong Kong) (the "PRC").

The consolidated financial statements are presented in Hong Kong dollars (HK$), which is the same as the functional currency of the Company.

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

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

HKFRS 14	Regulatory Deferral Accounts
Amendments to HKFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle

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

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

NEW AND AMENDMENTS TO HKFRSs IN ISSUE BUT NOT YET EFFECTIVE

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

HKFRS 9	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[2]
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 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers[2]
Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]

1 Effective for annual periods beginning on or after 1 January 2017.
2 Effective for annual periods beginning on or after 1 January 2018.
3 Effective for annual periods beginning on or after 1 January 2019.
4 Effective for annual periods beginning on or after a date to be determined.

HKFRS 15 Revenue from Contracts with Customers

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

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

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

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

NEW AND AMENDMENTS TO HKFRSs IN ISSUE BUT NOT YET EFFECTIVE *(Continued)*

HKFRS 15 Revenue from Contracts with Customers *(Continued)*

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported as the timing of revenue recognition may be affected and the amounts of revenue recognised are subject to variable consideration constraints, and more disclosures relating to revenue is required. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review. In addition, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements.

HKFRS 16 Leases

HKFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

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

NEW AND AMENDMENTS TO HKFRSs IN ISSUE BUT NOT YET EFFECTIVE *(Continued)*

HKFRS 16 Leases *(Continued)*

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of HKAS 16 *Property, Plant and Equipment*, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

HKFRS 16 will supersede the current lease standards including HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 will be effective for annual periods beginning on or after 1 January 2019 with early application permitted provided that the entity has applied HKFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of HKFRS 16. The directors of the Company are in the process of assessing their impact on the consolidated financial statements of these requirements. However, it is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review.

The directors of the Company do not anticipate that the application of other new and amendments to HKFRSs will have a material impact on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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 of the Stock Exchange ("GEM Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values 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 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BASIS OF CONSOLIDATION

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

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

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BASIS OF CONSOLIDATION *(Continued)*

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

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

CHANGES IN THE GROUP'S OWNERSHIP INTERESTS IN EXISTING SUBSIDIARIES

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves 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 after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable 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 recognised in profit or loss as incurred.

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BUSINESS COMBINATIONS *(Continued)*

- 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.

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 amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount 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 acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BUSINESS COMBINATIONS *(Continued)*

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

GOODWILL

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) ("CGU(s)") that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

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

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

INVESTMENTS IN SUBSIDIARIES

Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's 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 recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

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 recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in 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 of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *(Continued)*

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKAS 39, 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. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant 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 recognised 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 recognised 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.

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 recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised 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 the sale of goods is recognised when the goods are delivered and titles have passed, at which time 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;

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

REVENUE RECOGNITION *(Continued)*

- 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.

Revenue from provision of management, marketing and operating services for lottery system and lottery halls is recognised when the services are rendered.

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

LEASING

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

The Group as lessee

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 recognised 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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

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. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses 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 recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

BORROWING COSTS

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

RETIREMENT BENEFIT COSTS

Payments to the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Pursuant to the relevant regulations of the government of the PRC, subsidiaries of the Company operating in the PRC participate in a local municipal government retirement benefits scheme (the "PRC Scheme"), whereby the subsidiaries are required to make contributions, as calculated under the rules specified by the relevant PRC local government authorities, to the PRC Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries. The only obligation of the Group with respect to the PRC Scheme is to pay the ongoing required contributions under the PRC Scheme mentioned above. Contributions under the PRC Scheme are charged to the consolidated statement of profit or loss and other comprehensive income as incurred. There are no provisions under the PRC Scheme whereby forfeited contributions may be used to reduce future contributions.

SHARE-BASED PAYMENT ARRANGEMENTS

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

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

Share options granted to suppliers/consultants

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

TAXATION

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "loss before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because of 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

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

Deferred tax liabilities are recognised 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 recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the 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 realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

TAXATION *(Continued)*

Current and deferred tax for the year

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

PROPERTY, PLANT AND EQUIPMENT

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

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method as follows:

Furniture, fixtures and fittings	3–5 years
Computer and office equipment	3–5 years
Leasehold improvements	Over the shorter of term of lease or 3 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

INTANGIBLE ASSETS

Intangible assets acquired separately

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INTANGIBLE ASSETS *(Continued)*

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives 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 derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

IMPAIRMENT ON TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

IMPAIRMENT ON TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL *(Continued)*

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

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

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

PROVISIONS

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

CASH AND CASH EQUIVALENTS

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

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

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised 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 recognised immediately in profit or loss.

Financial assets

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

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses of the financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

***Financial assets** (Continued)*

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

AFS financial assets

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

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method are recognised in profit or loss. Dividends on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

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

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 financial assets included in prepayments, deposits and other receivables, amounts due from non-controlling interests of subsidiaries, pledged bank deposit and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

Interest income is recognised 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, other than those at FVTPL, 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.

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

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

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

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

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

Financial liabilities and equity instruments

Classification as debt or equity

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Equity instruments

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

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

Convertible bonds

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible bonds, the balance recognised in equity will be transferred to accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Effective interest method

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

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Financial liabilities at FVTPL *(Continued)*

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

Financial liabilities at amortised cost

Financial liabilities (including financial liabilities included in trade and other payables, amount due to a director, amount due to a non-controlling interest of a subsidiary and convertible bonds) are subsequently measured at amortised cost using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises 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 recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

RELATED PARTIES

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

(a) the party is a person or a close member of that person's family and that person:

- (i) has control or joint control of the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the 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.

KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may 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 concession rights

The carrying amount of concession rights is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount of these assets, or, where appropriate, the CGU(s) to which they belong, is calculated as the higher of its fair value less costs of disposal and value in use. Estimating the value in use requires the Group to estimate the expected future cash flows from the CGU(s) and to choose a suitable discount rate in order to calculate the present value of those cash flows (Note 15).

As at 31 December 2016, the carrying amount of concession rights related to lottery business is approximately HK$60,580,000 (2015: HK$81,526,000), after deducting the accumulated amortisation and impairment of approximately HK$2,193,518,000 (2015: HK$2,330,455,000) as detailed in note 15.

Significant estimation is required in determining the future cash flows expected to arise from the lottery business. The directors are of the view that there is great potential for its lottery business as there are not many companies providing such similar service. Where the actual future cash flows are less than expected, a material impairment loss may arise.

5. REVENUE

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

	2016 **HK$'000**	2015 HK$'000
Sale of lottery equipment	**72**	44
Provision of management, marketing, and operating services for lottery system and lottery halls	**264**	920
	336	964

6. SEGMENT INFORMATION

The Group's operating segments are determined based on information reported to the board of directors of the Company, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and performance assessment.

The CODM reviews the Group's internal reporting, assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance of lottery business — development of computer software, hardware and application system, sale of self-developed technology or results, provision of relevant technical consultancy services in the PRC and development and provision of operation system sector of the PRC lottery market. Therefore, the CODM considers there is only one operating segment under the requirements of HKFRS 8 *Operating Segments*. In this regard, no segment information is presented.

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

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

6. SEGMENT INFORMATION *(Continued)*

GEOGRAPHICAL INFORMATION

The Group operates in two principal geographical areas — the PRC and Hong Kong.

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

	Revenue from external customers		Non-current assets	
	2016 HK$'000	2015 HK$'000	**2016 HK$'000**	2015 HK$'000
PRC	**336**	964	**62,999**	82,731
Hong Kong	**–**	–	**132**	125
	336	964	**63,131**	82,856

INFORMATION ABOUT MAJOR CUSTOMERS

For the year ended 31 December 2016, there were two customers with revenue of approximately HK$72,000 and HK$251,000 respectively which accounted for more than 10% of the total revenue of the Group.

For the year ended 31 December 2015, there were two customers with revenue of approximately HK$125,000 and HK$795,000 respectively which accounted for more than 10% of the total revenue of the Group.

7. OTHER INCOME

	2016 HK$'000	2015 HK$'000
Bank interest income	**31**	990
Sundry income	**1,768**	130
	1,799	1,120

8. FINANCE COSTS

	2016 **HK$'000**	2015 HK$'000
Effective interest on convertible bonds	**5,650**	16,394

9. INCOME TAX CREDIT

INCOME TAX RECOGNISED IN PROFIT OR LOSS

	2016 **HK$'000**	2015 HK$'000
Current tax		
PRC Enterprise Income Tax	**–**	–
Overprovision in prior years		
PRC Enterprise Income Tax	**(1)**	–
Deferred tax (Note 23)	**(6,169)**	(7,155)
Total income tax credit recognised in profit or loss	**(6,170)**	(7,155)

Hong Kong Profits Tax is calculated at 16.5% (2015: 16.5%) of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax had been made as the Group had no assessable profits arising in or derived from Hong Kong for both years.

Under the prevailing tax law in the PRC, the Enterprise Income Tax rate of the PRC subsidiaries is 25% for both years. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

9. INCOME TAX CREDIT *(Continued)*

INCOME TAX RECOGNISED IN PROFIT OR LOSS *(Continued)*

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

	2016	2015
	HK$'000	HK$'000
Loss before tax	**(49,314)**	(67,481)
Tax at the Hong Kong Profits Tax rate of 16.5% (2015: 16.5%)	**(8,137)**	(11,134)
Tax effect of expenses not deductible for tax purpose	**2,135**	4,601
Tax effect of income not taxable for tax purpose	**(127)**	(158)
Overprovision in prior years	**(1)**	–
Tax effect of tax losses not recognised	**2,601**	1,596
Tax effect on different tax rate of group entities operating in other jurisdictions	**(2,641)**	(2,060)
Income tax credit for the year	**(6,170)**	(7,155)

10. LOSS FOR THE YEAR

	2016 HK$'000	2015 HK$'000
Loss for the year has been arrived at after (crediting)/charging:		
Cost of inventories recognised as an expense (included in cost of sales)	**29**	36
Auditors' remuneration	**960**	930
Employee benefits expense (excluding directors' emoluments)		
— Salaries and other benefits in kind	**5,262**	4,002
— Contributions to retirement benefits schemes	**286**	218
— Equity-settled share-based payments	**406**	–
Directors' emoluments	**7,352**	7,522
Total staff costs	**13,306**	11,742
Minimum lease payments paid under operating leases in respect of land and buildings	**2,086**	1,382
Net foreign exchange loss	**143**	2,270
Depreciation of property, plant and equipment	**1,100**	613
Expense in relation to share options granted to consultants	**3,655**	11,004
(Gain)/loss on early redemption of convertible bonds	**(656)**	1,655
Amortisation of concession rights (Note)	**7,470**	8,357
Provision for impairment loss on deposits and other receivables (Note)	**–**	2,000
Loss on disposal of property, plant and equipment (Note)	**65**	–

Note:

Amortisation of concession rights, provision for impairment loss on deposits and other receivables and loss on disposal of property, plant and equipment are included in other operating expenses.

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the five (2015: six) directors were as follows:

	Fees HK$'000	Salaries and other benefits in kind HK$'000	Contributions to retirement benefits schemes HK$'000	Equity-settled share-based payments HK$'000	Discretionary bonuses HK$'000	Total HK$'000
2016						
Executive directors						
Leung Ngai Man	–	6,500	18	–	–	6,518
Wu Wei Hua	–	746	18	–	–	764
Independent non-executive directors						
Xuan Hong	–	–	–	–	–	–
Qi Ji	–	–	–	–	–	–
Cai Wei Lun	70	–	–	–	–	70
	70	7,246	36	–	–	7,352
2015						
Executive directors						
Leung Ngai Man	–	6,500	18	–	–	6,518
Wu Wei Hua	–	866	18	–	–	884
Sung Kin Man (Note)	–	–	–	–	–	–
Independent non-executive directors						
Xuan Hong	50	–	–	–	–	50
Qi Ji	–	–	–	–	–	–
Cai Wei Lun	70	–	–	–	–	70
	120	7,366	36	–	–	7,522

Note:

Appointed on 26 May 2014 and resigned on 2 March 2015

11. DIRECTORS' EMOLUMENTS *(Continued)*

During the years ended 31 December 2016 and 2015, since the appointment of chief executive officer of the Company remains outstanding, no emoluments were paid to the chief executive officer of the Company.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2015: Nil).

12. EMPLOYEES' EMOLUMENTS

EMPLOYEE BENEFITS EXPENSE (EXCLUDING DIRECTORS' EMOLUMENTS)

	2016 **HK$'000**	2015 HK$'000
Salaries and other benefits in kind	**5,262**	4,002
Contributions to retirement benefits schemes	**286**	218
Equity-settled share-based payments	**406**	–
	5,954	4,220

FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group, two (2015: two) were directors of the Company whose emoluments are included in the disclosure in note 11 above. The emoluments of the remaining three (2015: three) individuals were as follows:

	2016 **HK$'000**	2015 HK$'000
Salaries and other benefits in kind	**1,587**	1,385
Contributions to retirement benefits schemes	**32**	36
Equity-settled share-based payments	**406**	–
	2,025	1,421

12. EMPLOYEES' EMOLUMENTS *(Continued)*

FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

Their emoluments fell within the following bands:

	Number of individuals	
	2016	2015
Emolument bands		
Nil–HK$1,000,000	**2**	3
HK$1,000,001–HK$1,500,000	**1**	–

During the years ended 31 December 2016 and 2015, no emoluments were paid by the Group to any of the five highest paid individuals including directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

13. LOSS PER SHARE

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

	2016	2015
	HK$'000	HK$'000
Loss		
Loss for the year attributable to owners of the Company for the purposes of basic and diluted loss per share	**(37,043)**	(54,679)

	2016	2015
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**3,120,035**	2,741,424

The computation of diluted loss per share did not assume the exercise of the Company's potential ordinary shares granted under the Company's share option scheme, non-redeemable convertible preferred shares and convertible bonds since their exercise and conversion would have an anti-dilutive effect.

14. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and fittings HK$'000	Computer and office equipment HK$'000	Leasehold improvements HK$'000	Total HK$'000
Cost				
Balance at 1 January 2015	747	4,400	231	5,378
Additions	5	4	–	9
Disposals	(5)	–	–	(5)
Effect of foreign currency exchange differences	(32)	(207)	(11)	(250)
Balance at 31 December 2015	**715**	**4,197**	**220**	**5,132**
Additions	**253**	**711**	**1,560**	**2,524**
Disposals	**(26)**	**(181)**	**(214)**	**(421)**
Effect of foreign currency exchange differences	**(47)**	**(260)**	**(72)**	**(379)**
Balance at 31 December 2016	**895**	**4,467**	**1,494**	**6,856**
Accumulated depreciation and impairment				
Balance at 1 January 2015	(704)	(2,602)	(175)	(3,481)
Eliminated on disposals of assets	5	–	–	5
Depreciation expense	(20)	(536)	(57)	(613)
Effect of foreign currency exchange differences	31	129	12	172
Balance at 31 December 2015	**(688)**	**(3,009)**	**(220)**	**(3,917)**
Eliminated on disposals of assets	**24**	**117**	**214**	**355**
Depreciation expense	**(36)**	**(544)**	**(520)**	**(1,100)**
Effect of foreign currency exchange differences	**37**	**178**	**27**	**242**
Balance at 31 December 2016	**(663)**	**(3,258)**	**(499)**	**(4,420)**
Carrying amounts				
Balance at 31 December 2016	**232**	**1,209**	**995**	**2,436**
Balance at 31 December 2015	27	1,188	–	1,215

15. CONCESSION RIGHTS

	HK$'000
Cost	
Balance at 1 January 2015	2,546,533
Effect of foreign currency exchange differences	(134,552)
Balance at 31 December 2015	**2,411,981**
Effect of foreign currency exchange differences	**(157,883)**
Balance at 31 December 2016	**2,254,098**
Accumulated amortisation and impairment	
Balance at 1 January 2015	(2,447,209)
Amortisation expense	(8,357)
Impairment loss recognised in profit or loss	(4,500)
Effect of foreign currency exchange differences	129,611
Balance at 31 December 2015	**(2,330,455)**
Amortisation expense	**(7,470)**
Impairment loss recognised in profit or loss	**(8,460)**
Effect of foreign currency exchange differences	**152,867**
Balance at 31 December 2016	**(2,193,518)**
Carrying amounts	
Balance at 31 December 2016	**60,580**
Balance at 31 December 2015	81,526

15. CONCESSION RIGHTS *(Continued)*

Note:

The amount of concession rights represents the value in use of contractual rights stated in the cooperation agreements that 深圳環彩普達科技有限公司 (transliterated as Shenzhen Huancai Puda Technology Company Limited#) ("Huancai Puda") and its subsidiary entered into with several lottery issuing centres for providing software system and technical service. The fair value of the concession rights on initial recognition was arrived at on the basis of a valuation carried out by an independent professionally qualified valuer not connected with the Group. The valuation was determined by reference to discounted cash flow projections. At the end of each reporting period, the concession rights is measured using the cost model subject to impairment.

The amount of concession rights is amortised on a straight-line method over the period over three to eight years in accordance with the terms of the cooperation agreements.

During the year ended 31 December 2016, the management of the Group has performed an impairment assessment on the lottery business's CGU which has reflected the latest business environment and market conditions of the PRC lottery industry. As at 31 December 2016, the recoverable amount of the concession rights was assessed by the directors of the Company with reference to the professional valuation as at 31 December 2016 performed by an independent professionally qualified valuer. The recoverable amount of the lottery business's CGU has been determined based on value in use calculation. That calculation uses cash flow projections based on most recent financial budgets after taking into account the operation environment and market conditions at that point of time approved by the management covering a five year period with growth rate of 10% (2015: 20%) per annum, and pre-tax discount rate of 33.15% (2015: 31.13%). The cash flows beyond the five year period are extrapolated using zero growth rate. The key assumptions for the value in use calculation are those regarding the discount rate, growth in revenue and direct costs during the periods. The management estimates discount rate that reflects current market assessments of the time value of money and the risk specific to the CGU. In performing the impairment testing, the directors of the Company have made reference to a valuation performed by an independent professionally qualified valuer. During the year ended 31 December 2016, the Group recognised impairment loss of approximately HK$8,460,000 (2015: HK$4,500,000) in relation to concession rights allocated to the CGU associated with the lottery business.

16. INVENTORIES

	2016 **HK$'000**	2015 HK$'000
Raw materials	**853**	–
Work in progress	**58**	–
	911	–

English name for identification purpose only

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 HK$'000	2015 HK$'000
Prepayments	1,113	1,392
Deposits and other receivables	3,403	10,378
	4,516	11,770
Less: allowance for doubtful debts	(2,000)	(2,000)
Total prepayments, deposits and other receivables	2,516	9,770

MOVEMENT IN THE ALLOWANCE FOR DOUBTFUL DEBTS

	2016 HK$'000	2015 HK$'000
1 January	2,000	–
Impairment loss recognised on deposits and other receivables	–	2,000
31 December	2,000	2,000

During the year ended 31 December 2015, an impairment loss was made on receivables based on a review of outstanding amounts on regular basis when collection of the amount is in doubt. Deposit of HK$2,000,000 was fully impaired as the balance was past due and the collection of the amount was in doubt. The deposit was in relation to a possible acquisition by a wholly-owned subsidiary of the Company of which a framework agreement was signed and the framework agreement was terminated in March 2014. The management of the Company has been negotiating for the refund of this advance deposit since March 2014 but considered the refund of the deposit was in doubt. Therefore, the management of the Company has made an impairment loss on the deposit during the year ended 31 December 2015. The Group does not hold any collateral or other credit enhancements over this balance.

18. AMOUNTS DUE FROM NON-CONTROLLING INTERESTS OF SUBSIDIARIES

The amounts due are unsecured, interest-free and repayable on demand.

19. CASH AND BANK BALANCES/PLEDGED BANK DEPOSIT

	2016 HK$'000	2015 HK$'000
Cash at banks and in hand	**24,033**	78,292
Less: Pledged bank deposit	**(216)**	(215)
Cash and cash equivalents	**23,817**	78,077

Pledged bank deposit represents deposit pledged to bank for obtaining the corporate card services.

Bank balances carry interest at floating rates based on daily bank deposit rates. The pledged bank deposit carries fixed interest rate of 0.40% (2015: 0.50%) per annum.

Included in cash at banks and in hand of the Group is approximately HK$612,000 (2015: HK$651,000) of bank balances denominated in Renminbi ("RMB") and placed with banks in the PRC. RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

20. TRADE AND OTHER PAYABLES

	2016 HK$'000	2015 HK$'000
Trade payables	**3**	4
Other payables and accruals	**7,489**	7,688
Accrued salaries and other benefits in kind	**284**	192
Total trade and other payables	**7,776**	7,884

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

	2016 HK$'000	2015 HK$'000
Over 90 days	**3**	4

21. AMOUNTS DUE TO A DIRECTOR/A NON-CONTROLLING INTEREST OF A SUBSIDIARY

The amounts due are unsecured, interest-free and repayable on demand.

22. CONVERTIBLE BONDS

In August 2010, the Company issued approximately 664,580,000 (after adjusted for the share consolidation as effected on 27 February 2012) zero-coupon HK dollar denominated convertible bonds to Mr. Leung Ngai Man ("Mr. Leung"), a substantial shareholder, the chairman and executive director of the Company. The convertible bonds have a maturity period of 5 years from the issue date and can be convertible into one ordinary share of the Company at HK$0.005 each for every HK$1.20 convertible bonds at the holder's option (after adjusted for the share consolidation as effected on 27 February 2012). Conversion may occur at any time between 27 August 2010 and 26 August 2015.

The convertible bonds contain two components: liability and equity elements. The equity element on initial recognition was presented in equity as part of the "convertible bonds equity reserve". The effective interest rate of the liability component for the convertible bonds on initial recognition was 17.35% per annum.

In August 2015, the Company early redeemed 12,500,000 convertible bonds (after adjusted for the share consolidation as effected on 27 February 2012) at a total consideration of HK$15,000,000 from Mr. Leung, pursuant to the terms and conditions of the convertible bonds. The difference between the redemption amount and the total carrying amounts of liability component and equity component amounting to approximately HK$1,655,000 has been charged to the consolidated statement of profit or loss and other comprehensive income and amounting to approximately HK$8,231,000 has been credited to the accumulated losses, respectively.

The Company entered into a supplemental deed (the "Supplemental Deed") dated 24 August 2015 executed between the Company and Mr. Leung, pursuant to which the Company and Mr. Leung agreed to extend the maturity date of the convertible bonds for 5 years from the date falling on the fifth year to the date falling on the tenth year from the date of issue of the convertible bond. The Supplemental Deed was approved by independent shareholders at the extraordinary general meeting of the Company held on 3 November 2015.

22. CONVERTIBLE BONDS *(Continued)*

The convertible bonds contain two components upon the extension: liability and equity elements. The equity element on recognition was presented in equity as part of the "convertible bonds equity reserve". The effective interest rate of the liability component for the convertible bonds on recognition is 12.73% per annum.

In January 2016, the Company early redeemed 8,400,000 convertible bonds (after adjusted for the share consolidation as effected on 27 February 2012) at a total consideration of HK$10,080,000 from Mr. Leung, pursuant to the terms and conditions of the convertible bonds. The difference between the redemption amount and the total carrying amounts of liability component and equity component amounting to approximately HK$389,000 has been credited to the consolidated statement of profit or loss and other comprehensive income and amounting to approximately HK$258,000 has been charged to the accumulated losses, respectively.

In April 2016, the Company early redeemed 12,500,000 convertible bonds (after adjusted for the share consolidation as effected on 27 February 2012) at a total consideration of HK$15,000,000 from Mr. Leung, pursuant to the terms and conditions of the convertible bonds. The difference between the redemption amount and the total carrying amounts of liability component and equity component amounting to approximately HK$257,000 has been credited to the consolidated statement of profit or loss and other comprehensive income and amounting to approximately HK$192,000 has been credited to the accumulated losses, respectively.

In June 2016, the Company early redeemed 9,170,000 convertible bonds (after adjusted for the share consolidation as effected on 27 February 2012) at a total consideration of HK$11,004,000 from Mr. Leung, pursuant to the terms and conditions of the convertible bonds. The difference between the redemption amount and the total carrying amounts of liability component and equity component amounting to approximately HK$10,000 has been credited to the consolidated statement of profit or loss and other comprehensive income and amounting to approximately HK$510,000 has been credited to the accumulated losses, respectively.

Imputed interest expenses of approximately HK$5,650,000 (2015: HK$16,394,000) has been recognised in the consolidated statement of profit or loss and other comprehensive income in respect of the convertible bonds during the year ended 31 December 2016. No convertible bonds were converted during the years ended 31 December 2016 and 2015.

23. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities balances recognised and movements thereon during the current and prior years:

	Concession rights HK$'000	Convertible bonds HK$'000	Total HK$'000
At 1 January 2015	24,831	2,887	27,718
Recognised directly to equity	–	7,156	7,156
Credit to profit or loss	(4,450)	(2,705)	(7,155)
At 31 December 2015 and 1 January 2016	**20,381**	**7,338**	**27,719**
Recognised directly to equity	**–**	**(2,430)**	**(2,430)**
Credit to profit or loss	**(5,236)**	**(933)**	**(6,169)**
At 31 December 2016	**15,145**	**3,975**	**19,120**

Under the PRC Enterprise Income Tax Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. At 31 December 2016 and 2015, no deferred tax liabilities for withholding tax have been recognised as the Group's PRC subsidiaries incurred accumulated losses for the period since 1 January 2008.

At the end of the reporting period, the Group had estimated unused tax losses of approximately HK$15,261,000 (2015: HK$16,212,000) arising from subsidiaries operating outside Hong Kong which is available for setting off against future taxable profit of that subsidiary is due to expire within one to five years and estimated unused tax losses of approximately HK$51,053,000 (2015: HK$51,046,000) available for offset against future profits that may be carried forward indefinitely. No deferred tax asset has been recognised in respect of the estimated unused tax losses due to the unpredictability of future profit streams.

24. SHARE CAPITAL — ORDINARY SHARES

	Number of shares '000	Share capital HK$'000
Authorised:		
At 1 January 2015, 31 December 2015 and 2016, ordinary shares of HK$0.005 each	**20,000,000**	**100,000**
Issued and fully paid:		
At 1 January 2015, ordinary shares of HK$0.005 each	2,217,035	11,085
Issue of new ordinary shares (Note (i))	443,000	2,215
Conversion of non-redeemable convertible preferred shares (Note (ii))	460,000	2,300
At 31 December 2015 and 2016, ordinary shares of HK$0.005 each	**3,120,035**	**15,600**

Notes:

(i) On 19 May 2015, Mr. Leung, the Company and the placing agent entered into the placing and subscription agreement pursuant to which (i) the placing agent has agreed to act as agent for Mr. Leung to place, on a best effort basis, and Mr. Leung has agreed to sell, a total of up to 443,000,000 placing shares to not less than six placees who and whose ultimate beneficial owners will be third parties independent of and not acting in concert with Mr. Leung, the Company and their respective associates and connected persons, at the placing price of HK$0.148 per placing share; and (ii) Mr. Leung has conditionally agreed to subscribe for up to 443,000,000 new subscription shares at the subscription price of HK$0.148 per subscription share.

Completion of the placing took place on 21 May 2015 in accordance with the placing agreement and an aggregate of 443,000,000 placing shares were placed to not less than six placees who are independent third parties, at the placing price of HK$0.148 per placing share.

On 1 June 2015, an aggregate of 443,000,000 ordinary shares of HK$0.005 each in the capital of the Company were allotted and issued to Mr. Leung at HK$0.148 per subscription share. The exercise gave rise to an aggregate net proceed of approximately HK$63,363,000.

(ii) On 5 June 2015, 460,000,000 ordinary shares of HK$0.005 each in the capital of the Company were issued to Mr. Leung upon conversion of non-redeemable convertible preferred shares issued by the Company to Mr. Leung on 17 December 2012. (Note 25)

25. SHARE CAPITAL — NON-REDEEMABLE CONVERTIBLE PREFERRED SHARES

	Number of shares '000	Share capital HK$'000
Authorised:		
At 1 January 2015, 31 December 2015 and 2016, preferred shares of HK$0.005 each	**2,000,000**	**10,000**
Issued and fully paid:		
At 1 January 2015, preferred shares of HK$0.005 each	1,463,333	7,317
Conversion of non-redeemable convertible preferred shares (Note 24)	(460,000)	(2,300)
At 31 December 2015 and 2016, preferred shares of HK$0.005 each	**1,003,333**	**5,017**

26. WARRANTS

On 13 July 2012, an aggregate of 362,000,000 unlisted warrants were successfully placed by the Company to not less than six placees, who are third parties independent of and not connected to the Company and its connected persons at the placing price of HK$0.005 per warrant and the subscription price of HK$0.30 per warrant share. The subscription period for the warrants is 30 months from the date of issue of the warrants.

All the warrants expired in January 2015 and no warrant holders exercised their subscription rights attaching to the warrants to convert into ordinary shares of the Company. The balance of warrants reserve in the equity was credited to the accumulated losses upon the expiry of the warrants.

27. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme") was adopted on 29 June 2007 for employee compensation.

The directors may at their absolute discretion, invite any person belonging to any of the following classes of participants ("Eligible Participants") to take up options to subscribe for shares:

- any employee (whether full time or part time, including any director) of the Company, any of its subsidiaries or any entity ("Invested Entity") in which any member of the Group holds an equity interest;
- any directors (including non-executive directors and independent non-executive directors) of the Company, any subsidiary or any Invested Entity;
- any supplier of goods or services to any member of the Group or any Invested Entity;
- any customer of any member of the Group or any Invested Entity;
- any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;
- any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;
- any adviser (professional or otherwise), consultant, individual or entity who in the opinion of the directors of the Company has contributed or will contribute to the growth and development of the Group;
- any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group; and
- for the purposes of the Scheme, the offer may be made to any company wholly owned by one or more Eligible Participants.

The share option scheme became effective on 2 July 2007 and, unless otherwise cancelled or amended, will remain in force for 10 years from its date of adoption on 29 June 2007.

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

Under the Scheme, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes adopted by the Group shall not exceed 30% of the share capital of the Company in issue from time to time. No options may be granted under the Scheme or any other share option scheme adopted by the Group if the grant of such option will result in the limit being exceeded. Subject to the approval of the Company's shareholders, the aggregate number of the Company's shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company shall not exceed 30% of the Company's shares in issue from time to time.

The total number of shares which may be allotted and issued upon exercise of all options excluding, options which have lapsed in accordance with the terms of this Scheme and any other option schemes of the Group must not in aggregate exceed 10% of the shares in issue as at the date of passing the relevant resolution adopting the Scheme without prior approval from the Company's shareholders.

The total number of shares issued and which may fall to be issued upon exercise of the options and the options granted under any other share option scheme of the Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Where any further grant of options to a grantee under the Scheme would result in the shares issued and to be issued upon exercise of all options granted and proposed to be granted to such person (including exercised, cancelled and outstanding options) under the Scheme and any other share option schemes of the Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by shareholders of the Company in general meeting with such grantee and his associates abstaining from voting.

The maximum number of shares issued and to be issued upon exercise of the options granted under the share option scheme and any other share option schemes of the Company to each of any eligible persons (including those cancelled, exercised and outstanding options), in any twelve months period up to the date of the latest grant shall not exceed 1% of the Company's shares in issue provided that the number of shares issued and to be issued upon exercise of all options granted and to be granted to each of the independent non-executive directors or substantial shareholders of the Company or any of their respective associates in the twelve months period up to the date of such grant in excess of 0.1% of the Company's shares in issue and with a value in excess of HK$5 million must be approved in advance by the Company's independent shareholders. Any further grant of options in excess of such limit must be separately approved by shareholders in general meeting in accordance with the requirements of the GEM Listing Rules.

The offer of a grant of share options might be accepted in writing within 21 days from the date of the offer. The exercise period of the share options granted is determinable by the directors, and should not be later than ten years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The subscription price is equal to the higher of (i) the nominal value of the shares of the Company; (ii) the closing price per share of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant; and (iii) the average closing price per share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant.

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

The fair value of share options granted is recognised in the statement of profit or loss and other comprehensive income taking into account the probability that the options will vest over the vesting period. Upon the exercise of the 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 in the share premium account. At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses. Options which lapsed, if any, prior to their exercise date are deleted from the outstanding options.

All equity-settled share-based payments will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options.

Details of specific categories of share options are as follows:

Option type	Date of grant	Exercise period	Exercise price	Weighted average fair value at grant date
			HK$	HK$
2007 (a)	9 July 2007	9 July 2007 to 29 June 2017	1.4250*	0.4540*
2007 (b)	22 August 2007	22 August 2007 to 29 June 2017	2.0300*	0.6375*
2008	10 July 2008	10 July 2008 to 29 June 2017	1.3280*	0.3555*
2013	10 October 2013	10 October 2013 to 29 June 2017	0.0870	0.0261
2014 (a)	25 March 2014	25 March 2014 to 29 June 2017	0.3640	0.2171
2014 (b)	26 March 2014	26 March 2014 to 29 June 2017	0.3650	0.2048
2014 (c)	10 July 2014	10 July 2014 to 29 June 2017	0.2800	0.0726
2015 (a)	27 May 2015	27 May 2015 to 29 June 2017	0.2900	0.1484
2015 (b)	4 June 2015	4 June 2015 to 29 June 2017	0.2700	0.1210
2016	6 May 2016	6 May 2016 to 29 June 2017	0.1050	0.0406

The Company measures the fair value of share options granted to consultant by reference to the fair values of services received.

The fair value of the share options granted to employee during the year ended 31 December 2016 were determined using the Black-Scholes Option Pricing Model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical volatility of the Company's share price and comparable companies' share price, adjusted for any expected changes to future volatility based on publicly available information.

100,000,000 (2015: 76,000,000) share options were granted under the Scheme during the year ended 31 December 2016.

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

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

INPUTS INTO THE MODEL

	Option type 2016
Grant date share price	HK$0.1040
Exercise price	HK$0.1050
Expected volatility	98.696%
Exercise multiple	2.719
Risk-free interest rate	0.314%
Expected dividend yield	Nil

The following table discloses movements of the Company's share options during the year:

Option type	**Outstanding at 1/1/2016**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Outstanding at 31/12/2016**
2007 (a)	9,600,000*	–	–	–	9,600,000*
2007 (b)	8,200,000*	–	–	–	8,200,000*
2008	9,200,000*	–	–	–	9,200,000*
2013	16,000,000	–	–	–	16,000,000
2014 (a)	32,000,000	–	–	–	32,000,000
2014 (b)	2,700,000	–	–	–	2,700,000
2014 (c)	20,000,000	–	–	–	20,000,000
2015 (a)	66,000,000	–	–	–	66,000,000
2015 (b)	10,000,000	–	–	–	10,000,000
2016	–	100,000,000	–	–	100,000,000
	173,700,000	100,000,000	–	–	273,700,000
Exercisable at the end of the year					273,700,000
Weighted average exercise price	HK$0.4836	HK$0.1050	–	–	HK$0.3453

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

The following table discloses movements of the Company's share options during prior year:

Option type	Outstanding at 1/1/2015	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31/12/2015
2007 (a)	9,600,000*	–	–	–	9,600,000*
2007 (b)	8,200,000*	–	–	–	8,200,000*
2008	9,200,000*	–	–	–	9,200,000*
2013	16,000,000	–	–	–	16,000,000
2014 (a)	32,000,000	–	–	–	32,000,000
2014 (b)	2,700,000	–	–	–	2,700,000
2014 (c)	20,000,000	–	–	–	20,000,000
2015 (a)	–	66,000,000	–	–	66,000,000
2015 (b)	–	10,000,000	–	–	10,000,000
	97,700,000	76,000,000	–	–	173,700,000
Exercisable at the end of the year					173,700,000
Weighted average exercise price	HK$0.6363	HK$0.2874	–	–	HK$0.4836

No option has been exercised under the Scheme during the year ended 31 December 2016 and 2015.

Options granted are fully vested at the date of grant. During the year ended 31 December 2016, approximately HK$406,000 (2015: Nil) of equity-settled share-based payments to employee has been included in the consolidated statement of profit or loss and other comprehensive income, the corresponding amount of which has been credited to share options reserve. No liabilities were recognised on the equity-settled share-based payment transactions.

The fair value of the share options granted to suppliers of service amounted to approximately HK$3,655,000 (2015: HK$11,004,000) has been included in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016, the corresponding amount of which has been credited to share options reserve.

The total consideration received during the year from grant of share options amounted to HK$4 (2015: HK$6).

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

All share options have been accounted for under HKFRS 2. The share options outstanding at the end of the year had a weighted average remaining contractual life of 0.5 years (2015: 1.5 years).

* The above information has been adjusted to reflect the effect of the share consolidation on 27 February 2012 pursuant to which every 5 of the existing issued and unissued shares of HK$0.001 each in the share capital of the Company were consolidated into 1 consolidated share of HK$0.005 each. Every 5 of the options were consolidated into 1 consolidated option and the exercise prices were adjusted accordingly.

28. CAPITAL MANAGEMENT

The Group's capital management objectives are:

— to ensure the Group's ability to continue as a going concern;

— to provide an adequate return to shareholders; and

— to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, return capital to shareholders and issue new shares to reduce its debt level.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital. Total borrowings are calculated as current and non-current borrowings as shown in the consolidated statement of financial position and total capital is calculated as "total equity", as shown in the consolidated statement of financial position.

GEARING RATIO

The gearing ratio at the end of the reporting period was as follows:

	2016 **HK$'000**	2015 HK$'000
Total borrowings	**43,923**	59,633
Total equity	**20,671**	77,557
Gearing ratio	**212%**	77%

29. FINANCIAL INSTRUMENTS

29.1 CATEGORIES OF FINANCIAL INSTRUMENTS

Financial assets

	2016 **HK$'000**	2015 HK$'000
Loans and receivables:		
Financial assets included in prepayments, deposits and other receivables	**1,403**	8,378
Amounts due from non-controlling interests of subsidiaries	**1,497**	2,227
Cash and bank balances (including pledged bank deposit)	**24,033**	78,292

Financial liabilities

	2016 **HK$'000**	2015 HK$'000
Financial liabilities at amortised cost:		
Financial liabilities included in trade and other payables	**7,776**	7,884
Amount due to a director	**–**	136
Amount due to a non-controlling interest of a subsidiary	**472**	215
Convertible bonds	**43,923**	59,633

29.2 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

Financial risk management is coordinated at the Group's headquarters, in close co-operation with the board of directors. The overall objectives in managing financial risks focus on securing the Group's short to medium term cash flows by minimising its exposure to financial markets. Long term financial investments are managed to generate lasting returns with acceptable risk levels.

It is not the Group's policy to actively engage in the trading of financial instruments for speculative purposes. The treasury department works under the policies approved by the board of directors. It identifies ways to access financial markets and monitors the Group's financial risk exposures. Regular reports are provided to the board of directors.

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

29. FINANCIAL INSTRUMENTS *(Continued)*

29.2 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

29.2.1 *Market risk*

Foreign currency risk management

Transactional currency exposures arise from revenue or cost of sales by operating units in currencies other than the unit's functional currency. Substantially all the Group's revenue and cost of sales are denominated in the functional currency of the operating units making the revenue, and substantially all the cost of sales are denominated in the operating unit's functional currency. Accordingly, the directors consider the Group is not exposed to significant foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

At the end of the reporting period, the carrying amounts of the Group's major monetary assets denominated in currencies other than the functional currencies of the relevant group entities are as follows:

	2016 **HK$'000**	2015 HK$'000
Assets		
RMB	**55**	13,744

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in the RMB against HK$. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rate. A positive number below indicates a decrease in loss where RMB strengthens against HK$. For a 5% weakening of RMB against HK$, there would be an equal and opposite impact on the loss.

	2016 **HK$'000**	2015 HK$'000
RMB against HK$	**3**	687

In management's opinion, the sensitivity analysis is unrepresentative of the inherent exchange risk as the year end exposure does not reflect the exposure during the year.

29. FINANCIAL INSTRUMENTS *(Continued)*

29.2 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

29.2.1 *Market risk* *(Continued)*

Interest rate risk management

The Group does not have material exposure to interest rate risk. A reasonably possible change in interest rate in the twelve months is assessed; which could have immaterial change in the Group's loss after tax and accumulated losses. Changes in interest rates have no material impact on the Group's other components of equity. The Group adopts centralised treasury policies in cash and financial management and focuses on reducing the Group's overall interest expenses.

The directors are of the opinion that the Group's sensitivity to the change in interest rate is relatively low.

Other price risk

As the Group has no significant investments in financial assets at FVTPL, the Group is not exposed to significant other price risk.

29.2.2 *Credit risk management*

At 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for 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 trade debt and debt investment 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 credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

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

29. FINANCIAL INSTRUMENTS *(Continued)*

29.2 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

29.2.3 *Liquidity risk management*

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework to meet the Group's short, medium and long-term funding and liquidity management requirements.

The Group manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	On demand or less than 1 year HK$'000	**1–5 years HK$'000**	**Total contractual undiscounted cash flows HK$'000**	**Total carrying amounts HK$'000**
At 31 December 2016				
Non-derivative financial liabilities				
Trade and other payables	**7,776**	**–**	**7,776**	**7,776**
Amount due to a non-controlling interest of a subsidiary	**472**	**–**	**472**	**472**
Convertible bonds	**–**	**68,016**	**68,016**	**43,923**
	8,248	**68,016**	**76,264**	**52,171**

	On demand or less than 1 year HK$'000	1–5 years HK$'000	Total contractual undiscounted cash flows HK$'000	Total carrying amounts HK$'000
At 31 December 2015				
Non-derivative financial liabilities				
Trade and other payables	7,884	–	7,884	7,884
Amount due to a director	136	–	136	136
Amount due to a non-controlling interest of a subsidiary	215	–	215	215
Convertible bonds	–	104,100	104,100	59,633
	8,235	104,100	112,335	67,868

29. FINANCIAL INSTRUMENTS *(Continued)*

29.3 FAIR VALUE MEASUREMENTS

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate to their fair values.

	2016		2015	
	Carrying amount HK$'000	**Fair value HK$'000**	Carrying amount HK$'000	Fair value HK$'000
Financial liabilities				
Convertible bonds (Note)	**43,923**	**45,261**	59,633	56,600

Note:

The fair value of the liability component of convertible bonds has been calculated by using effective interest rate of 11.79% (2015: 13.98%) per annum with reference to the Hong Kong Sovereign Curve and credit risk margin.

Liabilities for which fair values are disclosed:

Fair value hierarchy as at 31 December 2016

	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Convertible bonds	**–**	**–**	**45,261**	**45,261**

Fair value hierarchy as at 31 December 2015

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Convertible bonds	–	–	56,600	56,600

The fair value of the financial liability included in the Level 3 category above has been determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

30. OPERATING LEASES COMMITMENTS

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

	2016 **HK$'000**	2015 HK$'000
Within one year	**1,530**	1,294
In the second to fifth years inclusive	**1,669**	287
	3,199	1,581

Operating leases relate to rented premises and equipment with lease terms of between 1 to 5 years (2015: 1 to 5 years), with no option to renew the lease terms at the expiry date. The lease does not include contingent rental.

31. CAPITAL COMMITMENTS

At 31 December 2016, the Group had the following commitments which were not provided for in the consolidated financial statements:

	2016 **HK$'000**	2015 HK$'000
Authorised and contracted for:		
Purchase of property, plant and equipment	**144**	154

32. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these consolidated financial statements, the Group had the following significant transactions with related parties during the year:

	2016 HK$'000	2015 HK$'000
Early redemption of convertible bonds (Note 22)	**36,084**	15,000

COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of directors and other members of key management during the year was as follows:

	2016 HK$'000	2015 HK$'000
Short-term benefits	**7,316**	7,486
Post-employment benefits	**36**	36
	7,352	7,522

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries at 31 December 2016 are as follows:

Name of subsidiary	Place of incorporation/ registration/ operations	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest held by the Company		Principal activities
			Directly	Indirectly	
E-silkroad.net Corporation	British Virgin Islands ("BVI")	1 ordinary share of 1 United States dollar ("US$")	100%	–	Investment holding
Easywin International Holdings Limited	BVI	1 ordinary share of US$1	100%	–	Investment holding
Pearl Sharp Limited	BVI	1 ordinary share of US$1	–	100%	Investment holding
E-silkroad.net Online Exhibition Limited	Hong Kong	Ordinary shares HK$10,000	–	100%	Development of e-commerce business, provision of web page design and website maintenance services and provision of administrative services
Greatest Profit Investment Limited	Hong Kong	Ordinary share HK$1	–	100%	Investment holding
Huancai Puda*	PRC	RMB41,819,548 (2015: RMB41,819,548)	–	51%	Development of computer software, hardware and application system, sale of self-developed technology or results and provision of relevant technical consultancy services

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

Name of subsidiary	Place of incorporation/ registration/ operations	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest held by the Company Directly	Indirectly	Principal activities
深圳宏脈信息科技有限公司**	PRC	HK$1,500,000	–	100%	Development of computer software, hardware, data terminal technology, mobile digital data communication device and mobile internet technology, development and provision of gaming and animation creation technology and services, wholesale, import and export of office automated system devices and communication devices and provision of relevant supporting services
深圳脈康穿戴設備科技有限公司**	PRC	HK$5,500,000	–	100%	Research, development, wholesale, import and export of wearable devices, communications devices and electronic components and provision of relevant supporting services

* Huancai Puda is a Sino-foreign equity joint venture established in the PRC.

** 深圳宏脈信息科技有限公司 and 深圳脈康穿戴設備科技有限公司 are wholly-foreign-owned enterprises established in the PRC.

The above table 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.

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

DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

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

Name of subsidiary	Place of incorporation/ establishment and principal place of business	Proportion of ownership interests held by the non-controlling interests		Loss allocated to non-controlling interests		Accumulated non-controlling interests	
		2016	2015	**2016**	2015	**2016**	2015
				HK$'000	HK$'000	**HK$'000**	HK$'000
Huancai Puda	PRC	**49%**	49%	**(6,098)**	(5,643)	**18,930**	27,317
Individually immaterial subsidiaries with non-controlling interests						**1,993**	1,996
						20,923	29,313

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Huancai Puda

	2016	2015
	HK$'000	HK$'000
Current assets	**948**	1,929
Non-current assets	**61,231**	82,661
Current liabilities	**(7,437)**	(7,768)
Non-current liabilities	**(15,145)**	(20,381)

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

DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS *(Continued)*

Huancai Puda *(Continued)*

	Year ended 31 December 2016 HK$'000	Year ended 31 December 2015 HK$'000
Revenue	**336**	964
Other income	**352**	134
Expenses	**(12,859)**	(12,609)
Loss for the year	**(12,171)**	(11,511)
Loss attributable to owners of the Company	**(6,073)**	(5,868)
Loss attributable to the non-controlling interests	**(6,098)**	(5,643)
Loss for the year	**(12,171)**	(11,511)
Other comprehensive expense for the year	**(4,674)**	(4,749)
Total comprehensive expense attributable to owners of the Company	**(8,458)**	(8,283)
Total comprehensive expense attributable to the non-controlling interests	**(8,387)**	(7,977)
Total comprehensive expense for the year	**(16,845)**	(16,260)
Dividends paid to non-controlling interests	**–**	–
Net cash outflow from operating activities	**(556)**	(2,590)
Net cash inflow from investing activities	**1**	1
Net cash inflow from financing activities	**–**	–
Net decrease in cash and cash equivalents	**(555)**	(2,589)

34. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2016 HK$'000	2015 HK$'000
Non-current assets		
Investments in subsidiaries	–	–
Current assets		
Prepayments, deposits and other receivables	–	7,474
Amounts due from subsidiaries	104,540	144,980
Bank balances	19,666	14,590
	124,206	167,044
Current liabilities		
Other payables and accruals	825	915
Amounts due to subsidiaries	55,727	21,932
	56,552	22,847
Net current assets	67,654	144,197
Total assets less current liabilities	67,654	144,197
Non-current liabilities		
Convertible bonds	43,923	59,633
Deferred tax liabilities	3,975	7,338
	47,898	66,971
Net assets	19,756	77,226
Capital and reserves		
Share capital — ordinary shares	15,600	15,600
Share capital — non-redeemable convertible preferred shares	5,017	5,017
Reserves	(861)	56,609
Total equity	19,756	77,226

34. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(Continued)*

MOVEMENT IN THE COMPANY'S RESERVES

	Share premium account HK$'000 (Note (i))	Warrants reserve HK$'000	Capital redemption reserve HK$'000 (Note (ii))	Convertible bonds equity reserve HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at 1 January 2015	3,286,855	1,740	1	54,771	21,718	(3,347,562)	17,523
Loss for the year	–	–	–	–	–	(63,146)	(63,146)
Total comprehensive expense for the year	–	–	–	–	–	(63,146)	(63,146)
Recognition of equity- settled share-based payments	–	–	–	–	11,004	–	11,004
Issue of new ordinary shares	63,349	–	–	–	–	–	63,349
Transaction costs attributable to issue of new ordinary shares	(2,201)	–	–	–	–	–	(2,201)
Redemption of convertible bonds	–	–	–	(8,261)	–	8,231	(30)
Extension of convertible bonds upon maturity	–	–	–	(9,619)	–	46,885	37,266
Deferred tax relating to convertible bonds	–	–	–	(7,156)	–	–	(7,156)
Release of reserve upon lapse of warrants	–	(1,740)	–	–	–	1,740	–
Balance at 31 December 2015	**3,348,003**	**–**	**1**	**29,735**	**32,722**	**(3,353,852)**	**56,609**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(48,581)**	**(48,581)**
Total comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**(48,581)**	**(48,581)**
Recognition of equity- settled share-based payments	**–**	**–**	**–**	**–**	**4,061**	**–**	**4,061**
Redemption of convertible bonds	**–**	**–**	**–**	**(15,824)**	**–**	**444**	**(15,380)**
Deferred tax relating to convertible bonds	**–**	**–**	**–**	**2,430**	**–**	**–**	**2,430**
Balance at 31 December 2016	**3,348,003**	**–**	**1**	**16,341**	**36,783**	**(3,401,989)**	**(861)**

Notes:

(i) The share premium account of the Company arises on shares issued at a premium. In accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

(ii) The capital redemption reserve of the Company represents the nominal value of the share capital of the Company repurchased and cancelled.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2012	2013	2014	2015	**2016**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Revenue	2,248	1,731	3,533	964	**336**
Loss for the year	(386,607)	(118,816)	(330,081)	(60,326)	**(43,144)**
Loss attributable to:					
Owners of the Company	(290,861)	(75,325)	(186,051)	(54,679)	**(37,043)**
Non-controlling interests	(95,746)	(43,491)	(144,030)	(5,647)	**(6,101)**
	(386,607)	(118,816)	(330,081)	(60,326)	**(43,144)**

	At 31 December				
	2012	2013	2014	2015	**2016**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES					
Total asset	640,087	533,508	167,824	173,145	**92,088**
Total liabilities	(255,605)	(247,232)	(131,427)	(95,588)	**(71,417)**
	384,482	286,276	36,397	77,557	**20,671**
Equity attributable to owners of the Company	169,819	105,501	1,103	48,244	**(252)**
Non-controlling interests	214,663	180,775	35,294	29,313	**20,923**
	384,482	286,276	36,397	77,557	**20,671**