乐透互娱
LOTO INTERACTIVE

ANNUAL REPORT 2017

Loto Interactive Limited

(formerly known as MelcoLot Limited)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8198)

www.lotoie.com

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CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Pan Zhengming* *(Chairman)*
Mr. Wang Bingzhong# *(Chief Executive Officer)*
Mr. Wu Jian#
Mr. Yuan Qiang*
Dr. Lu Haitian+
Mr. Yan Hao+
Mr. Lin Sen+

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

AUDIT COMMITTEE

Mr. Lin Sen *(Chairman)*
Mr. Yuan Qiang
Dr. Lu Haitian

REMUNERATION COMMITTEE

Mr. Yan Hao *(Chairman)*
Mr. Yuan Qiang
Mr. Lin Sen

NOMINATION COMMITTEE

Mr. Pan Zhengming *(Chairman)*
Dr. Lu Haitian
Mr. Yan Hao

COMPLIANCE OFFICER

Mr. Wang Bingzhong

COMPANY SECRETARY

Ms. Chow Chiu Man, Mandy

AUTHORISED REPRESENTATIVES

Mr. Wang Bingzhong
Ms. Chow Chiu Man, Mandy

REGISTERED OFFICE

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Grand Pavilion, Hibiscus Way
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Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Wanchai
Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants
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Central, Hong Kong

LEGAL ADVISORS

Lu & Partners LLP in Association with HAIWEN
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New World Tower
16-18 Queen's Road Central
Central, Hong Kong

PRINCIPAL BANKERS

OCBC Wing Hang Bank Limited
Dah Sing Bank, Limited

STOCK CODE

The Stock Exchange of Hong Kong Limited: 8198

WEBSITE

www.lotoie.com

CHAIRMAN'S STATEMENT

TO OUR SHAREHOLDERS

On behalf of the board (the "Board") of directors (the "Directors") of Loto Interactive Limited (formerly known as MelcoLot Limited) (the "Company"), I hereby present the results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017 (the "Year").

In 2017, the Group faced a challenging year against the backdrop of a reform of the regulatory regime and the fierce competition in the market. During the financial year under review, the Group's revenue decreased by 19.1% to HK$48.8 million (2016: HK$60.3 million). Loss attributable to owners of the Company for the Year amounted to HK$17.9 million as compared with a loss of HK$2.3 million for the last corresponding year. Our balance sheet remains strong. As at 31 December 2017, the Group had no debt and had cash and bank balances of HK$208.1 million.

After the completion of the conditional mandatory cash offers on 10 July 2017, 500.com Limited ("500.com"), a leading online sports lottery service provider in China which is listed on the New York Stock Exchange (stock code: WBAI), became the holding company of the Company. We possess a highly-skilled and strong management team from 500.com and will leverage on our unrivalled expertise in gaming and entertainment as well as our extensive relationship network to execute our versatile growth strategy in the lottery business.

The change of Company name from "MelcoLot Limited" to "Loto Interactive Limited" will help the Company establish a fresh corporate image identity. The new management team aspires to lead the Company to further success through exploring high-growth new business opportunities and improving long-term growth potential. We believe, with concerted efforts of management and employees, that the change will further enrich the dynamics of the Company.

IN APPRECIATION

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

Pan Zhengming
Chairman

Hong Kong, 22 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is engaged in the provision of lottery-related technologies, systems and solutions to two state-run lottery operators in the People's Republic of China (the "PRC"), namely the China Welfare Lottery Issuance Centre and China Sports Lottery Administration Centre ("CSLA"). We are a distributor of high quality, versatile lottery terminals and parts for CSLA, which is the exclusive sports lottery operator in the PRC. The distribution business is our major revenue generator and contributed approximately 97.9% of the Group's revenue for the year ended 31 December 2017 (the "Year") (2016: 98.5%). The Group is also providing system maintenance services and game upgrading technology for the rapid-draw game "Shi Shi Cai" in the Chongqing Municipality. To further streamline the business of the Group, the Group has ceased the operation of retail outlets in the PRC since 17 October 2017.

China Lottery Market

According to information published by the Ministry of Finance, the China lottery market continued to show steady growth. Total lottery sales achieved a year-on-year growth of 8.1% to RMB426.7 billion in 2017.

The China lottery market has been facing full of challenges since March 2015 when the government took actions to strictly prohibit all internet lottery ticket sales activities. While changing regulatory environment will unavoidably bring short-term uncertainties to the industry, we believe that proper regulatory reform will further improve the industry regulatory framework, thus leading to a healthier and sustainable market in the long run.

While new channels and games are undoubtedly attractive areas for development, as an integrated lottery service and technology provider, the Group is well positioned to capture opportunities arising from the evolution of the PRC lottery policy. We are closely monitoring the development of this growing market in the PRC.

At the same time, the Group continues to pursue opportunities to develop international projects and PRC business opportunities which will leverage our corporate expertise in the gaming and entertainment industry and diversify our business to support our goal in maximizing long-term shareholders' value.

FINANCIAL REVIEW

The Group continues to be engaged in a single operating segment which is the lottery business. During the Year, the Group recorded revenue of HK$48.8 million, representing a year-on-year decrease of 19.1% (2016: HK$60.3 million) and comprising:

(1) Sales of lottery terminals and parts

Revenue generated from sales of lottery terminals and parts for the sports lottery decreased by 19.5% to HK$47.8 million (2016: 59.4 million).

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

Revenue derived from provision of services and solutions for distribution of lottery products in the Year amounted to HK$1.0 million, increased by 11.1% compared to HK$0.9 million in 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

The Group recorded a loss of HK$18.6 million for the Year, compared to HK$2.9 million in 2016, which was mainly attributable to the combined effect of:

(i) reversal of provision for capital gains tax of PRC subsidiaries amounting to HK$17.2 million in 2012, which had a positive impact on the loss for 2016. However, no such reversal occurred in the Year;

(ii) decrease in share-based payments from HK$6.8 million in 2016 to HK$0.4 million in 2017, which was recorded in 2016 in connection with certain share options granted in 2014 which were being vested in 2016. However, no further share-based payments in relation to these share options were recorded in the Year;

(iii) loyalty bonus of HK$5.8 million were paid to the Directors, consultants and certain employees, and retention bonus of HK$0.9 million were paid to the Directors and certain employees in the Year; and

(iv) increase in rental expense of approximately HK$1.0 million for new office since November 2017.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group continues to manage its balance sheet carefully and maintains conservative policies in cash and financial management. As at 31 December 2017, the Group's cash and bank balances (including bank deposits with original maturity over three months) amounted to HK$208.1 million (2016: HK$333.1 million), representing a decrease of HK$125.0 million from last year. Of the cash and cash equivalents as at 31 December 2017, 84% (2016: 82%) was denominated in Hong Kong dollars, with the remaining balance in Renminbi and United States dollars.

The decrease in cash and bank balances was mainly due to the fact that the Group granted a loan of HK$99.0 million to a third party and the loyalty bonus of HK$5.8 million were paid to the Directors, consultants and certain employees and retention bonus of HK$0.9 million were paid to the Directors and certain employees in the Year.

The Group had no bank borrowings in 2017 (2016: Nil) and generally financed its operations with internal resources.

As at 31 December 2017, the Group's current assets exceeded its current liabilities by HK$248.7 million (2016: HK$362.0 million). The Group had a capital surplus of HK$395.0 million as at 31 December 2017 (2016: HK$412.5 million).

The gearing ratio of the Group (total borrowings divided by shareholders' funds) was nil as at 31 December 2017 (2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

The China lottery market continues to show steady growth. We believe that the China lottery market is likely to demand new and more sophisticated hardware solutions over time and that those solutions will increasingly be deployed as bundled products involving the lottery terminals and system support services.

The Group is reviewing and assessing its internal resources and business network and will continue to explore new business opportunities for leveraging our core experience and corporate resources. We believe that it is in the interests of the Group and our shareholders to diversify into new business areas and jurisdictions within the ambit of gaming and entertainment so as to achieve our goal of maximizing long-term shareholders' value. The Group cannot rule out the possibilities of ceasing to trade the approved lottery vending machines or the business related to CSLA in the future. After the end of the Year, the Group has commenced new business in the game industry.

CHARGES ON GROUP ASSETS

None of the Group's assets were pledged as of 31 December 2017 and 2016.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

As at 31 December 2017, all assets and liabilities of the Group were denominated in Hong Kong dollars, Renminbi and United States dollars. For the year ended 31 December 2017, the business activities of the Group were mainly denominated in Hong Kong dollars and Renminbi. Since the impact to foreign exchange exposure has been insignificant, no hedging or other alternatives have been implemented.

STAFF AND REMUNERATION POLICY

As at 31 December 2017, the Group had a total of 11 full-time employees (2016: 15). For the year ended 31 December 2017, the Directors received total emoluments of approximately HK$11.1 million (2016: HK$8.4 million), including non-cash share-based payments to Directors of HK$0.1 million in 2017 (2016: HK$5.0 million). The Group continues to provide remuneration packages to employees that are in line with market practices and past performance. The Group also provides employee benefits such as mandatory provident fund, medical insurance, staff training programs and share option schemes.

CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

As at 31 December 2017 and 2016, the Group had no significant capital commitments contracted but not provided for in the consolidated financial statements and also did not have any significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

CONDITIONAL MANDATORY CASH OFFERS

On 29 May 2017, Melco LottVentures Holdings Limited as the vendor (the "Vendor"), Melco International Development Limited as the guarantor and 500.com Limited as the purchaser (the "Offeror") entered into a conditional sale and purchase agreement (the "Share Purchase Agreement"), pursuant to which, the Vendor conditionally agreed to sell and the Offeror conditionally agreed to purchase, in aggregate, 1,278,714,329 shares (the "Sale Shares"), representing approximately 40.65% of the issued share capital of the Company as at the date of the Share Purchase Agreement. The total consideration for the Sale Shares is HK$322,236,010.91, equivalent to HK$0.252 per Sale Share. The completion of the Share Purchase Agreement (the "Share Purchase Completion") took place on 6 June 2017. Upon the Share Purchase Completion, the Offeror and parties acting in concert with it became interested in a total of 1,278,714,329 shares, representing approximately 40.65% of all the ordinary shares of HK$0.01 each in the issued share capital of the Company. Pursuant to Rule 26.1 of The Codes on Takeovers and Mergers and Share Buy-backs (the "Takeovers Code"), the Offeror made a conditional mandatory cash offer for all the shares in issue, other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it and, pursuant to Rule 13 of the Takeovers Code, made a conditional mandatory cash offer for the cancellation of the outstanding options granted by the Company pursuant to the share option schemes adopted by the Company on 20 April 2002 and 18 May 2012 (the "Offers"). The composite documents in relation to the Offers were despatched on 19 June 2017 and the Offers were conditional upon valid acceptances being received by 4:00 p.m. on 10 July 2017, which would result in the Offeror and parties acting in concert with it holding more than 50% of the voting rights in the Company. The condition of the Offers was not satisfied and the Offers lapsed eventually.

IMPORTANT EVENTS AFTER THE FINANCIAL YEAR

On 5 January 2018, the Company granted a total of 159,400,000 share options to the directors, employees and consultants of the Company (collectively, the "Grantees"), subject to acceptance of the Grantees and the payment of HK$1.00 by each of the Grantees upon acceptance of the Options, under the Company's share option scheme adopted on 18 May 2012. The share options will entitle the Grantees to subscribe for a total of 159,400,000 ordinary shares of HK$0.01 each in the share capital of the Company, among which, 80,000,000 share options were granted to directors of the Company.

DIRECTORS

Mr. Pan Zhengming
Chairman and Non-executive Director

Mr. Pan, aged 40, was appointed as the chairman of the Company and a non-executive Director on 10 July 2017. He is also the chairman of the nomination committee of the Company. Mr. Pan is currently the chief executive officer and a director of 500.com Limited, a company listed on the New York Stock Exchange (NYSE stock code: WBAI) and the substantial shareholder of the Company, since May 2015. Mr. Pan was the president of 500.com Limited from September 2014 to May 2015 and the chief financial officer of 500.com Limited from April 2011 to August 2014. Prior to that, Mr. Pan served as vice president of Deutsche Bank AG, Hong Kong Branch from 2007 to April 2011 and an attorney at Simpson Thacher & Bartlett LLP from 2003 to 2007. Mr. Pan received a master of laws as well as a juris doctor degree from Columbia University in 2001 and 2003, respectively, and a master of laws from the University of Edinburgh in 1999.

Mr. Wang Bingzhong
Chief Executive Officer and Executive Director

Mr. Wang, aged 34, was appointed as an executive Director on 19 June 2017. He was subsequently appointed as chief executive officer, compliance officer and authorised representative of the Company on 10 July 2017. He is also a director of certain subsidiaries of the Company. Mr. Wang was a director of Dragon Investment Advisory Company Limited, a private equity fund, from September 2016 to March 2017. Mr. Wang served as an associate director of CCB International (Holdings) Limited, and a director of CCBI Overseas Holdings Limited in 2016. Prior to that, Mr. Wang was a director of A-TEST Compliance Services (Beijing) Co., Ltd. (奧測世紀(北京)技術股份有限公司), a company listed on the National Equities Exchange and Quotations Co. Ltd. (全國中小企業股份轉讓系統) (NEEQ stock code: 830873), from December 2013 to March 2015. Mr. Wang received a master of business administration from the Hong Kong University of Science and Technology in 2013 as well as a bachelor's degree in computer science and technology from Nanjing University in 2005.

Mr. Wu Jian
Executive Director

Mr. Wu, aged 37, was appointed as an executive Director on 19 June 2017. He is also a director of certain subsidiaries of the Company. Mr. Wu is currently the senior marketing director of Shenzhen Yixun Sky Network Information Technique Co., Ltd. (深圳市易訊天空網絡技術有限公司). Mr. Wu has been working in the internet industry for over 10 years, principally engaged in the realm of e-commerce as well as the lottery service provider industry. Mr. Wu obtained a junior degree in computer application from the Hubei Huangshi College in 2002.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Yuan Qiang
Non-executive Director

Mr. Yuan, aged 44, was appointed as a non-executive Director on 2 January 2018. He is currently the chief financial officer of 500.com Limited. Mr. Yuan was the senior vice president of finance of 500.com Limited from July 2016 to December 2017, the vice president of finance of 500.com Limited from June 2014 to July 2016 and the financial director of 500.com Limited from March 2013 to June 2014. Mr. Yuan served as the financial manager of a subsidiary of 500.com Limited from January 2001 to March 2013. Mr. Yuan has more than 15 years of experience in accounting, financial control, corporate finance and mergers & acquisitions. Mr. Yuan obtained a bachelor's degree in Financial Management from Zhongnan University of Finance and Economics.

Dr. Lu Haitian
Independent Non-executive Director

Dr. Lu, aged 38, was appointed as an independent non-executive Director on 10 July 2017. He is also a member of both the audit committee and nomination committee of the Company. Dr. Lu is currently an associate professor in law and the associate dean of the Faculty of Business at the Hong Kong Polytechnic University. He served at the School of Accounting and Finance first as a visiting lecturer in law from September 2005 to June 2007 and later as an assistant professor in law from July 2007 to June 2012. Dr. Lu obtained a bachelor of laws from Nanjing University in 2001, a master of laws from the University of Liverpool in 2002, and a Ph.D. in law from the National University of Singapore in 2007.

Mr. Yan Hao
Independent Non-executive Director

Mr. Yan, aged 39, was appointed as an independent non-executive Director on 10 July 2017. He is also the chairman of the remuneration committee and a member of the nomination committee of the Company. Mr. Yan is currently a partner of Junzejun Law Offices. Mr. Yan currently serves as an arbitrator for the World Intellectual Property Organization, the Hong Kong International Arbitration Centre, the Shenzhen Court of International Arbitration, and the Guangzhou Arbitration Commission, respectively, as well as a panellist of the Asian Domain Name Dispute Resolution Centre. Mr. Yan obtained a bachelor of laws from Wuhan University in 2001, a master of laws from the University of Hong Kong in 2003 and a master of laws from Stanford University in 2016. Mr. Yan is qualified to practice law in the PRC and is also a registered foreign lawyer in Hong Kong.

Mr. Lin Sen
Independent Non-executive Director

Mr. Lin, aged 41, was appointed as an independent non-executive Director on 10 July 2017. He is also the chairman of the audit committee and a member of the remuneration committee of the Company. Mr. Lin is currently the chief financial officer of Shenzhen 7Road Technology Co. Ltd. (深圳第七大道科技有限公司). From November 2006 to January 2017, Mr. Lin served as the chief financial officer of Palm Commerce Information Technology (China) Co., Ltd. (掌信彩通信息科技(中國)有限公司) ("Palm Commerce"), which is a lottery service provider in the PRC. Palm Commerce is currently a subsidiary of Telling Telecommunication Holding Co., Ltd. (天音通信控股股份有限公司), a company listed on the Shenzhen Stock Exchange (SHE stock code: 000829). From February 2001 to July 2006, Mr. Lin served as manager of PricewaterhouseCoopers International Limited. Mr. Lin obtained a bachelor's degree in international business administration from Central University of Finance and Economics (中央財經大學) in 1998 and an executive MBA from China Europe International Business School (中歐國際工商管理學院) in 2011. In 2010, Mr. Lin became a registered accountant in the PRC.

SENIOR MANAGEMENT

Ms. Huang Lilan
Chief Financial Officer

Ms. Huang, aged 35, was appointed as the Chief Financial Officer of the Company on 6 June 2017. Ms. Huang has more than a decades' experience in accounting, auditing, taxation and financial management. Prior to joining the Company, Ms. Huang served as the financial director of a subsidiary of 500.com Limited since 2011. Ms. Huang also served as senior auditor at Ernst & Young from 2006 to 2011. She received a bachelor's degree in business and finance from the University of International Business and Economics in 2005 and has been professionally certified by the Institute of Management Accountants.

Ms. Chow Chiu Man, Mandy
Company Secretary

Ms. Chow, age 41, joined the Group in September 2004. She was appointed as the Company Secretary of the Company on 10 July 2017. Ms. Chow is responsible for the overall compliance matters within the Group and providing advice to its corporate exercise and adaptation of latest corporate governance policies. She has over 15 years of experience in company secretarial affairs. Ms. Chow is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. She holds a master's degree in corporate governance from The Hong Kong Polytechnic University and a bachelor's degree in business from Monash University.

CORPORATE GOVERNANCE REPORT

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

In the opinion of the Board, the Company has complied with all the code provisions as set out in the CG Code throughout the year ended 31 December 2017 (the "Year").

BOARD OF DIRECTORS

Composition of the Board

The composition of the Board reflects the necessary balance of skills and experience desirable for the effective leadership of the Company. The Board currently consists of seven members, including two executive Directors, two non-executive Directors and three independent non-executive Directors.

The Board members as at the date of this annual report are as follows:

Mr. Pan Zhengming* *(Chairman)*
Mr. Wang Bingzhong# *(Chief Executive Officer)*
Mr. Wu Jian#
Mr. Yuan Qiang*
Dr. Lu Haitian+
Mr. Yan Hao+
\Mr. Lin Sen+

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

The biographical details of the Directors are disclosed under the section headed "Biographical Details of Directors and Senior Management" of this report.

The changes to the composition of the Board and Board committees during the Year and up to the date of this report were as follows:

19 June 2017	Mr. Wang Bingzhong was appointed as an executive Director
19 June 2017	Mr. Wu Jian was appointed as an executive Director
10 July 2017	Mr. Tsui Che Yin, Frank resigned as a non-executive Director and accordingly ceased to be the chairman of the Board, a member of the Audit Committee
10 July 2017	Mr. Ko Chun Fung, Henry resigned as an executive Director and chief executive officer of the Company and accordingly ceased to be a member of the Nomination Committee, and a member and the chairman of the Executive Committee

10 July 2017	Mr. Tsang Yuen Wai, Samuel resigned as an executive Director and accordingly ceased to be a member of the Executive Committee
10 July 2017	Mr. Tam Chi Wai, Dennis resigned as an executive Director and accordingly ceased to be a member of the Remuneration Committee and a member of the Executive Committee
10 July 2017	Mr. Tsoi, David resigned as an independent non-executive Director and accordingly ceased to be a member and the chairman of the Audit Committee, a member and the chairman of the Remuneration Committee, and a member of the Nomination Committee
10 July 2017	Mr. Pang Hing Chung, Alfred resigned as an independent non-executive Director and accordingly ceased to be a member of the Audit Committee and a member of the Nomination Committee
10 July 2017	Ms. Chan Po Yi, Patsy resigned as an independent non-executive Director and accordingly ceased to be a member of the Audit Committee, a member of the Remuneration Committee, and a member and the chairman of the Nomination Committee
10 July 2017	Mr. Pan Zhengming was appointed as a non-executive Director, the chairman of the Board (the "Chairman") and a member and the chairman of the Nomination Committee
10 July 2017	Mr. Wang Bingzhong was appointed as the chief executive officer of the Company (the "Chief Executive Officer")
10 July 2017	Mr. Yu Min was appointed as a non-executive Director, a member of the Audit Committee and a member of the Remuneration Committee
10 July 2017	Dr. Lu Haitian was appointed as an independent non-executive Director, a member of the Audit Committee and a member of the Nomination Committee
10 July 2017	Mr. Yan Hao was appointed as an independent non-executive Director, a member and the chairman of the Remuneration Committee and a member of the Nomination Committee
10 July 2017	Mr. Lin Sen was appointed as an independent non-executive Director, a member and the chairman of the Audit Committee and a member of the Remuneration Committee
2 January 2018	Mr. Yu Min resigned as a non-executive Director and accordingly ceased to be a member of the Audit Committee and a member of the Remuneration Committee
2 January 2018	Mr. Yuan Qiang was appointed as a non-executive Director, a member of the Audit Committee and a member of the Remuneration Committee

Composition of the independent non-executive Directors reflects the necessary balance of skills and varied business experiences of different geographical regions and independence in their decision making for effective and constructive contribution to the Board for governance of the Company. The Board currently has three independent non-executive Directors (representing at least one-third of the Board) with one of them possessing appropriate professional qualification, or accounting or related financial management expertise.

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to the independence guidelines set out in the GEM Listing Rules. The Nomination Committee and the Board, based on such confirmations consider that all independent non-executive Directors are independent.

There is no financial, business, family or other material or relevant relationships between each Board member.

Chairman and Chief Executive Officer

The roles of Chairman and Chief Executive Officer are separate and held by different persons to ensure their independence, accountability and responsibility. The division of the responsibilities between the Chairman and the Chief Executive Officer has been established and set out clearly in writing. The Chairman, Mr. Pan Zhengming, who is a non-executive Director, is responsible for setting the Group's strategy and business directions, overseeing the functioning of the Board and ensuring that the Board is functioning properly. The Chief Executive Officer, Mr. Wang Bingzhong, who is an executive Director, supported by management, is responsible for managing the Group's business, including implementation of major strategies, making day-to-day decisions and managing business operations.

Appointments and Re-election of Directors

All Directors have formal letters of appointment with the Company, which set out the key terms of their appointment. Each executive Director was appointed for a term of three years while each non-executive Director and independent non-executive Director was appointed for a term of two years from the date of appointment. Every Director will retire once every three years.

According to the Company's Articles of Association (the "Articles of Association"), all Directors are subject to retirement by rotation at least once every three years and are eligible for re-election at annual general meetings of the Company. Any new director appointed by the Board to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting and any new director appointed by the Board as an addition to the Board shall submit himself/herself for re-election by shareholders at the following annual general meeting.

As disclosed in the Company's announcement on 23 March 2018, Ms. Huang Lilan has been appointed as an executive Director.

In accordance with the Articles of Association, Mr. Wang Bingzhong, Dr. Lu Haitian, Mr. Yuan Qiang and Ms. Huang Lilan shall retire by rotation at the 2018 annual general meeting of the Company. The above retiring Directors, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company. The Board and the Nomination Committee recommend their re-appointments. The biographies of Mr. Wang, Dr. Lu, Ms. Huang and Mr. Yuan have been set out in the circular sent with this annual report to provide information to shareholders to decide on their re-elections.

Board Diversity Policy

Recognizing and embracing the benefits of having a diverse member of the Board to uphold corporate governance, the Board adopted a board diversity policy to set out the approach by the Company to achieve diversity on the Board. The Company considers diversity can be achieved from different age, gender, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments are considered according to objective criteria, having regard to benefits of diversity, and decided on merits.

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

Securities Dealings by Directors and Employees

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

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

Directors' Training and Continuing Professional Development

Each newly appointed Director is provided with necessary induction and information to ensure that he has a proper understanding of the Company's operations and businesses as well as his responsibilities under relevant statutes, laws, rules and regulations.

Directors are continually updated on the latest development of the GEM Listing Rules, legal and other regulatory requirements to ensure compliance and upkeep of good corporate governance practice. The Company encourages all Directors to participate in continuous professional development to develop and refresh their knowledge and skill. During the Year and up to the date of this report, all Directors have provided their records of training they received to the Company for record and a summary of which is set out on page 18 of this report.

Board Meetings

The Board met four times during the year ended 31 December 2017. In addition, the chairman of the Board met with the non-executive Directors once without the presence of the executive Directors during the Year.

The Board meets regularly over the Company's affairs and operations. At the Board meetings, the Directors considered and approved the financial results and budget, discussed the overall strategy as well as the operation and financial performance of the Group. All Directors are kept informed on a timely basis of major changes that may affect the Group's businesses, including relevant rules and regulations. The Directors either participated in the Board meetings in person or through electronic means of communication. At least 14 days' notice of the meetings was given. Board papers were provided to Directors in advance to enable them to prepare for the meetings and keep the Directors appraised of the latest developments and financial position of the Group. With the full support of the management of the Company, such Board papers and materials are provided in a timely manner and in a form and quality sufficient with appropriate explanation to enable the Board to make informed decisions.

All Directors have access to the advice and services of the Company Secretary to ensure that the Board procedures, and all applicable rules and regulations are followed. Directors are also entitled to seek independent professional advice in performing their duties at the Company's expense, where necessary.

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

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers. The coverage and the amount insured are reviewed annually by the Company. In 2017, no claims under the insurance policy were made.

DELEGATION BY THE BOARD

Management Functions

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

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

Board Committees and Corporate Governance Functions

To assist the Board in execution of its duties and to facilitate effective management, certain functions of the Board have been delegated to various committees, which review and make recommendations to the Board on specific areas. Chairmen and members of the committees are set out on page 18 of this annual report.

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

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

(1) Audit Committee

The Audit Committee currently comprises one non-executive Director, namely Mr. Yuan Qiang, two independent non-executive Directors, namely Dr. Lu Haitian and Mr. Lin Sen and is chaired by Mr. Lin Sen who has substantial accounting and related financial management expertise. The primary duties of the Audit Committee are (i) to review the Group's financial statements and published reports; (ii) to provide advice and comments thereon to the Board; and (iii) to review and supervise the effectiveness of the Group's financial reporting process, risk management and internal control procedures of the Group.

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

During the Year, the Audit Committee members met four times and its major works performed were reviewing the Group's financial results and reports on a quarterly basis, reviewing the continuing connected transactions of the Company, making recommendations to the Board on the re-appointment of former external auditor and the appointment of new external auditor, reviewing and approving the external auditor's audit and non-audit fee, reviewing the effectiveness of the risk management and internal control systems, reviewing and approving the internal audit plans and reviewing the adequacy of resources, qualifications and experience of staff of the Group's accounting, internal audit and financial reporting functions, and their training programmes and budget.

There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor.

(2) Remuneration Committee

The Remuneration Committee currently comprises one non-executive Director, namely Mr. Yuan Qiang and two independent non-executive Directors, namely Mr. Yan Hao and Mr. Lin Sen, and is chaired by Mr. Yan Hao. A majority of the members of the Remuneration Committee consists of independent non-executive Directors. The Remuneration Committee is responsible for reviewing the remuneration packages of the executive Directors and senior management as well as guidelines on salary revision and bonus distribution to the Group's employees.

During the Year, the Remuneration Committee members met twice and its major works performed were approving the proposal on discretionary bonus distribution to the management and employees of the Group, and reviewing and approving remuneration of Directors.

Details of remuneration of the Directors, chief executive and senior management are set out in notes 7 and 28(b) to the consolidated financial statements.

(3) Nomination Committee

The Nomination Committee currently comprises one non-executive Director, namely Mr. Pan Zhengming and two independent non-executive Directors, namely Dr. Lu Haitian and Mr. Yan Hao, and is chaired by Mr. Pan Zhengming. The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, and makes recommendations to the Board on appointment and re-appointment of Directors.

During the Year, the Nomination Committee members met once and its major works performed were reviewing the structure, size, composition and diversity of the Board, assessing the independence of the independent non-executive Directors, considering and making recommendation to the Board on re-election of the Directors.

Corporate Governance Functions

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

2017 BOARD AND COMMITTEE ATTENDANCE AND TRAINING RECORDS

The attendance of the Directors at the Annual General Meeting, Extraordinary General Meetings, Board meetings, and Board Committee meetings of the Company and training for the Year was as follows:

	Attendance/Number of Meeting(s) held during the respective term of services						
	Board	Audit Committee	Nomination Committee	Remuneration Committee	2017 Annual General Meeting	2017 Extraordinary General Meeting	Type of Training
Directors							
Mr. Pan Zhengming* (note 1)	2/2		n/a		n/a	2/2	A, B
Mr. Wang Bingzhong# (note 2)	2/2				n/a	2/2	A, B
Mr. Wu Jian# (note 3)	2/2				n/a	2/2	A, B
Mr. Yuan Qiang* (note 4)	n/a	n/a		n/a	n/a	n/a	A, B
Dr. Lu Haitian+ (note 5)	2/2	2/2	n/a		n/a	2/2	A, B
Mr. Yan Hao+ (note 6)	1/2		n/a	1/1	n/a	2/2	A, B
Mr. Lin Sen+ (note 7)	2/2	2/2		1/1	n/a	2/2	A, B
Resigned Directors							
Mr. Tsui Che Yin, Frank (note 8)	2/2	2/2			1/1	n/a	A, B
Mr. Ko Chun Fung, Henry (note 9)	2/2		1/1		1/1	n/a	A, B
Mr. Tsang Yuen Wai, Samuel (note 10)	2/2				1/1	n/a	A, B
Mr. Tam Chi Wai, Dennis (note 11)	2/2			1/1	1/1	n/a	A, B
Mr. Tsoi, David (note 12)	2/2	2/2	1/1	1/1	1/1	n/a	A, B
Mr. Pang Hing Chung, Alfred (note 13)	2/2	2/2	1/1		1/1	n/a	A, B
Ms. Chan Po Yi, Patsy (note 14)	2/2	2/2	1/1	1/1	1/1	n/a	A, B
Mr. Yu Min (note 15)	2/2	2/2		1/1	n/a	2/2	A, B
Total number of meetings held during the year:	**4**	**4**	**1**	**2**	**1**	**2**	

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

Notes:

1. Appointed as a non-executive Director on 10 July 2017, the Chairman and a member and the chairman of the Nomination Committee

2. Appointed as an executive Director on 19 June 2017 and appointed as the Chief Executive Officer on 10 July 2017

3. Appointed as an executive Director on 19 June 2017

4. Appointed as an non-executive Director on 2 January 2018, a member of the Audit Committee and a member of the Remuneration Committee

5. Appointed as an independent non-executive Director on 10 July 2017, a member of the Audit Committee and a member of the Nomination Committee

6. Appointed as an independent non-executive Director on 10 July 2017, a member and the chairman of the Remuneration Committee and a member of the Nomination Committee

7. Appointed as an independent non-executive Director on 10 July 2017, a member and the chairman of the Audit Committee and a member of the Remuneration Committee

8. Resigned as a non-executive Director on 10 July 2017 and accordingly ceased to be the chairman of the Board and a member of the Audit Committee

9. Resigned as an executive Director and chief executive officer on 10 July 2017 and accordingly ceased to be a member of the Nomination Committee, and a member and the chairman of the Executive Committee

10. Resigned as an executive Director on 10 July 2017 and accordingly ceased to be a member of the Executive Committee

11. Resigned as an executive Director on 10 July 2017 and accordingly ceased to be a member of the Remuneration Committee and a member of the Executive Committee

12. Resigned as an independent non-executive Director on 10 July 2017 and accordingly ceased to be a member and the chairman of the Audit Committee, a member and the chairman of the Remuneration Committee, and a member of the Nomination Committee

13. Resigned as an independent non-executive Director on 10 July 2017 and accordingly ceased to be a member of the Audit Committee and a member of the Nomination Committee

14. Resigned as an independent non-executive Director on 10 July 2017 and accordingly ceased to be a member of the Audit Committee, a member of Remuneration Committee, and a member and the chairman of the Nomination Committee

15. Resigned as a non-executive Director on 2 January 2018 and accordingly ceased to be a member of the Audit Committee and a member of the Remuneration Committee

(A) Reading regulatory updates

(B) Attending seminar/conferences relevant to the business or directors' duties

COMPANY SECRETARY

The Company Secretary supports the Board and Board Committees and facilitates good information flow between them and the Company's management. During the year, the Company has appointed Ms. Chow Chiu Man, Mandy, a full time employee of the Company, as its company secretary with effect from 10 July 2017, following the resignation of the joint company secretaries (namely, Mr. Leung Hoi Wai, Vincent and Ms. Chan Yuen Mei, Claudia) on the same date. The biographical details of Ms. Chow is set out in the section headed "Biographical Details of Directors and Senior Management" on page 11 of this annual report.

Ms. Chow reports directly to Mr. Wang Bingzhong, the Chief Executive Officer and executive Director. All Directors have access to the Company Secretary's advice and services. Being the primary channel of communications between the Company and the Stock Exchange, the Company Secretary assists the Board in implementing and strengthening the Group's corporate governance practices.

During the Year, each of Ms. Chow, Mr. Leung and Ms. Chan has complied with the relevant professional training requirements under Rule 5.15 of the GEM Listing Rules.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board is responsible for presenting a balanced, clear and comprehensive, assessment of the Group's performance, position and prospects in all corporate communications. Management provides the Board with monthly updates, with a view to giving it a balanced and understandable assessment of the Group's performance, financial position and prospects to enable the Board as a whole and each Director to discharge their duties.

The Directors are responsible for the preparation of the Group's consolidated financial statements which give a true and fair view of the Group's state of affairs, results and cash flows for the year. In preparing the consolidated financial statements, the Directors have selected suitable accounting policies and applied them consistently; made prudent, fair and reasonable judgments and estimates, and prepared the consolidated financial statements on a going concern basis.

The statement of the auditor of the Company about its responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 47 to 50.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Risk Management and Internal Control

Responsibility

The Group upholds the highest standards of integrity and credibility across all levels of its organization.

The Board acknowledges its responsibility for establishing and maintaining sound systems of internal control and risk management on a going basis to safeguard the shareholders' investment and the Group's assets. The Group's internal control system is designed to safeguard assets against misappropriation and unauthorised disposition and to manage operational risks. Review of the Group's internal controls covers major financial, operational and compliance controls, as well as risk management functions. The controls built into the risk management system are intended to manage, not eliminate, significant risks in the Group's business environment.

To fulfill this responsibility, the executive Directors are assigned to oversee the implementation of the Group's internal controls and risk management policy and to monitor the business and operations of business units of the Group. The Board also assigned the Audit Committee to review and supervise the financial reporting process and oversee the risk management and internal control systems of the Group.

Risk Management System

A risk management taskforce in overseeing and assessing the Group's risk management framework was set up under the Audit Committee and a risk management policy was adopted by the Board.

The risk management policy provides a risk assessment framework to identify and evaluate the material business risk, operational risk, financial risk and compliance risk. The risk management taskforce assists the Board and the Audit Committee in overseeing the risk management system, which focuses on the leading, coordination of works during the financial year, including risk identification, risk assessment, risk recommendation, risk management reporting and the establishment of the risk inventory of the Group based on the results of the risk assessment work performed with greatest perceived risks through inquiries with key management personnel.

During the Year, the Group's Internal Audit team assisted the risk management taskforce to review the Group's risk management framework and conducted risk assessment on different categories. Results of the work covering areas such as finance, governance, operations, compliance, strategic and planning risks were submitted to the executive Directors, Audit Committee and the Board for review and discussion. Those risks identified were considered to be in line with the Company's overall risk appetite and objectives.

Internal Control System

The Group's internal audit team, which reports directly to the Audit Committee, provides the Audit Committee and the Board with useful information and recommendations on the adequacy and effectiveness of the Group's internal control system. Internal audit reports are submitted to the Audit Committee and the Board for review with recommendations adopted to further enhance the effectiveness of the internal controls.

Procedures and Internal Controls for the Handling and Dissemination of Inside Information

The Group complies with requirements of the Securities and Futures Ordinance ("SFO") and the GEM Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the safe harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensuring that information contained in announcements are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

Audit Committee Supervision

The Audit Committee holds the necessary meetings with the Company's chief financial officer, the internal audit team and the external auditor to review the financial statements and auditor's reports on financial, internal control and risk management matters. The Audit Committee reports to the Board on significant internal control and risk management matters, suspected frauds or irregularities, and alleged infringement of laws, rules and regulations, which come to their attention.

The Board, through the Audit Committee, has conducted a review of the effectiveness of the Group's risk management and internal control systems for 2017 covering all material financial, operational and compliance controls and risk management functions, and considers that the systems are adequate and effective. The Board, through the Audit Committee, has also reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and final reporting functions and considers that they are adequate.

Auditors' Remuneration

For the Year, the fees paid and payable to the Company's auditor, Ernst & Young and other Ernst & Young network firms, are approximately HK$720,000 (2016: HK$1,100,000) for audit services and HK$20,000 (2016: HK$180,000) for non-audit services. The non-audit services mainly included tax services.

Compliance Officer

Mr. Wang Bingzhong, the Chief Executive Officer and an executive Director, is the compliance officer of the Company. Please refer to his biographical details as set out in the "Biographical Details of Directors and Senior Management" in this annual report.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to Convene an Extraordinary General Meeting

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

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

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

Procedures for Putting Forward Proposal at General Meetings

Shareholders are welcomed to put forward proposals relating to the operations and management of the Group to be discussed at general meetings. The proposals shall be sent to the company secretary of the Company by a written requisition with his/her/its detailed contact information to the Company's head office and principal place of business (details of which are set out in the section headed "Corporate Information" of this annual report). Shareholders who wish to put forward a proposal should convene an extraordinary general meeting by following the procedures set out in "Procedures for Shareholders to Convene an Extraordinary General Meeting" above.

Right to Put Enquiries to the Board

Shareholders have a right to put enquiries to the Board. All enquiries should be in writing and sent to the Company Secretary at Room 2001, 20th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong or by email to info@lotoie.com.

Procedures for Nomination of Directors for Election

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

COMMUNICATION WITH SHAREHOLDERS

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

The Chairman, Board Committees' chairmen (or their delegates) and the Company's auditor attended the 2017 AGM and were on hand to answer questions.

The Company Secretary responds to letters, emails and telephone enquiries from shareholders/investors. Shareholders and investors may contact the Company by email to info@lotoie.com or by mail to the Company Secretary at Room 2001, 20th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong. The website of the Company at www.lotoie.com also provides a medium to make information of the Group available to shareholders.

CONSTITUTIONAL DOCUMENTS

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

REPORT OF THE DIRECTORS

The directors (the "Directors") of the Company present their report and the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2017 (the "Year").

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries, an associate and joint ventures are set out in notes 1, 13 and 14 respectively to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Group for the Year and an indication of likely future developments in the Group's business can be found in the Chairman's Statement and the Management Discussion and Analysis set out on page 4 and pages 5 to 8 respectively of this annual report. No important event affecting the Group that has occurred since the end of the financial year ended 31 December 2017. An analysis of the Group's performance during the Year using financial key performance indicators is set out in the Group's Five-year Financial Summary on page 120 of this annual report.

KEY RISKS AND UNCERTAINTIES

Risk relating to the PRC economy

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

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

The Group's only supplier, namely Wu Sheng Computer Technology (Shanghai) Co., Ltd. (伍盛計算機科技(上海)有限公司) ("Wu Sheng"), accounted for 100% (2016: 100%) of the Group's total purchases; and (ii) the Group's largest customer, Beijing Intradak System Technology Co., Ltd. (北京英特達系統技術有限公司) ("Intradak") accounted for 50% (2016: 80%) of the Group's total revenue. This gives rise to a risk that the Group is heavily reliant on a major customer and a major supplier. However, due to the particular characteristics of the lottery industry in the PRC, it may not be commercially practicable to switch the Group's major supplier and customer prior to the commencement of the next procurement cycle.

The Group has been supplying approved lottery vending machines (also named lottery terminals) with specifications approved and selected by the CSLA upon authentication ("Approved LVMs") since 2008. "Authentication" refers to the approval and selection process of lottery vending machine(s) ("LVM(s)") conducted by the CSLA at the very beginning of the LVMs procurement cycle. Prior to the commencement of the LVMs procurement cycle, authorised providers of Approved LVMs to the CSLA must provide the specifications and models of the LVMs to the CSLA for evaluation and selection before they are able to begin supplying the CSLA lottery shops with the approved models of LVMs. In general, the duration of the LVMs procurement cycle is approximately 5 to 7 years. Hence, for every 5 to 7 year period, a substantial number of LVMs will be replaced. This timeframe is commonly referred to as the "LVMs procurement cycle of the CSLA". There is no clear-cut timeframe for when the LVMs procurement cycle begins and when it ends. In practice, the LVMs procurement cycle is subject to the CSLA's decisions, the actual demand on the replacement of old LVMs and the pace of opening of new CSLA lottery halls.

Intradak is one of the six authorised providers of the CSLA and it obtains and/or bids for the CSLA's contracts and/or tenders from the CSLA to supply Approved LVMs to the CSLA lottery shops. When Intradak obtains a contract from the CSLA, it places purchase orders with the Group which, in turn, the Group places purchase orders with Wu Sheng, the LVMs manufacturer.

At the very beginning of the LVMs procurement cycle, the CSLA will formulate guidelines, specifications and requirements in respect of the new LVMs for the upcoming LVMs procurement cycle. LVMs are usually divided into two categories: (i) lower-end LVMs; and (ii) higher-end LVMs. According to the past practice, the CSLA will only approve one lower-end LVM and one higher-end LVM for each authorised provider. As such, for each LVMs procurement cycle, Intradak, one of the six authorised providers, will only submit one lower-end LVM model and one higher-end LVM model manufactured by Wu Sheng for authentication. To the best knowledge of the Group, Intradak has not submitted LVMs manufactured by suppliers other than Wu Sheng for authentication.

The Group signed the contracts with Intradak and Wu Sheng separately with pricing power. Wu Sheng is responsible for the manufacturing and installation of the Approved LVMs while the Group is responsible for (i) LVMs' inspection and Product warranty; (ii) repair and maintenance services. Apart from these aforementioned services, the Group also provides market information and feedback from LVMs users to Wu Sheng so as to improve their product quality.

The Group has a long-term relationship with Wu Sheng and Intradak which can be traced back to 2008, since then the Group has enjoyed a strong relationship with Wu Sheng and Intradak and the parties have been cooperating well. The Group has worked closely with Wu Sheng to ensure customers receive consistent service quality. As mentioned above, for each procurement cycle of the CSLA, the CSLA selects the Approved LVMs through the authentication process. As such, once an Approved LVM is selected, the authorised provider would tend to provide the same Approved LVM throughout the whole LVM procurement cycle in order to avoid any unforeseeable risks, such as any incompatibility between an existing Approved LVM used by the customer and other Approved LVMs from another authorised supplier. The sourcing of Approved LVMs from Wu Sheng is solely a commercial decision based on the quality, consistency and pricing of its products. There is no indication that the Group is unable to source Approved LVMs from other suppliers.

As the purchase agreement between the Group and Wu Sheng dated 15 May 2017 is on a non-exclusive basis, the Group is entitled to source Approved LVMs from other authorised suppliers any time at its discretion. There are other Approved LVM suppliers in the market such as Intralot International Limited ("Intralot") and other independent third-party suppliers. Intralot is a minority shareholder of Precious Success Holdings Limited, which is one of the major subsidiaries of the Company. The Group established a business relationship with Intralot since 2008. The Group has worked closely with Intralot for China Welfare Lottery Issuance Centre in the PRC. In the unlikely event that the Group is unable to continue to source from Wu Sheng, it should not be difficult for the Group to obtain supplies from Intralot as well as from other suppliers.

Therefore, in light of the close business relationship with Wu Sheng, the Directors believe that it is not commercially practicable for either party to change the current partnership prior to the end of the procurement cycle of the CSLA, even though the purchase agreement is on a non-exclusive basis. Nonetheless, in order to reduce the Group's reliance on Wu Sheng, the Group intends to source certain Approved LVMs from other suppliers, if the terms are competitive and the quality of the LVMs is comparable, from the beginning of the next procurement cycle onwards. If other suppliers of Approved LVMs can match the commercial terms and product quality with those of Wu Sheng, the Group will endeavour to source certain of the Approved LVMs from such other suppliers.

Further information on the customers and supplier is set out below:

(I) *Customers*

(a) Background of the major customer and its relationship with the Group

Beijing Huancai Information Technology Ltd. (北京環彩信息技術有限公司) ("Beijing Huancai"), an indirect non wholly-owned subsidiary of the Company, distributes Approved LVMs to Intradak, which is one of the six authorised providers (the "Authorised Provider(s)") to supply Approved LVMs to the CSLA lottery shops and is one of the dominant players in the industry. The Group has established a long-term relationship with Intradak since 2008.

Typically, there is not much incentive for an Authorised Provider to change its supplier, since each supplier would generally have already established back-end arrangements in terms of technology and manufacturing know-how required to operate a specific Approved LVM which enables them to offer the most consistent quality at a competitive price. This effectively creates a stable long-term relationship between the supplier of an Approved LVM and an Authorised Provider.

(b) Credit terms granted to the major customer

Beijing Huancai offers a 60-day credit term to Intradak in general, which is in line with those granted to other customers.

(c) Details of the subsequent settlement of trade receivables with major customers

As per the settlement record, Intradak generally settles payment to Beijing Huancai within the stipulated credit term of 60 days.

(d) Risks associated with reliance on a major customer, and measures undertaken by the Group to mitigate such risks

Given the Group's reliance on Intradak, a major customer, in the event of any business failure by Intradak or any interruption in its business, or if it decides to discontinue its business relationship with the Group, the Group's business and hence its operation and financial position may be adversely affected.

The Company set up a risk management taskforce under the audit committee of the Board (the "Risk Management Taskforce") to oversee and assess the Group's risk management framework and a risk management policy was adopted by the Board. The risk management policy provides a risk assessment framework to identify and evaluate significant business, operational, financial and compliance risks. During the Year, the Risk Management Taskforce reviewed the Group's risk management framework, conduct a risk assessment and also provide solutions addressing any identified risks. Certain identified risks cover areas such as finance, governance, operations and compliance as well as strategic and planning risks. These identified areas of risk are considered to be in line with the Company's overall risk appetite and business objectives.

During the Year, the Group has managed to diversify its customer base by commencing suppling Approved LVMs to another customer. Sales to Intradak has reduced from 80% to 50% of the Group's revenue in the year ended 31 December 2016 and the Year, respectively.

(II) Suppliers

(a) Background of the major supplier and its relationship with the Group

Wu Sheng is principally engaged in the manufacturing of lottery terminals for the CSLA and China Welfare Lottery Issuance Centre through contracting with local authorised retailers, lottery-related POS products to worldwide lottery runners. Wu Sheng is the POS machine supplier of Intradak for the CSLA. The Group has established a long-term relationship with Wu Sheng since 2008.

(b) Credit terms granted by the major supplier

Wu Sheng offers a 60-day credit term to the Group, which is in line with those granted to its other customers and also in line with the credit term provided by other suppliers to the Group.

(c) Details of the subsequent settlement of trade payable with the major supplier

As per the settlement record, the Group generally settled payment to Wu Sheng within the stipulated credit term of 60 days.

(d) Risks associated with reliance on the major supplier, and measures undertaken by the Group to mitigate such risks

Considering the Group's concentration of purchases from Wu Sheng as a single supplier, in the event of any business failure of Wu Sheng, any interruption in its business, or it decides to discontinue its business relationship with the Group, the Group's business and hence its operation and financial position may be adversely affected.

The Risk Management Taskforce will therefore also oversee and assess the level of risk associated with the reliance on a major supplier. The risk management policy, as described above, provides a risk assessment framework for the Group to identify and evaluate significant business, operational, financial and compliance risks. During the Year, the Risk Management Taskforce reviewed the Group's risk management framework, conduct a risk assessment and also provide solutions addressing any identified risks. Certain identified risks cover areas such as finance, governance, operations and compliance as well as strategic and planning risks. These identified areas of risk are considered to be in line with the Company's overall risk appetite and business objectives.

As mentioned above, the Group intends to set up a new sales team and intends to cooperate with Intralot. Given the demand for Approved LVMs are customer-driven, if the new sales team is able to obtain orders from new Authorised Providers or should the collaboration of the Group and Intralot bring in newly-bid projects, the Company will thus be able to introduce new LVM suppliers for new customers and new projects. Hence, the Group would thereby reduce its reliance on Wu Sheng.

The Group is reviewing and assessing its internal resources and business network and will continue to explore new business opportunities for leveraging our core experience and corporate resources. We believe that it is in the interests of the Group and our shareholders to diversify into new business areas and jurisdictions within the ambit of gaming and entertainment so as to achieve our goal of maximising long-term shareholders' value. The Group cannot rule out the possibilities of ceasing to trade Approved LVMs or the business related to CSLA in the future. After the end of the Year, the Group has commenced new business in the game industry.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

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

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

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

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

RESULTS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on pages 51 to 52 of this annual report.

The Directors do not recommend the payment of a dividend for the Year.

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The annual general meeting of the Company is scheduled to be held on Tuesday, 8 May 2018. For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from Thursday, 3 May 2018 to Tuesday, 8 May 2018 (both days inclusive), during which period no share transfers will be registered. In order to be eligible to attend and vote at the above annual general meeting, all transfer forms accompanied by relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 2 May 2018.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 120 of this annual report. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements during the Year in property, plant and equipment of the Group are set out in note 12 to the consolidated financial statements.

SHARE CAPITAL

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

PRE-EMPTIVE RIGHTS

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

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves available for distribution to the shareholders of the Company are approximately HK$347,937,000 (2016: HK$272,724,000) as calculated in accordance with statutory provisions applicable in Cayman Islands.

MAJOR CUSTOMERS AND SUPPLIERS

In 2017, the Group's largest supplier accounted for 100% (2016: 100%) of total purchases. The five largest suppliers in 2017 comprised 100% (2016: 100%) of the Group's total purchases.

In 2017, the Group's largest customer accounted for 50% (2016: 80%) of the Group's total revenue. The five largest customers of the Group in 2017 comprised 100% (2016: 100%) of the Group's total revenue.

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

DIRECTORS

The Directors during the Year and up to the date of this report are:

Mr. Pan Zhengming* *(Chairman)*	(appointed on 10 July 2017)
Mr. Wang Bingzhong# *(Chief Executive Officer)*	(appointed on 19 June 2017)
Mr. Wu Jian#	(appointed on 19 June 2017)
Mr. Yuan Qiang*	(appointed on 2 January 2018)
Dr. Lu Haitian+	(appointed on 10 July 2017)
Mr. Yan Hao+	(appointed on 10 July 2017)
Mr. Lin Sen+	(appointed on 10 July 2017)
Mr. Tsui Che Yin, Frank*	(resigned on 10 July 2017)
Mr. Ko Chun Fung, Henry#	(resigned on 10 July 2017)
Mr. Tsang Yuen Wai, Samuel#	(resigned on 10 July 2017)
Mr. Tam Chi Wai, Dennis#	(resigned on 10 July 2017)
Mr. Tsoi, David+	(resigned on 10 July 2017)
Mr. Pang Hing Chung, Alfred+	(resigned on 10 July 2017)
Ms. Chan Po Yi, Patsy+	(resigned on 10 July 2017)
Mr. Yu Min*	(resigned on 2 January 2018)

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

In accordance with Article 87 of the Articles of Association, Mr. Wang Bingzhong and Dr. Lu Haitian, will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

In accordance with Article 86(3) of the Articles of Association, Mr. Yuan Qiang, being a new Director appointed by the Board on 2 January 2018, shall retire at the forthcoming annual general meeting and is eligible to offer himself for re-election.

The Company has received annual confirmation from each of the independent non-executive Directors concerning his independence of the Company and the board of Directors considers that each of the independent non-executive Directors is independent of the Company.

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

With effect from 23 March 2018, Mr. Wu Jian ("Mr. Wu") resigned as an executive Director and Ms. Huang Lilan ("Ms. Huang") has been appointed as an executive Director. Ms. Huang, being a new Director appointed by the Board, shall retire at the forthcoming annual general meeting of the Company and is eligible to offer herself for re-election.

For details of the resignation of Mr. Wu, appointment of Ms. Huang and her biographical details, please refer to the Company's announcement on 23 March 2018.

DIRECTORS' SERVICE CONTRACTS

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

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, each Director is entitled to be indemnified out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which he may incur or sustain in or about the execution of the duties of his office or otherwise in relation thereto, save for matters in respect of his fraud or dishonesty.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, the interests and short positions of each Director and chief executive of the Company and their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the required standard of dealings by the Directors as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

Long Positions in the Shares and Underlying Shares of Associated Corporation of the Company

500.com Limited ("500.com") (a listed holding company of the Company)

(a) American depository shares ("ADS") of 500.com

Name of Director	Number of ADS held	Approximate percentage of total issued and outstanding shares of 500.com
	(Note 2)	(Note 1)
Mr. Pan Zhengming	240,000	0.57%

(b) American depository shares options ("ADS Options") and awarded shares granted by 500.com

Name of Director	Number of underlying shares held pursuant to ADS Options	Number of awarded shares held	Total	Approximate percentage of total issued and outstanding shares of 500.com
	(Notes 2 & 3)	(Notes 2 & 4)		(Note 1)
Mr. Pan Zhengming	268,333	5,000	273,333	0.64%
Mr. Wu Jian	34,667	–	34,667	0.08%
Mr. Yu Min (Note 5)	248,000	–	248,000	0.59%

Notes:

1. As at 31 December 2017, the total number of issued and outstanding shares of 500.com was 42,380,209.

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

3. Details of the 268,333 ADS Options held by Mr. Pan Zhengming are as follows:

   – 99,333 ADS Options granted on 19 June 2014 at exercise price of US$10.00 may be exercised from 19 June 2016 to 19 June 2018

   – 149,000 ADS Options granted on 19 June 2014 at exercise price of US$10.00 may be exercised from 19 June 2017 to 19 June 2019

– 10,000 ADS Options granted on 6 January 2016 at exercise price of US$18.51 may be exercised from 21 November 2016 to 22 November 2018

– 10,000 ADS Options granted on 16 December 2016 at exercise price of US$13.50 may be exercised from 21 November 2017 to 22 November 2019

Details of the 34,667 ADS Options held by Mr. Wu Jian are as follows:

– 666 ADS Options granted on 22 October 2013 at exercise price of US$4.00 may be exercised from 22 October 2015 to 21 October 2023

– 668 ADS Options granted on 22 October 2013 at exercise price of US$4.00 may be exercised from 22 October 2016 to 21 October 2023

– 13,333 ADS Options granted on 19 June 2014 at exercise price of US$10.00 may be exercised from 19 June 2016 to 19 June 2018

– 20,000 ADS Options granted on 19 June 2014 at exercise price of US$10.00 may be exercised from 19 June 2017 to 19 June 2019

Details of the 248,000 ADS Options held by Mr. Yu Min are as follows:

– 41,333 ADS Options granted on 19 June 2014 at exercise price of US$10.00 may be exercised from 19 June 2015 to 19 June 2018

– 82,667 ADS Options granted on 19 June 2014 at exercise price of US$10.00 may be exercised from 19 June 2015 to 19 June 2018

– 124,000 ADS Options granted on 19 June 2014 at exercise price of US$10.00 may be exercised from 19 June 2017 to 19 June 2019

4. Details of the 5,000 awarded shares held by Mr. Pan Zhengming are as follows:

– 5,000 awarded shares granted on 22 November 2017 will vest on 21 November 2018

5. Mr. Yu Min resigned as a Director with effect from 2 January 2018.

Save as disclosed above, none of the Directors or chief executive of the Company and their respective associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations as at 31 December 2017.

SHARE OPTION SCHEMES

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

REPORT OF THE DIRECTORS

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

A summary of the principal terms of the 2002 Share Option Scheme and 2012 Share Option Scheme are set out in note 23 to the consolidated financial statements.

Movements of share options granted under the 2002 Share Option Scheme and 2012 Share Option Scheme during the Year are set out below:

	Number of share options								
Type of participants	**As at 1 January 2017**	**Granted during the Year**	**Exercised during the Year** (Note 10)	**Lapsed during the Year**	**Cancelled during the Year**	**As at 31 December 2017**	**Date of grant**	**Exercise price (HK$)**	**Exercise period (Note)**
Under 2002 Share Option Scheme									
Director									
Mr. Pang Hing Chung, Alfred (note 8)	278,936	–	–	–	(278,936)	–	10.07.2009	0.263	4
	278,936	–	(278,936)	–	–	–	18.11.2010	0.109	5
Sub-total:	557,872	–	(278,936)	–	(278,936)	–			
Employees	200,831	–	–	–	(200,831)	–	31.03.2008	0.638	2
	111,574	–	–	–	(111,574)	–	10.07.2009	0.263	4
	167,361	–	–	–	(167,361)	–	18.11.2010	0.109	5
Sub-total:	479,766	–	–	–	(479,766)	–			
Others	52,300	–	–	(52,300)	–	–	12.01.2007	0.063	1
	2,942,779	–	–	(292,882)	(2,649,897)	–	31.03.2008	0.638	2
	2,956,728	–	–	(2,956,728)	–	–	16.02.2009	0.215	3
Sub-total:	5,951,807	–	–	(3,301,910)	(2,649,897)	–			
Total:	6,989,445	–	(278,936)	(3,301,910)	(3,408,599)	–			

Type of participants	Number of share options: As at 1 January 2017	Granted during the Year	Reclassified during the Year	Exercised during the Year	Lapsed during the Year	Cancelled during the Year	As at 31 December 2017	Date of grant	Exercise price (HK$)	Exercise period (Note)
Under 2012 Share Option Scheme										
Directors										
Mr. Tsui Che Yin, Frank (note 8)	6,386,400	–	–	–	–	(6,386,400)	–	02.07.2013	0.511	6
	14,495,000	–	–	–	–	(14,495,000)	–	09.10.2015	0.465	7
	20,881,400	–	–	–	–	(20,881,400)	–			
Mr. Ko Chun Fung, Henry (note 8)	3,193,200	–	–	–	–	(3,193,200)	–	02.07.2013	0.511	6
	14,495,000	–	–	–	–	(14,495,000)	–	09.10.2015	0.465	7
	17,688,200	–	–	–	–	(17,688,200)	–			
Mr. Tsang Yuen Wai, Samuel (note 8)	6,386,400	–	–	–	–	(6,386,400)	–	02.07.2013	0.511	6
	14,495,000	–	–	–	–	(14,495,000)	–	09.10.2015	0.465	7
	20,881,400	–	–	–	–	(20,881,400)	–			
Mr. Tam Chi Wai, Dennis (note 8)	6,386,400	–	–	–	–	(6,386,400)	–	02.07.2013	0.511	6
	14,495,000	–	–	–	–	(14,495,000)	–	09.10.2015	0.465	7
	20,881,400	–	–	–	–	(20,881,400)	–			
Mr. Tsoi, David (note 8)	1,248,000	–	–	–	–	(1,248,000)	–	09.10.2015	0.465	7
Mr. Pang Hing Chung, Alfred (note 8)	1,248,000	–	–	–	–	(1,248,000)	–	09.10.2015	0.465	7
Ms. Chan Po Yi, Patsy (note 8)	1,248,000	–	–	–	–	(1,248,000)	–	09.10.2015	0.465	7
Sub-total:	84,076,400	–	–	–	–	(84,076,400)	–			
Substantial shareholder	7,385,871	–	(7,385,871)	–	–	–	–	02.07.2013	0.511	6 & 9
	10,752,000	–	(10,752,000)	–	–	–	–	09.10.2015	0.465	7 & 9
Sub-total:	18,137,871	–	(18,137,871)	–	–	–	–			

Type of participants	As at 1 January 2017	Granted during the Year	Reclassified during the Year	Exercised during the Year	Lapsed during the Year	Cancelled during the Year	As at 31 December 2017	Date of grant	Exercise price (HK$)	Exercise period (Note)
	Number of share options									
Employees	868,000	–	–	–	–	(868,000)	–	09.10.2015	0.465	7
Sub-total:	868,000	–	–	–	–	(868,000)	–			
Others	1,596,600	–	7,385,871	–	–	(8,982,471)	–	02.07.2013	0.511	6 & 9
	8,364,000	–	10,752,000	–	–	(19,116,000)	–	09.10.2015	0.465	7 & 9
Sub-total:	9,960,600	–	18,137,871	–	–	(28,098,471)	–			
Total:	113,042,871	–	–	–	–	(113,042,871)	–			

Notes:

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

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

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

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

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

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

7. The share options granted on 9 October 2015 are divided into 3 tranches exercisable from 9 October 2015, 9 October 2016 and 9 October 2017 respectively to 8 October 2025.

8. Mr. Tsui Che Yin, Frank, Mr. Ko Chun Fung, Henry, Mr. Tsang Yuen Wai, Samuel, Mr. Tam Chi Wai, Dennis, Mr. Tsoi, David, Mr. Pang Hing Chung, Alfred and Ms. Chan Po Yi, Patsy resigned as Directors with effect from 10 July 2017.

9. These share options were granted to Mr. Ho, Lawrence Yau Lung as a then substantial shareholder of the Company who has ceased to be a substantial shareholder of the Company upon completion of share purchase on 6 June 2017. To better reflect his position in relation to the Group, his type has been reclassified from substantial shareholder to others.

10. In respect of the share options exercised during the year, the weighted average closing price of the Company's shares immediately before the date on which the share options were exercised was HK$0.255.

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

COMPETING INTEREST

As at 31 December 2017, none of the Directors, the controlling shareholder of the Company and their respective close associates (as defined in the GEM Listing Rules) had interest in any business which competes or may compete with the business of the Group and any other conflicts of interest with the Group.

CONTINUING CONNECTED TRANSACTIONS

On 15 May 2017, Beijing Huancai, a subsidiary of the Company, entered into a purchase agreement (the "Purchase Agreement") with Wu Sheng, pursuant to which, Beijing Huancai agreed to purchase from Wu Sheng the lottery terminals and parts for a term of three years commencing from 15 May 2017 and ending on 14 May 2020. Annual purchase caps of HK$55 million, HK$80 million, HK$90 million and HK$35 million have been set for each of the four years ending 31 December 2017, 2018, 2019 and 2020 respectively.

In view of the substantial change of the product models that Beijing Huancai requires, Beijing Huancai and Wu Sheng agreed to enter into the Purchase Agreement to supersede the previous purchase agreement entered into between Beijing Huancai and Wu Sheng on 22 October 2014.

Wu Sheng is an indirect wholly-owned subsidiary of GoReward Limited ("GoReward"), which is owned as to 50.002% by Global Crossing Holdings Ltd. and 49.998% by Intralot International Limited ("Intralot"). Intralot also holds 49% of Precious Success Holdings Limited ("Precious Success"), a subsidiary of the Company. Intralot is therefore a connected person of the Company under the GEM Listing Rules by virtue of its being a substantial shareholder of Precious Success. Wu Sheng, being a subsidiary of GoReward, is an associate of Intralot and, therefore, is also a connected person of the Company under the GEM Listing Rules. The entering into of the Purchase Agreement and the transactions contemplated thereunder constituted continuing connected transactions of the Company. Further details of the transactions were set out in the announcement of the Company dated 15 May 2017.

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

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

RELATED PARTY TRANSACTIONS

A summary of significant related party transactions is disclosed in note 28 to the consolidated financial statements. These transactions constitute the connected transactions of the Company but are exempt from any disclosure requirement under Chapter 20 of the GEM Listing Rules.

CONTROLLING SHAREHOLDER'S INTERESTS IN SIGNIFICANT CONTRACTS

Save as disclosed in note 28 to the consolidated financial statements, at no time during the Year had the Company or any of its subsidiaries, and the controlling shareholder or any of its subsidiaries entered into any contract of significance or any contract of significance for the provision of services by the controlling shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

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

As at 31 December 2017, according to the register of interests or short positions in shares required to be kept by the Company under Section 336 of the SFO, other than the interests of the Directors and chief executive of the Company, the following shareholder was interested in 5% or more of the issued shares of the Company:

Long positions in the shares of the Company

Name	Capacity	Number of shares held	Approximate percentage of total issued shares of the Company
			(Note)
500.com Limited	Beneficial owner	1,278,714,329	40.65%

Note:

As at 31 December 2017, the total number of issued shares of the Company was 3,145,935,836.

Save as disclosed above, the Company has not been notified of any other interests or short positions in the shares or underlying shares of the Company as at 31 December 2017.

EQUITY-LINKED AGREEMENTS

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

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

During the Year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

MANAGEMENT CONTRACTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders' interests. Information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 12 to 23 of this annual report.

EMOLUMENT POLICY

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

The emoluments of the Directors and senior management of the Group are decided by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market standards. Particulars of the emoluments of Directors on a named basis for the Year are set out in note 7 to the consolidated financial statements.

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

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

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

The Audit Committee, made up of a non-executive Director and two independent non-executive Directors, met four times during the Year. At the meetings, the Audit Committee reviewed the accounting principles and practices, the quarterly reports, the interim report and the annual report of the Group, and discussed auditing, risk management, internal controls and financial reporting matters with management.

CHARITABLE DONATIONS

During the Year, the Group did not make any charitable and other donations (2016: Nil).

AUDITOR

Messrs. Deloitte Touche Tohmatsu, who had acted as auditor of the Company in the preceding years, resigned as auditor of the Company with effect from 11 August 2017 and Ernst & Young, following the resignation of Messrs. Deloitte Touche Tohmatsu, was appointed as new auditor of the Company with effect from 8 September 2017. The appointment of new auditor of the Company was approved by the shareholders of the Company at an extraordinary general meeting held on 8 September 2017.

The consolidated financial statements for the year ended 31 December 2017 have been audited by Ernst & Young who will retire and being eligible, offer themselves for re-appointment at the 2018 annual general meeting of the Company.

On behalf of the Board

Wang Bingzhong
Chief Executive Officer and Executive Director

Hong Kong, 22 March 2018

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

a. Reporting Scope and Standard

This Environmental, Social and Governance ("ESG") Report provides an annual summary of the ESG activities of Loto Interactive Limited (the "Company") and its subsidiaries (collectively referred to as the "Group" or "we") during the period from 1 January 2017 to 31 December 2017. This ESG Report prepared in accordance with the ESG Reporting Guide issued by The Stock Exchange of Hong Kong Limited (the "HKEx ESG Guide"). The board of directors of the Company is committed to making ongoing improvements in corporate environmental and social responsibility in order to meet the changing expectations of society.

The Group is engaged in the provision of lottery-related technologies, systems and solutions to two state-run lottery operators in the People's Republic of China ("PRC"). This ESG report covers the activities of the Group's head office in Hong Kong because of its significance to the Company's impact. For the corporate governance section, please refer to pages 12 to 23 of this Annual Report.

b. Materiality Assessment

A materiality assessment is needed to identify the most "material" or relevant key performance indicators[1] ("KPIs") pertinent to the business nature and stakeholder's interests. This ESG Report focuses on sustainability issues which are material to the Group. The following three-step materiality assessment for identifying, prioritizing and validating the material issues for disclosure.

Step 1: Identification

A rigorous peer benchmarking was the chosen methodology to identify the more material issues to the lottery sector. The level of ESG disclosure among seven of the Company's major peer companies was assessed. Although their disclosure practices were not directly comparable as there were variances in the reporting standard adopted, commonalities in materiality could be identified.

A survey was launched and distributed to all our employees to collect their views on the Company's sustainability issues and risks. Almost all our employees responded to the survey.

Step 2: Prioritization

Results from the peer benchmarking exercise and employee survey were consolidated to identify a list of material ESG issues for the Group.

Step 3: Validation of the Material Issues

To align the materiality assessment results with the Company's overall business strategy, the consolidated selection from step 2 was brought forward for discussion with the management of the Company for final validation. As a result, the Company identified the list of material KPIs for disclosure.

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1 The HKEx ESG Guide is organized into two ESG subject areas – Environmental and Social. There are various aspects under the two subject areas and each aspect sets out key performance indicators.

ENVIRONMENTAL

The Group believes that increased environmental awareness is the key to environmental protection and wellness to the general community. It is the Group's policy to ensure compliance with applicable environmental laws and regulations and minimise our environmental footprint through efficient use of resources and adoption of pro-environmental technologies.

A1 Emissions

During the year, our Group's business does not generate significant emissions, water pollution and hazardous waste during the operation, except for greenhouse gas emissions and non-hazardous waste. The Group's head office is located in Hong Kong and the main emissions and wastes produced by the Group are primarily attributable to its use of electricity, water and paper.

Although the Company's business does not generate significant adverse environmental impact as compared with businesses in other sectors, the Company is committed to reducing greenhouse gas emissions and preserving natural resources. With electricity consumption as its main source of greenhouse gas emission, the Company frequently reminds its staff to practise energy-saving habits in office. The Group is not aware of any material non-compliance with the relevant laws and regulations that have a significant impact on the environment and natural resource.

Greenhouse Gases Emissions

In light of the rising concern over global warming, our Group strives to reduce that greenhouse gases generated from our office so as to relieve the climate change.

Greenhouse Gas Emissions Data in Total & Intensity

Total CO_2 Emissions	
Tonnes of CO_2	Tonnes of CO_2 per FTE[2]
21.03	4.2

Waste Management

Our Group upholds the principles of waste management and is committed to the proper handling and disposal of all wastes from our business activities. Green office practices such as encouraging employees to go paperless as much as possible by liming print outs as well as communicating via e-mail as opposed to fax. Employees are also encouraged to re-use paper, conserve paper usage by printing double-sided printing and copying and setting up recycling bins to minimize the disposal of wastes.

2 FTE: Full-time equivalent employees; excluding the part-time employees.

A2 Use of Resources

We implement multiple measures in enhancing energy efficiency, minimising the use of papers and reducing water consumption. Through actively monitoring and managing the use of resources, we aim to reduce our operating costs as well as our carbon footprints.

Electricity consumed by the head office is supplied by The Hongkong Electric Co., Ltd. During the year, the energy we consumed directly for our head office is as below:

Direct & Indirect Energy Consumption & Intensity

	Consumption (in 1,000 kWh)	Consumption Intensity (in 1000 kWh per FTE)
Total direct energy consumption[3]	/	/
Total indirect energy consumption from the use of electricity	30.58	6.12

The Group has introduced green office practice to reduce the energy consumption in head office and enhance the efficiency of use of resources. A summary of the practice is shown as below:

- Widespread adoption of multi-function photocopiers (with printing, scanning and fax functions).
- "Switch-off" policy for all idle equipment; encouraging employees to switch off (or onto energy-saving mode) computers monitors and other electrical appliances at the end of the working day or other times when they are not in use.
- Optimize use of natural light in offices and maintain the office temperature at 25 degree, which reduce the usage of excess electricity energy for lighting and air-conditioning.

Water Consumption

Our Group's head office in Hong Kong is the major source of our direct water consumption, which could be considered immaterial due to limited number of our staff and the nature of our Group's businesses. Further, as we operate in office premises of which both of the water supply and discharge are solely controlled by the building management of the office premises, it is considered that provision of water withdrawal and discharge data or sub-meter for individual occupant not feasible. However, in order to build the awareness on water conservation, our Group promotes water saving practices in the workplace. We encourage employees to reduce water use by placing reminder signs in the pantry.

3 The Company does not own a corporate fleet nor consume Towngas.

A3 The Environment and Natural Resources

Environmental Risk Management

Although the core business of our Group has remote impact on the environment and natural resources, as an ongoing commitment to good corporate citizenship, we recognise the responsibility in minimizing the negative environmental impact of our business operations and our investment portfolio, in order to achieve a sustainable development for generating long-term values to our stakeholders and community as a whole.

We regularly assess the environmental risks of our business, review the environmental practices and adopt preventive measures as necessary to reduce the risks, and ensure the compliance with relevant laws and regulations.

SOCIAL ASPECT

EMPLOYMENT AND LABOUR PRACTICES

B1 Employment

Human Resources Practices

Employees are our valuable assets. We strive to attract and retain talent. We have developed a written human resources policy and staff manual to govern the recruitment, promotion, discipline, working hours, leaves and other benefits of our employees, in accordance with the relevant laws and regulations.

The Group offer competitive remuneration packages to our employees, with discretionary bonuses issued based on individual performance and our business performance. A wide range of benefits including comprehensive medical and life insurance and retirement schemes are also provided to employees.

Equal Opportunity

The Company respects cultural and individual diversity. We believe that no one should be treated less favourably on his/her personal characteristics (i.e. gender, pregnancy, marital status, disability, family status, race, etc.). Opportunities for employment, training and career development are equally opened to all qualified employees.

There were no non-compliance cases noted in relation to employment laws and regulations for the year.

B2 Employment Health and Safety

Workplace Safety

We are committed to providing and maintaining a safe, healthy, and hygienic workplace for all employees. As office staff spends most of the time on computer work, the Company installed protective screens on monitors to reduce eye damage that may be caused by computer screens. Staff also constantly reminds each other to maintain appropriate viewing distance between eyes and computer screens, maintain good posture when working and do stretching exercises during rest breaks. The Company is in compliance with the Occupational Safety and Health Ordinance, Chapter 509 of the Laws of Hong Kong.

There were no non-compliance cases noted in relation to health and safety laws and regulations for the year.

B3 Development and Training

Employee Development

We acknowledge the importance of training for the development of our employees as well as our Group. To help nurture professional talents and to promote overall efficiency, increase the morale and loyalty of the employees, we encourage and support our employees in personal and professional training, through sponsoring training programmes, seminars, workshops and conferences, as well as reimbursement for external training courses to enhance their competencies in performing their jobs effectively and efficiently. We believe this is a mutually beneficial practice for achieving both personal and corporate goals as a whole.

B4 Labour Standards

The Group strictly abides by the Employment Ordinance of Hong Kong and other related labour laws and regulations in Hong Kong. To combat against illegal employment of child labour, underage workers and forced labour, the Human Resources Department responsible for recruitment requires the job applicants to provide valid identity documents prior to confirmation of employment, to ensure that all applicants are lawfully employable. The Human Resources Department is responsible to monitor and ensure compliance of the latest and relevant laws and regulations including those that prohibit child labour and forced labour.

There were no non-compliance cases noted in relation to labour standards laws and regulations for the year.

OPERATING PRACTICES

B5 Supply Chain Management

The Group attaches importance to integrity and has the same requirements for suppliers and partners. We will only choose reputable suppliers and partners with good business records, satisfactory products and services quality, and will not simply consider the cost. We strictly monitor the procurement process to ensure that there is no interests transfer or corruption of any kind.

In addition, we hope that suppliers and partners have similar practices in respect of environmental protection, employment, operating practice and other aspects with us. If we find any violation of the relevant environmental protection, employment and other laws, we will immediately suspend the cooperation with such suppliers and partners. The Group will also evaluate the products and services provided by the supplier, check whether the supplier has fulfilled the product liability, report the relevant information to the relevant departments and management, and replace the supplier if necessary.

B6 Product Responsibility

The Group is engaged in the provision of lottery-related technologies, systems and solutions to two state-run lottery operators in the PRC. The Company adheres to the highest standards of business ethics, while policies to assure that product responsibility are securely in place. These ethics underpin how we conduct business with our suppliers. Suppliers are required to ensure that the lottery terminals and parts are not only meeting our specifications in terms of quality, volume, availability and cost but also the manner in which they operate and produce the products is ethical and sustainable.

The safety and quality of our products are our primary strategic objective. We consistently reassess the relevance of, and continually refine, our standards throughout the entire supply chain.

During the year, there was no violation of the laws and regulations relating to the quality of products and services.

Data Privacy Policy

The Group strictly abides by the provisions of the law and attaches great importance to the privacy of personal data to resolutely maintain and protect personal information. Only personal information needed for the business are collected and used subject to purposes mentioned in the course of collection unless with agreement from customers. We will not transfer or disclose any personal data to any entities other than the members of the Group without the consent, unless otherwise required by the laws or notification is given to customers in advance.

B7 Anti-corruption

We aim to maintain the highest standards of openness, uprightness and accountability and all our staff are expected to observe the highest standards of ethical, personal and professional conduct. We do not tolerate corruption, bribery, extortion, money-laundering and other fraudulent activities in connection with any of our business operations.

In addition to the code of conduct on anti-bribery and anti-corruption mentioned in our staff manual, we have implemented a whistleblowing policy for encouraging the reporting of suspected business irregularities. Ongoing review of the effectiveness of the internal control systems is conducted on a regular basis in preventing the occurrence of corruption activities.

There were no non-compliance cases noted in relation to corruption-related laws and regulations during the year.

COMMUNITY INVESTMENT

B8 Social Responsibility

As a corporate citizen, we promote social contributions throughout our staff to the local communities in which we operate. We place great emphasis on cultivating social responsibility awareness among our staff and encouraging them to better serve our community at work and during their personal time. We will try to maximise our social investments as possible in order to create a more favourable environment for our community and our business.

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of Loto Interactive Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Loto Interactive Limited (the "Company") and its subsidiaries (the "Group") set out on pages 51 to 119, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of 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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of 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 *Auditor's 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

KEY AUDIT MATTERS *(continued)*

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition as principal or agent	
During the year ended 31 December 2017, the Group has recorded revenue of HK$47,823,000 arising from the trading of lottery terminals and parts. The amount was material and significant judgement was exercised by management in determining whether the Group is acting as a principal or agent. The management of the Group takes into account the specific features and contractual terms in relation to sales transactions of trading of lottery terminals and parts and exercises judgement in determining whether the Group is acting as a principal or agent. In particular, they considered whether the Group bears primary responsibility for providing goods. The amount generated from trading of lottery terminals and parts are recognised at gross basis in accordance with the accounting policies set out in note 2.3 to the consolidated financial statements. Related disclosures are included in note 3 to the consolidated financial statements *Significant Accounting Judgments and Estimates*.	Our audit procedures in relation to revenue recognition as principal or agent included the following: • Checking the Group's revenue recognition polices by reviewing their accounting policies manual and discussing with the management, including their determination of whether the Group is acting as a principal rather than as an agent and agreed that these policies are in accordance with HKFRSs; • Obtaining an understanding of revenue process and evaluating the key controls over the Group's assessment of revenue recognition; • Evaluating and reviewing sales contracts and changes in contract terms and features to ensure that the Group has the primary responsibility for providing goods up to their customers' specification, respective warranty services and bear inventory risk and credit risk; • Performing tests of details, on a sample basis to assess whether the revenue recognition recognised complied with the Group's accounting policies.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism 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.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

- 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 auditor's 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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 partner on the audit resulting in this independent auditor's report is Tjen, Michael.

Ernst & Young
Certified Public Accountants
Hong Kong
22 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000 (Restated)
REVENUE	5	**48,827**	60,281
Cost of sales		**(46,485)**	(56,336)
Gross profit		**2,342**	3,945
Other income and gains	5	**5,585**	5,792
Selling expenses		**(1,829)**	(1,894)
Administrative expenses		**(24,432)**	(27,204)
Other expenses		**(58)**	(73)
Share of losses of:			
Joint ventures		**–**	(6)
LOSS BEFORE TAX	6	**(18,392)**	(19,440)
Income tax (expense)/credit	9	**(181)**	16,528
LOSS FOR THE YEAR		**(18,573)**	(2,912)
Attributable to:			
Owners of the parent		**(17,929)**	(2,303)
Non-controlling interests		**(644)**	(609)
		(18,573)	(2,912)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	11		
Basic		**HK(0.57) cents**	HK(0.07) cents
Diluted		**HK(0.57) cents**	HK(0.07) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	2017 HK$'000	2016 HK$'000 (Restated)
LOSS FOR THE YEAR	**(18,573)**	(2,912)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**600**	93
Share of other comprehensive loss of joint ventures	**–**	(9)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**600**	84
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**600**	84
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(17,973)**	(2,828)
Attributable to:		
Owners of the parent	**(16,670)**	(1,932)
Non-controlling interests	**(1,303)**	(896)
	(17,973)	(2,828)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	**2017** **HK$'000**	2016 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	12	**355**	229
Investment in an associate	13	**–**	–
Investments in joint ventures	14	**–**	230
Loan receivable	15	**94,214**	–
Prepayments for long-term assets		**1,695**	–
Structured notes	16	**50,086**	50,045
Total non-current assets		**146,350**	50,504
CURRENT ASSETS			
Structured notes	16	**50,116**	50,065
Trade receivables	17	**19,698**	890
Prepayments, deposits and other receivables	18	**5,284**	5,343
Bank deposits with original maturity over three months	19	**–**	245,664
Cash and cash equivalents	19	**208,138**	87,483
Total current assets		**283,236**	389,445
CURRENT LIABILITIES			
Trade payables	20	**18,155**	9,787
Other payables and accruals	21	**11,514**	12,153
Amount due to the Holding Company	28(b)	**1,447**	–
Amount due to a fellow subsidiary	28(b)	**–**	2,051
Tax payable		**3,469**	3,409
Total current liabilities		**34,585**	27,400
NET CURRENT ASSETS		**248,651**	362,045
TOTAL ASSETS LESS CURRENT LIABILITIES		**395,001**	412,549
Net assets		**395,001**	412,549

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	**2017** **HK$'000**	2016 HK$'000 (Restated)
EQUITY			
Equity attributable to owners of the parent			
Share capital	22	**31,459**	31,456
Reserves	24	**356,945**	373,193
		388,404	404,649
Non-controlling interests		**6,597**	7,900
Total equity		**395,001**	412,549

Pan Zhengming
Director

Wang Bingzhong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Attributable to owners of the parent								
	Share capital HK$'000 (note 22)	Share premium HK$'000	Share-based payment reserve HK$'000 (note 23)	Other reserve* HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2016	31,456	327,878	85,157	(5,255)	2,788	(42,273)	399,751	8,796	408,547
Loss for the year	–	–	–	–	–	(2,303)	(2,303)	(609)	(2,912)
Other comprehensive income/(loss) for the year:	–	–	–	–	371	–	371	(287)	84
Total comprehensive income/(loss) for the year	–	–	–	–	371	(2,303)	(1,932)	(896)	(2,828)
Equity-settled share-based payment expense	–	–	6,830	–	–	–	6,830	–	6,830
At 31 December 2016	31,456	327,878#	91,987#	(5,255)#	3,159#	(44,576)#	404,649	7,900	412,549

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Attributable to owners of the parent								
	Share capital HK$'000 (note 22)	Share premium HK$'000	Share-based payment reserve HK$'000 (note 23)	Other reserve* HK$'000	Exchange reserve HK$'000	(Accumulated losses)/ retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017	31,456	327,878	91,987	(5,255)	3,159	(44,576)	404,649	7,900	412,549
Loss for the year	–	–	–	–	–	(17,929)	(17,929)	(644)	(18,573)
Other comprehensive income/(loss) for the year:	–	–	–	–	1,259	–	1,259	(659)	600
Total comprehensive income/(loss) for the year	–	–	–	–	1,259	(17,929)	(16,670)	(1,303)	(17,973)
Equity-settled share-based payment expense	–	–	394	–	–	–	394	–	394
Issue of ordinary shares upon exercise of share options	3	50	(22)	–	–	–	31	–	31
Transfer of share-based payment reserve upon share options cancellation	–	–	(92,359)	–	–	92,359	–	–	–
At 31 December 2017	31,459	327,928#	–#	(5,255)#	4,418#	29,854#	388,404	6,597	395,001

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

These reserve accounts comprise the consolidated other reserves of HK$356,945,000 (2016: HK$373,193,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	**2017 HK$'000**	2016 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(18,392)**	(19,440)
Adjustments for:			
Equity-settled share-based payment expense		**394**	6,830
Depreciation of property, plant and equipment	6	**106**	116
Share of losses of joint ventures		**–**	6
Interest income	5	**(4,963)**	(5,444)
Loss/(gain) on disposal of items of property, plant and equipment	6	**7**	(17)
Gain on disposal of a joint venture	5	**(16)**	–
Exchange differences, net	5	**(414)**	(162)
		(23,278)	(18,111)
(Increase)/decrease in trade receivables		**(18,808)**	25,565
(Increase)/decrease in prepayments, deposits and other receivables		**(702)**	7,408
Increase/(decrease) in trade payables		**8,368**	(14,813)
Decrease in other payables and accruals		**(514)**	(261)
Decrease in amount due to a fellow subsidiary		**(2,051)**	(695)
Increase in amount due to the Holding Company		**1,447**	–
Cash used in operations		**(35,538)**	(907)
Income taxes paid		**(121)**	(739)
Net cash flows used in operating activities		**(35,659)**	(1,646)
CASH FLOWS FROM INVESTING ACTIVITIES			
Funds placed on bank deposits with original maturity over three months		**–**	(245,664)
Purchase of structured notes		**(50,000)**	(50,000)
Withdrawal of structured notes		**50,000**	–
Purchases of items of property, plant and equipment		**(231)**	(78)
Prepayments for long-term assets		**(1,695)**	–
Proceeds from disposal of items of property, plant and equipment		**–**	84
Withdrawal of bank deposits with original maturity over three months		**245,664**	322,698
Advance of loan to an independent third party		**(93,060)**	–
Interests received		**3,717**	3,205
Net proceeds from disposal of a subsidiary		**–**	232
Net cash flows from investing activities		**154,395**	30,477

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Repayment to)/advance from a related party		**(62)**	62
Proceeds from exercise of share options		**30**	–
Return of earnest money to a project partner		**–**	(56,496)
Net cash flows used in financing activities		**(32)**	(56,434)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**118,704**	(27,603)
Cash and cash equivalents at beginning of year		**87,483**	115,689
Effect of foreign exchange rate changes, net		**1,951**	(603)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**208,138**	87,483
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	**208,138**	87,483
Cash and cash equivalents as stated in the statement of cash flows		**208,138**	87,483

1. CORPORATE AND GROUP INFORMATION

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

Pursuant to a special resolution passed at an extraordinary general meeting held on 8 September 2017, the name of the Company was changed from MelcoLot Limited (新濠環彩有限公司) to Loto Interactive Limited (樂透互娛有限公司) with effect from 10 October 2017.

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the lottery business in the PRC.

In the opinion of the directors, the substantial shareholder of the Company is 500.com Limited (the "Holding Company"), which is listed in the New York Stock Exchange (stock code: WBAI).

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
Brighten Express Limited	Hong Kong	HK$1	100%	–	Investment holding
Rising Move International Limited ("Rising Move")	BVI	US$100	100%	–	Investment holding
Precious Success Holdings Limited ("Precious Success")	BVI	US$200	–	51%	Investment holding
PAL Development Limited	Hong Kong	HK$250,000,000	–	51%	Investment holding
Global Score Asia Limited	BVI	US$20,000	–	100%	Investment holding
Trade Express Services Inc.	BVI	US$20,000	–	100%	Investment holding
Instant Glory Holdings Limited	BVI	US$100	100%	–	Investment holding
Express Wealth Enterprise Limited	Hong Kong	US$3,000,000	100%	–	Investment holding
Rise Accord Holdings Limited	BVI	US$100	–	100%	Investment holding
China Excellent Net Technology Investment Limited ("China Excellent")	Hong Kong	HK$200,000	–	95%	Provision of services for distribution of mobile lottery products
PAL (Beijing) Information Technology Limited*	PRC	HK$150,000,000	–	51%	Provision of management services for distribution of lottery products

NOTES TO FINANCIAL STATEMENTS

31 December 2017

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Company name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
Beijing Hua Ying Feng Cai Technology Limited*	PRC	RMB18,000,000	–	51%	Provision of management services for distribution of lottery products
精利風彩網路科技(上海)有限公司*	PRC	HK$500,000	–	95%	Provision of services for distribution of mobile lottery products
Beijing Huancai Information Technology Limited* ("Beijing Huancai")	PRC	RMB10,000,000	–	52.5%	Distribution of lottery terminals

* Companies registered as limited liability companies under PRC law.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

The nature and the impact of the amendments are described below:

(a) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in note 26 to the financial statements.

(b) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

(c) Amendments to HKFRS 12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance contracts*[3]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
Amendments to HKAS 28	*Long-term Interests of Associates and Joint Ventures*[2]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28[1]
Annual Improvements 2015-2017 Cycle	Amendments to a number of HKFRSs[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below. Of those standards, HKFRS 9 and HKFRS 15 will be applicable for the Group's financial year ending 31 December 2018 and are expected to have a insignificant impact upon adoption. Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group, including expectations of the application of transitional provision options and policy choices. The actual impacts upon adoption could be different depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally adopted.

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During the year 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

Upon adoption of HKFRS 9, the classification and measurement of financial assets depends on two assessments: the financial asset's contractual cash flow characteristics and the entity's business model for managing the financial asset. The Group has assessed that some financial assets, that are currently measured at amortised cost, would not pass the contractual cash flow characteristics test in HKFRS 9 and will be reclassified as financial assets at fair value through profit or loss.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The amendments are not expected to have any significant impact on the Group's financial statements.

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material. Also, the expected changes in accounting policies, will not have a material impact on net profit/loss nor the retained earnings from 2018 onwards.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two election recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 27 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$27,475,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise 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 type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associates or joint ventures, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed 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. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets *(continued)*

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

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 over 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;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

(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.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Machinery and equipment	25%-33.33%
Furniture, fixtures and equipment	25%-33.33%
Motor vehicles	10%-20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables. When financial assets are recognised initially, they are measured at fair value, plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

– the rights to receive cash flows from the asset have expired; or

– the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables, an amount due to the Holding Company and an amount due to a fellow subsidiary.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from rendering of services when services are rendered;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(d) dividend income, when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 23 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Central Pension Scheme

Subsidiaries operating in Mainland China have participated in the Central Pension Scheme (the "CPS") operated by the People's Republic of China ("PRC") government for all of their employees. These PRC subsidiaries are required to contribute a certain percentage of their covered payroll to the CPS to fund the benefits. The only obligation of the Group with respect to the CPS is to pay the ongoing required contributions under the CPS. Contributions under the CPS are charged to the statement of profit or loss as they become payable in accordance with the rules of the CPS.

Mandatory Provident Fund

The Company's subsidiaries incorporated in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The employer contributions vest fully with the employees when contributed into the MPF Scheme except for the employer's voluntary contributions, which are refunded to the Company's subsidiaries which are incorporated in Hong Kong when an employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currency of certain overseas subsidiaries, joint ventures and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group’s financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Judgements

The following is the critical judgement, apart from those involving estimation (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that has the most significant effect on the amounts recognised in the consolidated financial statements:

Revenue recognition

Significant directors' judgement is required in recognising revenue, principally in respect of whether the Group is acting as a principal or agent regarding the Group's trading of lottery terminals and parts. For the year ended 31 December 2017, the gross amount of revenue generated from the trading of lottery terminals and parts of HK$47,823,000 (2016: HK$59,401,000) has been recognised. The revenue recognition is in line with the Group's general policy of recognising revenue when goods are delivered. Further details are given in note 5 to the financial statements.

In making the judgement, the directors of the Company considered that the Group has (i) the latitude in establishing selling price of its products; (ii) the primary responsibility for providing goods and warranty services; and (iii) the Group bears the customers' credit risk on the receivable due from the customers. The directors of the Company are satisfied that the Group is acting as principal in the trading of lottery terminals and parts and recognised the relevant revenue on a gross basis.

Estimation uncertainty

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

Impairment of loan receivable, trade and other receivables

When there is objective evidence of an impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2017, the carrying amount of loan receivable was HK$94,214,000, net of impairment allowance of nil (2016: Nil). As at 31 December 2017, the carrying amount of trade receivables was HK$19,698,000, net of allowance for doubtful debts of nil (2016: HK$890,000, net of allowance for doubtful debts of nil). As at 31 December 2017, the carrying amount of other receivables was HK$1,370,000, net of allowance for doubtful debts of nil (2016: HK$1,842,000, net of allowance for doubtful debts of HK$14,651,000). Further details are given in note 15, note 17 and note 18 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

Geographical information

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

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

	2017 **HK$'000**	2016 HK$'000
Non-current assets, excluding financial assets		
The PRC	**215**	149
Hong Kong	**1,835**	310
	2,050	459

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

Information about major customers

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

	2017 **HK$'000**	2016 HK$'000
Customer A[1]	**24,374**	48,060
Customer B[1]	**23,449**	11,341

[1] Revenue from the trading of lottery terminals and parts.

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, net of value-added tax and government surcharges during the year.

An analysis of revenue, other income and gains is as follows:

	Notes	2017 HK$'000	2016 HK$'000 (Restated)
Revenue			
Trading of lottery terminals and parts		**47,823**	59,401
Provision of services and solutions for the distribution of lottery products		**1,004**	880
		48,827	60,281
Other income			
Interest income	6	**4,963**	5,444
Others		**192**	169
		5,155	5,613
Gains			
Foreign exchange gains, net	6	**414**	162
Gain on disposal of items of property, plant and equipment		**–**	17
Gain on disposal of a joint venture	6	**16**	–
		430	179
Other income and gains		**5,585**	5,792

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	Notes	2017 HK$'000	2016 HK$'000 (Restated)
Cost of inventories sold		**46,485**	56,336
Depreciation	12	**106**	116
Minimum lease payments under operating leases		**2,812**	1,179
Auditor's remuneration		**720**	1,111
Other staff costs (excluding directors' and chief executive's remuneration (note 7)):			
Salaries and other benefits		**2,755**	4,057
Bonus		**1,871**	163
Pension scheme contributions		**736**	698
Equity-settled share option expense		**260**	1,873
		5,622	6,791
Interest income	5	**(4,963)**	(5,444)
Loss/(gain) on disposal of items of property, plant and equipment		**7**	(17)
Gain on disposal of a joint venture	5	**16**	–
Foreign exchange differences, net	5	**(414)**	(162)

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable GEM Rules, and section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2017 HK$'000	2016 HK$'000
Fees	**1,108**	468
Other emoluments:		
Salaries, allowances and benefits in kind	**3,531**	2,574
Bonus	**6,319**	429
Pension scheme contributions	**24**	18
Equity-settled share-based payment expense	**134**	4,957
	11,116	8,446

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

During the year, none of the directors were granted share options.

(a) Independent non-executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Bonus# HK$'000	Pension scheme contributions HK$'000	Equity-settled share-based payment expense HK$'000	Total remuneration HK$'000
2017						
Mr. Tsoi, David*	**89**	**–**	**–**	**–**	**6**	**95**
Mr. Pang Hing Chung, Alfred*	**76**	**–**	**–**	**–**	**6**	**82**
Ms. Chan Po Yi, Patsy*	**82**	**–**	**–**	**–**	**6**	**88**
Dr. Lu Haitian*	**119**	**–**	**–**	**–**	**–**	**119**
Mr. Yan Hao*	**119**	**–**	**–**	**–**	**–**	**119**
Mr. Lin Sen*	**119**	**–**	**–**	**–**	**–**	**119**
	604	**–**	**–**	**–**	**18**	**622**

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Bonus# HK$'000	Pension scheme contributions HK$'000	Equity-settled share-based payment expense HK$'000	Total remuneration HK$'000
2016						
Mr. Tsoi, David*	168	–	–	–	94	262
Mr. Pang Hing Chung, Alfred*	144	–	–	–	94	238
Ms. Chan Po Yi, Patsy*	156	–	–	–	94	250
	468	–	–	–	282	750

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(b) Executive directors, non-executive directors and the chief executive

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Bonus# HK$'000	Pension scheme contributions HK$'000	Equity-settled share-based payment expense HK$'000	Total remuneration HK$'000
2017						
Executive directors:						
Mr. Tsang Yuen Wai, Samuel***	–	–	650	–	29	679
Mr. Tam Chi Wai, Dennis***	–	–	1,250	–	29	1,279
Mr. Wu Jian***	133	–	–	–	–	133
	133	–	1,900	–	58	2,091
Non-executive directors:						
Mr. Tsui Che Yin, Frank**	–	–	400	–	29	429
Mr. Yu Min**	119	–	–	–	–	119
Mr. Pan Zhengming**	119	–	–	–	–	119
	238	–	400	–	29	667
Chief executives:						
Mr. Ko Chun Fung, Henry##	–	2,389	3,819	18	29	6,255
Mr. Wang Bingzhong##	133	1,142	200	6	–	1,481
	133	3,531	4,019	24	29	7,736
	504	3,531	6,319	24	116	10,494

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(b) Executive directors, non-executive directors and the chief executive *(continued)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Bonus# HK$'000	Pension scheme contributions HK$'000	Equity-settled share-based payment expense HK$'000	Total remuneration HK$'000
2016						
Executive directors:						
Mr. Tsang Yuen Wai, Samuel***	–	–	–	–	1,185	1,185
Mr. Tam Chi Wai, Dennis***	–	–	–	–	1,185	1,185
	–	–	–	–	2,370	2,370
Non-executive director:						
Mr. Tsui Che Yin, Frank**	–	–	–	–	1,185	1,185
Chief executive:						
Mr. Ko Chun Fung, Henry##	–	2,574	429	18	1,120	4,141
	–	2,574	429	18	4,675	7,696

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

\# The bonus is recommended by the Remuneration Committee and is approved by the board of directors, having regard to the individual's contribution to the Group.

* On 10 July 2017, Mr. Tsoi,David, Mr. Pang Hing Chung, Alfred and Ms. Chan Po Yi, Patsy were resigned as independent non-executive directors; and Dr. Lu Haitian, Mr. Yan Hao and Mr. Lin Sen were appointed as independent non-executive directors on 10 July 2017.

** On 10 July 2017, Mr. Tsui Che Yin, Frank was resigned as a non-executive director; Mr. Pan Zhengming was appointed as a non-executive director on 10 July 2017; and Mr. Yu Min was appointed as a non-executive director on 11 July 2017, and resigned on 2 January 2018.

*** On 10 July 2017, Mr. Tsang Yuen Wai, Samuel and Mr. Tam Chi Wai, Dennis were resigned as executive directors; and Mr. Wang Bingzhong and Mr. Wu Jian were appointed as executive directors on 19 June 2017.

\## On 10 July 2017, Mr. Ko Chun Fung, Henry was resigned as the chief executive and Mr. Wang Bingzhong was appointed as the chief executive officer on 10 July 2017.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three directors and the chief executive (2016: three directors and the chief executive), details of whose remuneration are included in note 7 above. Details of the remuneration for the year of the remaining one (2016: one) highest paid employee who is neither a director nor chief executive of the Company is as follows:

	2017	2016
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**594**	711
Bonus	**200**	59
Pension scheme contributions	**18**	18
Equity-settled share-based payment expense	**2**	13
	814	801

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2017	2016
Nil to HK$1,000,000	**1**	1

During the year, all outstanding share options which were granted to a non-director and non-chief executive highest paid employee in respective of his service to the Group in previous years were cancelled, further details of which are included in the disclosures in note 23 to the financial statements. With the cancellation of all outstanding share options under the two share option schemes, the fair value and accelerated amortisation of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

9. INCOME TAX

No provision for Hong Kong profits tax has been made as the Hong Kong subsidiaries did not generate any assessable profits arising in Hong Kong during the year (2016: Nil).

Pursuant to the PRC Corporate Income Tax Law effective on 1 January 2008, the PRC subsidiaries are subject to corporate income tax ("CIT") at a statutory rate of 25% (2016: 25%) on their respective taxable income for the year ended 31 December 2017. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

	2017	2016
	HK$'000	HK$'000
Current – Mainland China		
Charge for the year	**165**	737
Underprovision/(overprovision) in prior years	**16**	(74)
Reversal of capital gain tax on disposal of the PRC subsidiary provided in prior years	**–**	(17,191)
Total tax charge/(credit) for the year	**181**	(16,528)

A reconciliation of the tax expense applicable to loss before tax at the applicable tax rate for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate to the effective tax rate, are as follows:

	2017		2016	
	HK$'000	**%**	HK$'000 (Restated)	%
Loss before tax	**(18,392)**		(19,440)	
Tax at the statutory tax rate	**(3,135)**	**16.5-25.0**	(3,051)	16.5-25.0
Adjustments in respect of current tax of previous periods	**16**	**(0.1)**	(74)	0.4
Reversal of capital gains tax on disposal of the PRC subsidiary provided in prior years	**–**	**–**	(17,191)	88.4
Profit and loss attributable to a joint venture	**(4)**	**–**	1	–
Income not subject to tax	**(796)**	**4.3**	(949)	4.9
Expenses not deductible for tax	**486**	**(2.6)**	1,602	(8.2)
Tax losses utilised from previous periods	**–**	**–**	(60)	0.3
Tax losses not recognised	**3,614**	**(19.7)**	3,194	(16.4)
Tax charge/(credit) at the Group's effective tax rate	**181**	**(1.0)**	(16,528)	85

9. INCOME TAX *(continued)*

At 31 December 2017, the Group had unused tax losses of HK$199,169,000 (2016: HK$177,500,000) available to offset against future taxable profits. No deferred tax asset has been recognised in respect of unused tax losses due to the unpredictability of future profit streams.

Included in unrecognised tax losses are losses of HK$51,916,000 (2016: HK$51,335,000) that are allowed to be carried forward and utilised against the taxable income of subsequent years. The loss carryforward period cannot exceed 5 years and expires between 2018 and 2022. Other losses of HK$147,253,000 (2016: HK$126,165,000) may be carried forward indefinitely.

At 31 December 2017, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiary established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in the subsidiary in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$1,140,000 (2016: HK$713,000).

10. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during the year 2017, nor has any dividend been proposed since the end of the reporting period (2016: Nil).

11. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the loss for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 3,145,768,000 (2016: 3,145,657,000) in issue during the year, as adjusted to reflect exercised share options during the year.

No adjustment has been made to the basic loss per share amounts presented for the year ended 31 December 2017 and 2016 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

The calculation of basic and diluted earnings per share is based on:

	2017 **HK$'000**	2016 HK$'000
Loss		
Loss attributable to ordinary equity holders of the parent for the purposes of basic and diluted loss per share	**(17,929)**	(2,303)

	2017 **'000**	2016 '000
Shares		
Weighted average number of ordinary shares in issue during the year for the purposes of the basic and diluted loss per share calculation	**3,145,768**	3,145,657

12. PROPERTY, PLANT AND EQUIPMENT

	Machinery and equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2017				
At 1 January 2017:				
Cost	4,957	180	657	5,794
Accumulated depreciation	(4,809)	(129)	(627)	(5,565)
Net carrying amount	148	51	30	229
At 1 January 2017, net of accumulated depreciation	148	51	30	229
Additions	222	9	–	231
Disposal	–	(7)	–	(7)
Depreciation provided during the year (note 6)	(90)	(16)	–	(106)
Exchange realignment	4	1	3	8
At 31 December 2017, net of accumulated depreciation	284	38	33	355
At 31 December 2017:				
Cost	5,218	165	706	6,089
Accumulated depreciation	(4,934)	(127)	(673)	(5,734)
Net carrying amount	284	38	33	355

12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Machinery and equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2016				
At 1 January 2016:				
Cost	4,945	179	1,092	6,216
Accumulated depreciation	(4,807)	(116)	(950)	(5,873)
Net carrying amount	138	63	142	343
At 1 January 2016, net of accumulated depreciation	138	63	142	343
Additions	73	5	–	78
Disposal	–	–	(67)	(67)
Depreciation provided during the year (note 6)	(58)	(15)	(43)	(116)
Exchange realignment	(5)	(2)	(2)	(9)
At 31 December 2016, net of accumulated depreciation	148	51	30	229
At 31 December 2016:				
Cost	4,957	180	657	5,794
Accumulated depreciation	(4,809)	(129)	(627)	(5,565)
Net carrying amount	148	51	30	229

13. INVESTMENT IN AN ASSOCIATE

	2017 HK$'000	2016 HK$'000
Cost of unlisted investments in an associate	**10,000**	10,000
Share of post-acquisition losses	**(10,000)**	(10,000)
	–	–

13. INVESTMENT IN AN ASSOCIATE *(continued)*

Particulars of the associate are as follows:

Name of associate	Place of incorporation	Principal place of operations	Proportion of nominal value of issued share capital held indirectly by the Group		Principal activities
			2017	2016	
ChariLot Company Limited ("ChariLot") *	Hong Kong	Hong Kong	**40%**	40%	Investment holding and provision of services for the distribution of lottery products

* On 21 June 2010, Rising Move, a wholly-owned subsidiary of the Company, entered into an agreement with an independent third party, Calo Investments Limited ("Calo"), for the formation of ChariLot. ChariLot was set up primarily to be a vehicle for the investment in China Foundation for Disabled Persons (中國殘疾人基金會) and provision of services for the distribution of lottery products in the PRC. ChariLot is beneficially owned as to 60% by Calo and 40% by Rising Move.

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

	2017 **HK$'000**	2016 HK$'000
Current assets	**36**	36
Non-current assets	**–**	–
Current liabilities	**(974)**	(974)
Loss and total comprehensive loss for the year	**(1)**	(63)

13. INVESTMENT IN AN ASSOCIATE *(continued)*

The Group has discontinued the recognition of its share of losses of the associate because of the share of losses of the associate exceeded the Group's interest in the associate and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of the associate for the year and cumulatively, are as follows:

	2017	2016
	HK$'000	HK$'000
Unrecognised share of losses of an associate for the year	–	(25)
Accumulated unrecognised share of losses of an associate	**(290)**	(290)

14. INVESTMENTS IN JOINT VENTURES

	2017	2016
	HK$'000	HK$'000
Cost of unlisted investments in joint ventures	**6,000**	15,871
Share of post-acquisition losses	**(6,000)**	(15,575)
Share of other comprehensive loss	–	(66)
	–	230

Particulars of the Group's joint ventures are as follows:

Name of joint ventures	Place of incorporation and operation	Class of shares held	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activities
			2017	2016	**2017**	2016	
PALTECH Company Limited ("PALTECH") (Note a)	Hong Kong	Ordinary	**60%**	60%	**60%**	60%	Inactive
BCN Integrated Resorts 2, S.A.U. ("BCN") (Note b)	Spain	Ordinary	–	50%	–	50%	Installation and exploitation of casinos in Spain

14. INVESTMENTS IN JOINT VENTURES *(continued)*

Notes:

(a) The Company indirectly owns a 60% equity interest in PALTECH. Pursuant to certain terms and conditions given in the shareholders' agreement, the financial and operating policies of PALTECH require approval from 75% of the equity holders. PALTECH is jointly controlled by the Group and the other shareholder, as such, it is accounted for as a joint venture of the Group. The Group has discontinued the recognition of its share of losses of this joint venture. During the year ended 31 December 2017, there was no unrecognised share of losses of the joint venture (2016: loss of HK$6,000). The cumulative unrecognised share of losses of the joint venture amounted to HK$210,000 (2016: HK$210,000) as at 31 December 2017.

(b) The Company indirectly owns a 50% equity interest in BCN and the remainder is owned by Veremonte Espana, S.L.U. ("Veremonte"). BCN was formed for the purpose of submitting an application for participation in the tender for the award of authorisations for construction and exploitation of casinos in the recreational tourist center of Vila-Seca and Salou, near Barcelona, Spain. Pursuant to certain terms and conditions in the shareholders' agreement, the relevant activities of BCN require unanimous consent of both the shareholders and accordingly BCN is classified as a joint venture of the Group. As announced by the Company on 9 October 2015, the Group had agreed with Veremonte that BCN would not participate in the second phase of the tender process. A notice of withdrawal from the tender process was sent by BCN to the Generalitat of Catalonia in Spain on 8 October 2015 and BCN was wound up in due course. The winding up process was completed on 8 May 2017.

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2017 **HK$'000**	2016 HK$'000
Share of the joint ventures' losses for the years	–	(6)
Share of the joint ventures' other comprehensive loss	–	(9)
Share of the joint ventures' total comprehensive loss	–	(15)
The unrecognised share of total comprehensive loss of joint ventures for the year	–	(6)
Cumulative unrecognised share of total comprehensive loss of joint ventures	**(210)**	(210)
Aggregate carrying amount of the Group's interests in joint ventures	–	230

15. LOAN RECEIVABLE

On 18 October 2017, the Company granted a loan ("Loan") to an independent third party, Yourich Inc Limited (the "Borrower"), in the principal amount of HK$99,000,000 at the interest rate of 6% per annum for a term of two years. The interest for the first twelve months (being HK$5,940,000) shall be paid by the Borrower on the drawdown date and made out of and deducted from the proceeds of the principal of the Loan. The Loan was guaranteed by Ms. Liu He (the "Guarantor"), a director and sole beneficial owner of the Borrower and was secured by 95% of the entire equity interests in Artix Investment Co., Ltd. (the "Target") held by the Guarantor and any rights and interests derived thereof. The Target is a company incorporated in the PRC and a non-wholly-owned subsidiary of the Borrower.

The principal amount of the Loan together with all accrued and unpaid interests shall be repayable in full upon expiry of two years after the drawdown date. The Borrower may prepay the principal amount of the Loan in full at any time before the maturity date together with corresponding interest accrued. However, if the principal amount of the Loan is prepaid before the expiry of the first twelve months after the drawdown date, the interest paid for the first twelve months shall not be returned to the Borrower.

In the opinion of the directors, as at 31 December 2017, the fair value of the collateral approximated to HK$185,505,000. The Group seeks to maintain strict monitoring over the loan receivable and the financial performance of the Borrower. Overdue balances will be regularly reviewed by senior management.

16. STRUCTURED NOTES

On 27 June 2016, the Group subscribed, at par, for 24-month puttable step-up coupon notes in the principal amount of HK$50,000,000 (the "2016 Notes") from BOCI Financial Products Limited (the "Issuer"). The 2016 Notes are interest-bearing at progressive rates ranging from 0.86% to 1.72% payable at the end of each quarter (the "Interest Payment Date"), with a maturity date on 29 June 2018.

On 24 July 2017, the Group further subscribed, at par, for 24-month puttable step-up coupon notes issued by the Issuer in a principal amount of HK$50,000,000 (the "2017 Notes", together with the 2016 Notes collectively referred to as the "Notes"). The 2017 Notes are interest-bearing at progressive rates ranging from 0.79% to 2.70% payable at the Interest Payment Date, with a maturity date on 31 July 2019.

The Group has the right to put the Notes, in whole but not in part, to the Issuer at par plus accrued interest on each Interest Payment Date from, and including, the fifth Interest Payment Date to, and including the Interest Payment Date immediately preceding the maturity date. If the Group exercises its right to put the Notes, the Issuer will have a corresponding obligation to redeem the Notes in respect of which the right to put has been exercised. The directors of the Company does not expect that the Notes will be redeemed early.

17. TRADE RECEIVABLES

	2017 **HK$'000**	2016 HK$'000
Trade receivables	**19,698**	890
Impairment	**–**	–
	19,698	890

17. TRADE RECEIVABLES *(continued)*

The Group's trading terms with its customers are usually on credit, in some instances where payment in advance is required. The credit period is generally two months for two major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2017 **HK$'000**	2016 HK$'000
Within 30 days	**10,457**	330
31-90 days	**–**	560
91-180 days	**5,809**	–
Within one year	**3,432**	–
	19,698	890

An ageing analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2017 **HK$'000**	2016 HK$'000
Neither past due nor impaired	**9,285**	330
Less than 1 month past due	**1,172**	560
1-3 months past due	**9,241**	–
	19,698	890

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017	2016
	HK$'000	HK$'000
		(Restated)
Other receivables	**1,370**	16,493
Impairment	**–**	(14,651)
	1,370	1,842
Interests receivables	**248**	2,844
Deposits	**2,671**	–
Prepayments	**995**	657
	3,914	3,501
	5,284	5,343

The movements in provision for impairment of other receivables are as follows:

	2017	2016
	HK$'000	HK$'000
Balance at beginning of the year	**14,651**	15,549
Amount written off as uncollectible	**(14,651)**	–
Exchange realignment	**–**	(898)
Balance at end of the year	**–**	14,651

Included in the above provision of impairment as at 31 December 2016 was advance granted to an operator in respect of lottery retail outlets which have been closed down in previous years. The impairment provision was written off during the year.

None of the above assets is either past due or impaired.

19. CASH AND CASH EQUIVALENTS

	2017	2016
	HK$'000	HK$'000
Cash and bank balances	**208,138**	87,483
Time deposits	**–**	245,664
	208,138	333,147
Less: Time deposits:		
Bank deposits with original maturity over three months	**–**	(245,664)
Cash and cash equivalents	**208,138**	87,483

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$11,141,000 (2016: HK$21,385,000). The RMB is not freely convertible into other currencies, however, under Mainland China'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.

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less carrying a prevailing deposit interest rate at approximately 0.01% (2016: 0.27%) per annum. During the year of 2016, bank deposits with an original maturity over three months carry a fixed interest rate at approximately 1.64% per annum.

20. TRADE PAYABLES

An aging analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2017	2016
	HK$'000	HK$'000
Within 30 days	**10,256**	360
31-90 days	**–**	–
91-180 days	**5,518**	6,261
181-365 days	**2,381**	3,166
	18,155	9,787

The trade payables are non-interest-bearing and normally settled on 60-day terms.

21. OTHER PAYABLES AND ACCRUALS

	2017 HK$'000	2016 HK$'000 (Restated)
Other payables	**10,006**	12,153
Accruals	**1,508**	–
	11,514	12,153

Other payables are non-interest-bearing and have an average term of three months.

22. SHARE CAPITAL

Shares

	2017 HK$'000	2016 HK$'000
Issued and fully paid:		
3,145,935,836 (2016: 3,145,656,900) ordinary shares	**31,459**	31,456

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital HK'000
At 1 January 2016 and 31 December 2016	3,145,656,900	31,456
At 1 January 2017	3,145,656,900	31,456
Share options exercised (Note (a))	278,936	3
At 31 December 2017	3,145,935,836	31,459

Note:

(a) The subscription rights attaching to 278,936 share options were exercised at the subscription price of HK$0.109 per share, resulting in the issue of 278,936 new shares of HK$0.01 each, for a total cash consideration, before expenses, of HK$30,000. An amount of HK$3,000 was added to share capital and an amount of HK$22,000 was transferred from share option reserve to share premium upon the exercise of the share options.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 23 to the financial statements.

23. SHARE OPTION SCHEME

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

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

On 17 August 2017, the board of directors resolved that (i) the cancellation of an aggregate of 3,408,599 share options granted but not exercised under the Old Share Option Scheme; and (ii) the cancellation of an aggregate of 113,042,871 share options granted but not exercised under the 2012 Share Option Scheme, subject to the written consent of the option holders to cancel their respective share options ("Resolution").

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

(i) Purpose of the schemes

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

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

(ii) Participants of the schemes

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

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

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

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

23. SHARE OPTION SCHEME *(continued)*

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

The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the 2012 Share Option Scheme and any other schemes of the Company must not exceed 30% of the shares in issue from time to time.

(iv) Maximum entitlement of each participant under the schemes

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

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

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

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

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

As determined by the board of directors upon the grant of an option.

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

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

(viii) The basis of determining the exercise price

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

23. SHARE OPTION SCHEME *(continued)*

(ix) The remaining life of the schemes

The Old Share Option Scheme expired on 20 April 2012 and all the outstanding share options granted under the Old Share Option and yet to be exercised and the share options granted under the 2012 Share Option Scheme were cancelled as a result of the Resolution.

(a) The Old Share Option Scheme

Movements of the share options under the Old Share Option Scheme during the year ended 31 December 2017 are set out below:

	Number of share options													
Category of participants	Outstanding at 1.1.2016	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding at 31.12.2016 & 1.1.2017	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding at 31.12.2017	Date of grant of share options	Share price at date of grant of share options	Exercise price of share options
													HK$	HK$
Director[4]	278,936	–	–	–	–	278,936	–	–	–	(278,936)	–	10.07.2009	0.32	0.263
Director[5]	278,936	–	–	–	–	278,936	–	(278,936)	–	–	–	18.11.2010	0.15	0.109
Sub-total:	557,872	–	–	–	–	557,872	–	(278,936)	–	(278,936)	–			
Employees[2]	200,831	–	–	–	–	200,831	–	–	–	(200,831)	–	31.03.2008	0.89	0.638
Employees[4]	111,574	–	–	–	–	111,574	–	–	–	(111,574)	–	10.07.2009	0.32	0.263
Employees[5]	167,361	–	–	–	–	167,361	–	–	–	(167,361)	–	18.11.2010	0.15	0.109
Sub-total:	479,766	–	–	–	–	479,766	–	–	–	(479,766)	–			
Others[1,6]	52,300	–	–	–	–	52,300	–	–	(52,300)	–	–	12.01.2007	0.09	0.063
Others[2,6]	2,942,779	–	–	–	–	2,942,779	–	–	(292,882)	(2,649,897)	–	31.03.2008	0.89	0.638
Others[3,6]	2,956,728	–	–	–	–	2,956,728	–	–	(2,956,728)	–	–	16.02.2009	0.30	0.215
Sub-total	5,951,807	–	–	–	–	5,951,807	–	–	(3,301,910)	(2,649,897)	–			
Total	6,989,445	–	–	–	–	6,989,445	–	(278,936)	(3,301,910)	(3,408,599)	–			
Share options exercisable at relevant dates	6,989,445					6,989,445					–			

23. SHARE OPTION SCHEME *(continued)*

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

Notes:

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

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

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

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

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

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

During the year ended 31 December 2017, 3,301,910 (2016: Nil) share options were lapsed and 3,408,599 (2016: Nil) share options were cancelled under the Old Share Option Scheme.

23. SHARE OPTION SCHEME *(continued)*

(b) The 2012 Share Option Scheme

Movements of the share options under the 2012 Share Option Scheme during the year ended 31 December 2017 are set out below:

	Number of share options														
Category of participants	Outstanding at 1.1.2016	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding at 31.12.2016 & 1.1.2017	Granted during the year	Reclassified during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding at 31.12.2017	Date of grant of share options	Share price at date of grant of share options	Exercise price of share options
														HK$	HK$
Director[1]	22,352,400	–	–	–	–	22,352,400	–	–	–	–	(22,352,400)	–	02.07.2013	0.54	0.511
Director[2]	61,724,000	–	–	–	–	61,724,000	–	–	–	–	(61,724,000)	–	09.10.2015	0.465	0.465
Sub- total:	84,076,400	–	–	–	–	84,076,400	–	–	–	–	(84,076,400)	–			
Substantial shareholder*,[1]	7,385,871	–	–	–	–	7,385,871	–	(7,385,871)	–	–	–	–	02.07.2013	0.54	0.511
Substantial shareholder*,[2]	10,752,000	–	–	–	–	10,752,000	–	(10,752,000)	–	–	–	–	09.10.2015	0.465	0.465
Sub-total:	18,137,871	–	–	–	–	18,137,871	–	(18,137,871)	–	–	–	–			
Employees[2]	868,000	–	–	–	–	868,000	–	–	–	–	(868,000)	–	09.10.2015	0.465	0.465
Sub-total:	868,000	–	–	–	–	868,000	–	–	–	–	(868,000)	–			
Others[1,3]	1,596,600	–	–	–	–	1,596,600	–	7,385,871	–	–	(8,982,471)	–	02.07.2013	0.54	0.511
Others[2,3]	8,364,000	–	–	–	–	8,364,000	–	10,752,000	–	–	(19,116,000)	–	09.10.2015	0.465	0.465
Sub-total	9,960,600	–	–	–	–	9,960,600	–	18,137,871	–	–	(28,098,471)	–			
Total	113,042,871	–	–	–	–	113,042,871	–	–	–	–	(113,042,871)	–			
Share options exercisable at relevant dates (Restated)	61,743,914					92,615,871						–			

* These share options were granted to Mr. Ho, Lawrence Yun Lung, who has ceased to be a substantial shareholder of the Company upon completion of share purchase took place on 6 June 2017.

23. SHARE OPTION SCHEME *(continued)*

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

Notes:

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

2. The share options granted on 9 October 2015 are divided into 3 tranches exercisable from 9 October 2015, 9 October 2016 and 9 October 2017 respectively to 8 October 2025.

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

The Group recognised equity-settled share-based payment expenses at a total of HK$394,000 (2015: HK$6,830,000), included in which of HK$140,000 (2016: Nil) was recognised immediately as accelerated vesting due to the cancellation of share options for the year ended 31 December 2017 in relation to share options granted by the Company in the prior years.

During the year ended 31 December 2017, 113,042,871 share options were cancelled under the 2012 Share Option Scheme.

24. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 55 to 56 of the financial statements.

25. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2017	2016
Percentage of equity interest held by non-controlling interests:		
Beijing Huancai	**47.5%**	47.5%
Precious Success and its subsidiaries ("PS Group")	**49%**	49%

	2017	2016
	HK$'000	HK$'000
Profit/(loss) for the year allocated to non-controlling interests:		
Beijing Huancai	**203**	819
PS Group	**(848)**	(1,416)

	2017	2016
	HK$'000	HK$'000
Accumulated balances of non-controlling interests at the reporting date:		
Beijing Huancai	**6,351**	6,664
PS Group	**374**	1,356

25. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS *(continued)*

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

Beijing Huancai

	2017	2016
	HK$'000	HK$'000
Revenue	**47,823**	59,697
Total expenses	**(47,395)**	(57,974)
Profit for the year	**428**	1,723
Other comprehensive loss	**(1,086)**	(791)
Total comprehensive (loss)/income for the year	**(658)**	932
Current assets	**32,847**	23,063
Non-current assets	**135**	48
Current liabilities	**(18,950)**	(10,469)
Equity attributable to owners of Beijing Huancai	**14,032**	12,642
Net cash flows (used in)/from operating activities	**(7,274)**	12,147
Net cash flows (used in)/from investing activities	**(153)**	191
Effect of foreign exchange rate changes, net	**(942)**	(1,289)
Net (decrease)/increase in cash and cash equivalents	**(8,369)**	11,049

25. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS *(continued)*

PS Group

	2017 **HK$'000**	2016 HK$'000
Revenue	**1,004**	880
Total expenses	**(2,734)**	(3,770)
Loss for the year	**(1,730)**	(2,890)
Other comprehensive (loss)/income for the year	**(273)**	185
Total comprehensive loss for the year	**(2,003)**	(2,705)
Current assets	**3,048**	4,764
Non-current assets	**80**	101
Current liabilities	**(3,675)**	(3,409)
Equity attributable to owners of PS Group	**(547)**	1,456
Net cash flows used in operating activities	**(1,744)**	(2,062)
Net cash flows from investing activities	**2**	2
Net cash flows from financing activities	**–**	2,000
Effect of foreign exchange rate changes, net	**(333)**	188
Net (decrease)/increase in cash and cash equivalents	**(2,075)**	128

26. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Other payables and accruals
At 1 January 2017	62
Changes from financing cash flows	(62)
At 31 December 2017	–

27. OPERATING LEASE ARRANGEMENTS

The Group as lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years. Rental payment is fixed over the relevant lease terms.

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 HK$'000	2016 HK$'000
Within one year	**10,267**	1,181
In the second to third year, inclusive	**17,208**	1,184
	27,475	2,365

28. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Note	**2017** **HK$'000**	2016 HK$'000
Fellow subsidiary			
Service expense paid	(i)	**1,014**	6,349

(i) Operating service expense accrued to Melco Service Limited, a wholly subsidiary of Melco Group which was the former holding company of the Group, the service contract was terminated on 6 June 2017, after the completion of share Purchase Agreement.

(b) Outstanding balances with related parties:

(i) The amount due to the Holding Company is unsecured, interest-free and repayable on demand.

(ii) The amount due to a fellow subsidiary is unsecured, interest-free and repayable on demand.

(c) Compensation of key management personnel of the Group:

	2017 **HK$'000**	2016 HK$'000
Short-term benefits	**9,469**	3,471
Post-employment benefits	**77**	18
Equity-settled share-based payment expense	**29**	4,957
Total compensation paid to key management personnel	**9,575**	8,446

Further details of directors' and chief executive's emoluments are included in note 7 to the financial statements.

29. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	Loans and receivables	
	2017	2016
	HK$'000	HK$'000
Trade receivables	**19,698**	890
Financial assets included in prepayments, deposits and other receivables	**4,289**	4,686
Structured notes	**100,202**	100,110
Bank deposits with original maturity over three months	**–**	245,664
Cash and cash equivalents	**208,138**	87,483
Loan receivable	**94,214**	–
Total	**426,541**	438,833

Financial liabilities

	Financial liabilities at amortised cost	
	2017	2016
	HK$'000	HK$'000
		(Restated)
Trade payables	**18,155**	9,787
Financial liabilities included in other payables and accruals	**10,006**	12,153
Amount due to the Holding Company	**1,447**	–
Amount due to a fellow subsidiary	**–**	2,051
	29,608	23,991

30. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, bank deposits with original maturity over three months, the current portion of structured notes, trade receivables, financial assets included in prepayments, deposits and other receivables, trade payables, financial liabilities included in other payables and accruals, an amount due to the Holding Company and an amount due to a fellow subsidiary approximate to their respective carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of structured note and loan receivable have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities, which belongs to hierarchy level 3.

The carrying amounts and fair value of the Group's non-current financial instruments approximate to their fair values, are as follows:

	Carrying amounts		**Fair values**	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
Structured notes, non-current portion	**50,086**	50,045	**50,086**	50,045
Loan receivable	**94,214**	–	**94,214**	–
	144,300	50,045	**144,300**	50,045

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise bank deposits with original maturity over three months, cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, financial assets included in prepayments, deposits and other receivables, trade payables, financial liabilities included in other payables and accruals, an amount due to the Holding Company and an amount due to a fellow subsidiary which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to loan receivable, structured notes and fixed-rate bank deposits with an original maturity over three months. The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances. The Group currently does not enter into any hedging instrument for fair value and cash flow interest rate risk.

The management of the Group considered that the overall interest rate risk is not significant as the fluctuation of the interest rates on bank balance is considered minimal. Accordingly, no sensitivity analysis is prepared and presented.

Foreign currency risk

The Group's exposure to foreign currency risk related primarily to trade receivables, financial assets included in prepayments, deposits and other receivables, cash and cash equivalents, trade payables and financial liabilities included in other payables that are denominated in currencies other than the functional currency of the relevant group entities.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk *(continued)*

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in exchange rates, with all other variables held constant, of the Group's profit before tax and there is no impact on equity except for retained earnings.

	Increase/ (decrease) in foreign exchange rate	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* RMB'000
2017			
If RMB weakens against the Hong Kong dollar	**(5%)**	**(702)**	**–**
If RMB strengthens against the Hong Kong dollar	**5%**	**702**	**–**
2016			
If RMB weakens against the Hong Kong dollar	(5%)	(779)	–
If RMB strengthens against the Hong Kong dollar	5%	779	–

* Excluding retained earnings.

Credit risk

At 31 December 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to the perform an obligation by the counterparties arise 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 the determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue trade receivables. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk as 96.1% (2016: 92.8%) of the Group's trade receivables are due from the Group's two customers which operate in the PRC. The principal activities of the Group are mainly including the trading of lottery terminals and distribution of lottery products. In respect of these customers, given their good repayment history, the directors of the Company consider that the credit risk associated with the balances of the customers is low.

The Group also has concentration of credit risk as 100% (2016: 100%) of the Group's structured notes are subscribed for one financial institution in Hong Kong. In respect of its good reputation in Asia Pacific, the directors of the Company consider that the credit risk associated with the balance with the financial institution is low.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk *(continued)*

The Group also has concentration of credit risk as 100% (2016: Nil) of the Group's loan receivable is a loan granted to an independent third party which is secured by a personal guarantee and a collateral of 95% of the entire equity interests in another company. In view of the fair value of the collateral exceeds the principal amount of the loan, the directors of the Company consider that the credit risk associated with the balance of loan receivable is low.

Other than the concentration of credit risk on trade receivables, structured notes which are deposits with one bank with a good reputation and the loan receivable, the Group does not have any other significant concentration of credit risk.

Liquidity risk

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

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

	2017	
	Less than 3 months or on demand HK$'000	**Total HK$'000**
Trade payables	**18,155**	**18,155**
Financial liabilities included in other payables and accruals	**10,006**	**10,006**
Amount due to the Holding Company	**1,447**	**1,447**
Total	**29,608**	**29,608**

	2016	
	Less than 3 months or on demand HK$'000	Total HK$'000
Trade payables	9,787	9,787
Financial liabilities included in other payables and accruals	12,153	12,153
Amount due to a fellow subsidiary	2,051	2,051
Total	23,991	23,991

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management

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

The capital structure of the Group consists of equity attributable to owners of the Company, comprising share capital and reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital.

32. EVENTS AFTER THE REPORTING PERIOD

On 5 January 2018, the Company granted a total of 159,400,000 share options to the directors, employees and consultants of the Company (collectively, the "Grantees"), subject to acceptance of the Grantees and the payment of HK$1.00 by each of the Grantees upon acceptance of the options, under the Company's 2012 Share Option Scheme. The share options will entitle the Grantees to subscribe for a total of 159,400,000 ordinary shares of HK$0.01 each in the share capital of the Company, among which, about 80,000,000 share options were granted to directors of the Company.

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017 HK$'000	2016 HK$'000 (Restated)
NON-CURRENT ASSETS		
Property, plant and equipment	**140**	80
Investments in subsidiaries	**21,741**	21,741
Loan receivable	**94,214**	–
Prepayments for long-term assets	**1,695**	–
Structured notes	**50,086**	50,045
Total non-current assets	**167,876**	71,866
CURRENT ASSETS		
Prepayments. deposits and other receivables	**3,851**	3,534
Amounts due from subsidiaries	**1,735**	2,964
Structured notes	**50,116**	50,065
Bank deposits with original maturity over three months	**–**	245,664
Cash and cash equivalents	**185,712**	37,009
Total current assets	**241,414**	339,236
CURRENT LIABILITIES		
Other payables and accruals	**6,739**	6,857
Amounts due to subsidiaries	**21,708**	6,027
Amount due to the Holding Company	**1,447**	–
Amount due to a fellow subsidiary	**–**	2,051
Total current liabilities	**29,894**	14,935
NET CURRENT ASSETS	**211,520**	324,301
Net assets	**379,396**	396,167
EQUITY		
Share capital	**31,459**	31,456
Reserves (note)	**347,937**	364,711
Total equity	**379,396**	396,167

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

A summary of the Company's reserves is as follows:

	Share premium HK$'000	Share-based payment reserve HK$'000	(Accumulated losses)/retained earnings HK$'000	Total HK$'000
Balance at 1 January 2016	327,878	85,157	(36,954)	376,081
Loss for the year	–	–	(18,200)	(18,200)
Equity-settled share-based payment expense	–	6,830	–	6,830
At 31 December 2016 and 1 January 2017	327,878	91,987	(55,154)	364,711
Loss for the year	–	–	(17,196)	(17,196)
Equity-settled share-based payment expense	–	394	–	394
Issue of ordinary shares upon exercise of share options	50	(22)	–	28
Transfer of share-based payment reserve upon share options cancellation	–	(92,359)	92,359	–
At 31 December 2017	327,928	–	20,009	347,937

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

34. COMPARATIVE AMOUNTS

Certain comparative amounts had been reclassified to conform with the current year's presentation.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2018.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

RESULTS

	Year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**48,827**	60,281	57,163	45,284	54,561
LOSS FOR THE YEAR	**(18,573)**	(2,912)	(34,504)	(66,549)	(12,970)
Attributable to:					
Owners of the parent	**(17,929)**	(2,303)	(35,934)	(65,403)	(17,117)
Non-controlling interests	**(644)**	(609)	1,430	(1,146)	4,147
	(18,573)	(2,912)	(34,504)	(66,549)	(12,970)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**429,586**	439,949	526,783	525,769	104,049
TOTAL LIABILITIES	**(34,585)**	(27,400)	(118,236)	(104,778)	(305,481)
	395,001	412,549	408,547	420,991	(201,432)
EQUITY					
ATTRIBUTABLE TO OWNERS OF THE PARENT	**388,404**	404,649	399,751	415,890	(210,738)
NON-CONTROLLING INTERESTS	**6,597**	7,900	8,796	5,101	9,306
	395,001	412,549	408,547	420,991	(201,432)