AGTech
www.agtech.com

AGTech Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 8279

ANNUAL REPORT

2017

Fortune • Happiness • Health • Luck • Responsibility

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Main Board. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

CONTENTS

FORTUNE

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

HEALTH

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Sun Ho *(Chairman & CEO)*
Zhou Haijing *(Chief Financial Officer)*

Non-executive Directors

Zhang Qin
Yang Guang
Ji Gang
Zou Liang

Independent Non-executive Directors

Monica Maria Nunes
Feng Qing
Gao Jack Qunyao

AUTHORISED REPRESENTATIVES

Sun Ho
Ng Lok Ming

COMPANY SECRETARY

Ng Lok Ming

COMPLIANCE OFFICER

Sun Ho

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE & PRINCIPAL PLACE OF BUSINESS

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

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

PRINCIPAL BANKERS

China Merchants Bank
Mizuho Bank, Ltd.
The Hongkong and Shanghai Banking Corporation Limited

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

CORPORATE INFORMATION

CORPORATE GOVERNANCE COMMITTEE

Sun Ho *(Chairman)*
Ng Lok Ming

RISK MANAGEMENT AND INTERNAL CONTROL COMMITTEE

Sun Ho *(Chairman)*
Zhou Haijing
Ng Lok Ming
Gao Lei

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

SHARE REGISTRAR IN BERMUDA

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

BRANCH SHARE REGISTRAR IN HONG KONG

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

STOCK CODE

8279

WEBSITE

http://www.agtech.com

DEFINITIONS

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

"AGT"	Asia Gaming Technologies Limited, a company incorporated in Hong Kong owned as to 51% by the Company
"Ali Fortune" or "Subscriber"	Ali Fortune Investment Holding Limited, a company incorporated in the British Virgin Islands and the controlling shareholder of the Company
"Alibaba Group"	Alibaba Holding and its subsidiaries
"Alibaba Holding"	Alibaba Group Holding Limited, a company incorporated in the Cayman Islands and the shares of which are listed on the New York Stock Exchange
"Alibaba Merchants"	merchants which are subsidiaries of or companies controlled by Alibaba Holding
"Alipay"	支付寶(中國)網絡技術有限公司(Alipay.com Co., Ltd.*), a company incorporated in the PRC and a wholly-owned subsidiary of Ant Financial
"Ant Financial"	浙江螞蟻小微金融服務集團股份有限公司 (Ant Small and Micro Financial Services Group Co., Ltd.*) (formerly known as 浙江螞蟻小微金融服務集團有限公司 (Zhejiang Ant Small and Micro Financial Services Group Co., Ltd.*)), a company incorporated in the PRC
"Ant Financial Group"	Ant Financial and its subsidiaries
"Board"	the board of Directors
"Bye-law(s)"	the bye-law(s) of the Company
"CEO"	chief executive officer
"Company" or "AGTech"	AGTech Holdings Limited, a company incorporated in Bermuda as an exempted company with limited liability and its issued Shares are listed on GEM
"Consultant Options"	the options granted to consultants of the Company to subscribe for up to 216,307,483 Shares in aggregate as at the date of this report pursuant to the Share Option Schemes
"Conversion Shares"	new Shares to be issued upon the exercise of the conversion rights under the Convertible Bonds

DEFINITIONS

"Convertible Bonds"	the convertible bonds of the Company issued to Ali Fortune under the Subscription
"Director(s)"	the director(s) of the Company
"Executive"	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the Executive Director
"GEM"	GEM operated by the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM of the Stock Exchange
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Macau"	the Macau Special Administrative Region of the PRC
"MOF"	the Ministry of Finance of China
"NSLAC"	the National Sports Lottery Administration Centre of the PRC
"PRC" or "China"	the People's Republic of China which, for the purpose of this report, excludes Hong Kong, Macau and Taiwan
"province(s)"	province(s), municipality(ies) and autonomous region(s) of the PRC unless otherwise specified, and "provincial" shall be construed accordingly
"Purchaser"	Silvercreek Technology Holdings Limited, a wholly-owned subsidiary of the Company
"Rainwood Options"	the options which were granted to Rainwood Resources Limited to subscribe for up to 212,879,224 Shares at an exercise price of HK$0.4 per Share (subject to customary adjustment in the event of capitalisation issue) at any time during a 3-year period from 21 May 2013, and which were exercised in full on 16 March 2016
"RMB"	Renminbi, the lawful currency of the PRC
"Score Value"	Score Value Limited, an indirect wholly-owned subsidiary of the Company

DEFINITIONS

"Score Value Circular"	the circular of the Company dated 8 December 2014 in respect of the Score Value Transaction
"Score Value Group"	Score Value Limited and its subsidiaries
"Score Value Transaction"	the acquisition of the entire equity interest in Score Value by the Company as contemplated under the agreement dated 17 November 2014 entered into between the Company, Silvercreek Technology Holdings Limited (a wholly-owned subsidiary of the Company) as the purchaser, Score Value as the target, and vendors of Score Value, pursuant to which, among other things, (i) the vendors of Score Value may be granted bonus options to subscribe for up to 166,666,666 Shares at a subscription price of HK$1.8 per Share contingent upon certain performance targets (and such bonus options had already lapsed in November 2016); and (ii) the vendors of Score Value may be issued up to 135,135,135 Shares as part of the deferred consideration for the acquisition if certain performance targets are achieved
"SF Holding"	順豐控股股份有限公司 (S.F. Holding Co., Ltd.*)
"SF Lottery"	順豐彩(深圳)科技發展有限責任公司 (SF Lottery (Shenzhen) Technology Development Company Limited*), a non-wholly owned subsidiary of the Company
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.002 each in the share capital of the Company
"Share Award Scheme"	the share award scheme of the Company adopted on 17 March 2017
"Share Option Schemes"	the share option schemes of the Company adopted on 18 November 2004 and 23 December 2014 respectively
"Shareholder(s)"	holder(s) of the Share(s)
"Shenzhen Subsidiary"	深圳中林瑞德科技有限公司 (Shenzhen Zoom Read Tech Co., Ltd.*), a company incorporated in the PRC with limited liability and is an indirect wholly-owned subsidiary of Score Value
"Silvercreek"	深圳市銀溪數碼技術有限公司 (Shenzhen Silvercreek Digital Technology Co., Ltd.*), a company incorporated in the PRC with limited liability and is an indirect wholly-owned subsidiary of the Company

DEFINITIONS

"Sports Lottery"	the national sports lottery of China
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription"	the subscription for 4,817,399,245 new Shares and Convertible Bonds in the aggregate principal amount of HK$712,582,483 by Ali Fortune, which was completed on 10 August 2016
"Taobao"	淘寶(中國)軟件有限公司(Taobao (China) Software Co., Ltd.*), a company incorporated in the PRC and a subsidiary of Alibaba Holding
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers (as amended and supplemented from time to time)
"US$"	United States dollars, the lawful currency of the United States of America
"Welfare Lottery"	the national welfare lottery of China
"Whitewash Circular"	the circular of the Company dated 25 May 2016 in respect of, among other things, the Subscription and the Whitewash Waiver
"Whitewash Waiver"	a waiver from the Executive pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code in respect of the obligations of Ali Fortune to make a mandatory general offer for all of the Shares not already owned or agreed to be acquired by Ali Fortune or parties acting in concert with it which would otherwise arise as a result of (i) the allotment and issue of the Shares under the Subscription at its completion; and/or (ii) the allotment and issue of the Shares that may be issued upon conversion of the Convertible Bonds issued under the Subscription
"%"	per cent

Notes:

1. In this report, the exchange rate of HK$1.186 to RMB1.00 has been used for reference only.

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

3. In the event of any inconsistency, the English text of this report shall prevail over the Chinese text.

* *For identification purposes only*


AGTech

CORPORATE PROFILE

ABOUT AGTECH

AGTech was incorporated in Bermuda and its Shares are listed on GEM (Stock Code: 8279). AGTech is an integrated technology and services company engaged in the lottery and mobile games and entertainment market with a focus on China and selected international markets. A member of the Alibaba Group with around 400 employees, AGTech is the exclusive lottery platform of Alibaba Group and Ant Financial Group. The footprint of the Group's business now spans across China and selected overseas markets.

AGTech's businesses are broadly divided into two categories:

- Lottery (including games and systems, hardware and distribution); and
- Games and Entertainment.

AGTech is a Gold Contributor of the World Lottery Association (WLA), an associate member of the Asia Pacific Lottery Association (APLA), an official organiser and operator of the competition card games Guan Dan and Two-on-One poker in China, and an official partner of the International Mind Sports Association (IMSA).

AGTech is committed to evolving its business into a comprehensive lottery, mobile games and entertainment content and technology provider to customers around the world.

CORPORATE PROFILE

INDUSTRY OVERVIEW

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

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

PRC annual lottery sales in 2017 set a new record high of approximately RMB427 billion increasing 8.1% over 2016. Despite the significant size of today's China lottery market, the penetration rate of regulated lottery in China remains comparatively low by international standards. Given that lottery participation in China is well below that of developed markets such as Europe and the United States, there is enormous potential for future growth in China's legal lottery market.

CORPORATE PROFILE

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

China's Regulated Lottery Sales: 1987-2017 (RMB billion)

CORPORATE PROFILE

In 2017, Welfare Lottery and Sports Lottery grew 5.1% and 11.4%, representing 50.9% and 49.1% of the total market respectively. The Welfare Lottery and the Sports Lottery have five main product categories: lotto type lottery game product that are either traditional in nature with a daily or weekly draw pattern as well as modern high frequency games featuring multiple draws per hour ("Lotto"), sport betting ("Sports"), video lottery terminal ("VLT"), a keno product ("Keno") and instant scratch cards ("Scratch"). In 2017, with the exception of Scratch, all of the lottery products enjoyed year on year sales growth, with Sports as the stand-out product growing 21.4% over 2016. The Scratch declined 13.6%, continuing several years of decline. Overall, Lotto remains by far the largest category, representing 61.6% of the overall market, followed by Sports, VLT, Scratch and Keno.

PERFORMANCE BY MAJOR PRODUCT TYPE

1. Sports

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

Sales of the Sports product grew by approximately 21.4% year on year, representing the strongest performing category in the lottery industry in China.

2. VLT

Video lottery terminals are networked self-service lottery terminals that facilitate rapid play of themed, graphically-rich lottery games that are not available for play via the other product categories. Sales in 2017 were approximately RMB46 billion, representing approximately 10.8% of the national market.

3. Lotto

Lotto contributed sales of approximately RMB263 billion during the year and remains by far the largest category in the PRC market, growing approximately 7.3% over 2016, partially driven by modern high (draw) frequency lottery games (HFG). We expect both the Welfare Lottery and the Sports Lottery to seek to continue to exploit the relative popularity of HFG.

4. Scratch

In 2017, sales of Scratch tickets were approximately RMB24.6 billion, a decline of approximately 13.6% from the previous year. Sales of the Scratch product are exhibiting a multi-year downward trend. Scratch accounted for approximately 5.8% of the total lottery market in 2017.

Games and Entertainment

The proliferation of smartphones in the PRC over the last several years, coupled with ever improving content across games categories, has increased mobile games consumption significantly. New technologies, improved network infrastructure, less expensive access to high-speed data, enhanced mobile devices have all contributed to the increase of mobile content consumption, thereby driving impressive levels of innovation in mobile games and entertainment content.

As such, over 74%* of total smartphone users are now smartphone gamers in the PRC, lagging only behind Korea in terms of penetration, as mobile gaming spread across age and gender demographics. In fact, according to the latest 2017 Global Mobile Games Industry White Paper, China has become the largest mobile game market in the world, with total revenue reaching approximately RMB92.8 billion*.

* *Statistica, Google trends*

India

We believe India currently holds the world's fastest growing active online users, with mobile driving the content consumption boom. According to surveys by Internet and Mobile Association of India, Indian internet user base reached approximately 481 million in 2017, and is expected to reach approximately 500 million by June 2018. Further, according to a joint report released by India's National Association of Software and Services (NASSCOM) and App Annie, in 2016 mobile game downloads in India totaled approximately 1.6 billion, which put India fifth in the world.

CORPORATE PROFILE

GAMES & ENTERTAINMENT

Online non-lottery games and entertainment content

In view of the potential approval and authorisation of online distribution of regulated lottery products, the Group is presently actively building our online presence and customer-base by offering games and entertainment content through various online channels, including but not limited to Alibaba Group and Ant Financial Group's channels. To this end, the Group is actively leveraging our technical know-how and operating experience in lottery, to research and develop various types of creative, non-lottery social game content that cater for the evolving tastes of China's consumers. These products include fun and exciting casual and social games popular with Chinese players. Importantly, owing to their play-for-fun or mind sports (skill game) characteristics, these non-lottery products fall outside the remit of lottery regulators.

Going forward, the Group will continue to develop differentiated proprietary games and entertainment platforms with the goal of integrating unique games and entertainment content with various resources on e-commerce and e-payment platforms, ultimately creating an innovative business model to increase the Group's commercial value.

INTERNATIONAL MARKETS

International Strategic Expansion

Given our longstanding experience and expertise, the Group has begun pursuing opportunities abroad, globalising our business by offering our proprietary systems and platforms, as well as operational and technical expertise, and strategically working with leading local partners in overseas markets such as India, South East Asia and beyond.

LOTTERY DISTRIBUTION

The sales and distribution of lottery games and products

The Lottery Distribution division is active in expanding and broadening the reach of lottery to end consumers by developing unique and innovative products as well as distribution channels and networks under applicable lottery laws and regulations. In addition, thanks to its leading position in China lottery market as well as its position as the exclusive lottery platform for Alibaba Group and Ant Financial Group, the Group is very well placed to take advantage of lottery sales via mobile and internet channels as and when they are approved and the Group receives the appropriate authorisation. Furthermore, the Group commenced offering physical lottery products via Alibaba Group's physical distribution network (including physical stores managed, co-managed or controlled by Alibaba Group), as well as through third party network, SF Holding.

The Group continues to closely monitor policy developments with respect to the government approval of lottery sales via internet and mobile. To date, in line with the relevant lottery regulations, the Group has not conducted any internet lottery sales or maintained any website to conduct such sales.

CORPORATE PROFILE

LOTTERY GAMES & SYSTEMS

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

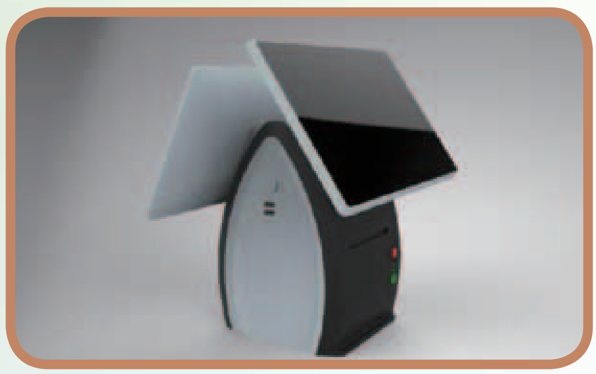
The Lottery Games and Systems division has a reserve of rich and attractive lottery content to fulfill the demands of the market and the players.

Virtual Lottery Games

AGT, which is owned as to 51% by the Group and 49% by Ladbroke Group (one of the world's largest sports betting companies), supplies the country's only virtual sports lottery platform to the China Sports Lottery and has successfully launched two virtual sports games in the country. AGT's motor racing-themed virtual game Lucky Racing was launched in Hunan province in 2011 while its football themed game e-Ball Lottery was launched in Jiangsu province during 2013. Since both games are approved lottery products as defined by MOF, we believe that both Lucky Racing and e-Ball Lottery could be introduced via the internet and mobile channel across the country (subject to regulatory approval) where we would expect them to be highly popular.

Other Categories

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



LOTTERY HARDWARE

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

AGTech's Lottery Hardware division supplies both the Welfare Lottery and Sports Lottery and has lottery hardware deployed in multiple provinces, cities and municipalities of the PRC. The Group is a leading manufacturer and supplier of both paper scratch card sales hardware (instant ticket verification terminals, "IVT(s)") and traditional lottery terminals.

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

Responsible Lottery and Online Games Practices

AGTech advocates responsible lottery practices and works with the lottery authorities to implement responsible lottery measures.

As regards the Group's games and entertainment business, anti-addiction measures are also implemented as appropriate and as required.

CORPORATE PROFILE

CORPORATE VALUES

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

FORTUNE	We provide the PRC lottery market with fully integrated professional lottery games and systems, hardware, distribution and ancillary services, with a view to boosting lottery sales and bringing fortune to lottery players through exciting game products.
HEALTH	We liaise closely with the PRC regulatory authorities and do our utmost to help them develop a healthy lottery industry. We also assist them to evaluate new forms of legal and regulated lottery channels with a view to cracking down on the illegal gambling market.
HAPPINESS	As a form of entertainment, lotteries and social or mind games are growing in popularity among the Chinese citizens, and we are privileged to bring lottery and social or mind games players happiness and an exciting experience.
LUCK	Lottery wins are perceived as a token of "luck", and it is one of our core corporate values to bring such luck to China's lottery players and society through our products.
RESPONSIBILITY	We strive to actively contribute to the development of responsible lottery and online games industries. We are actively involved in sports development and charity events, and we have been the sponsor of a wide range of sports events.

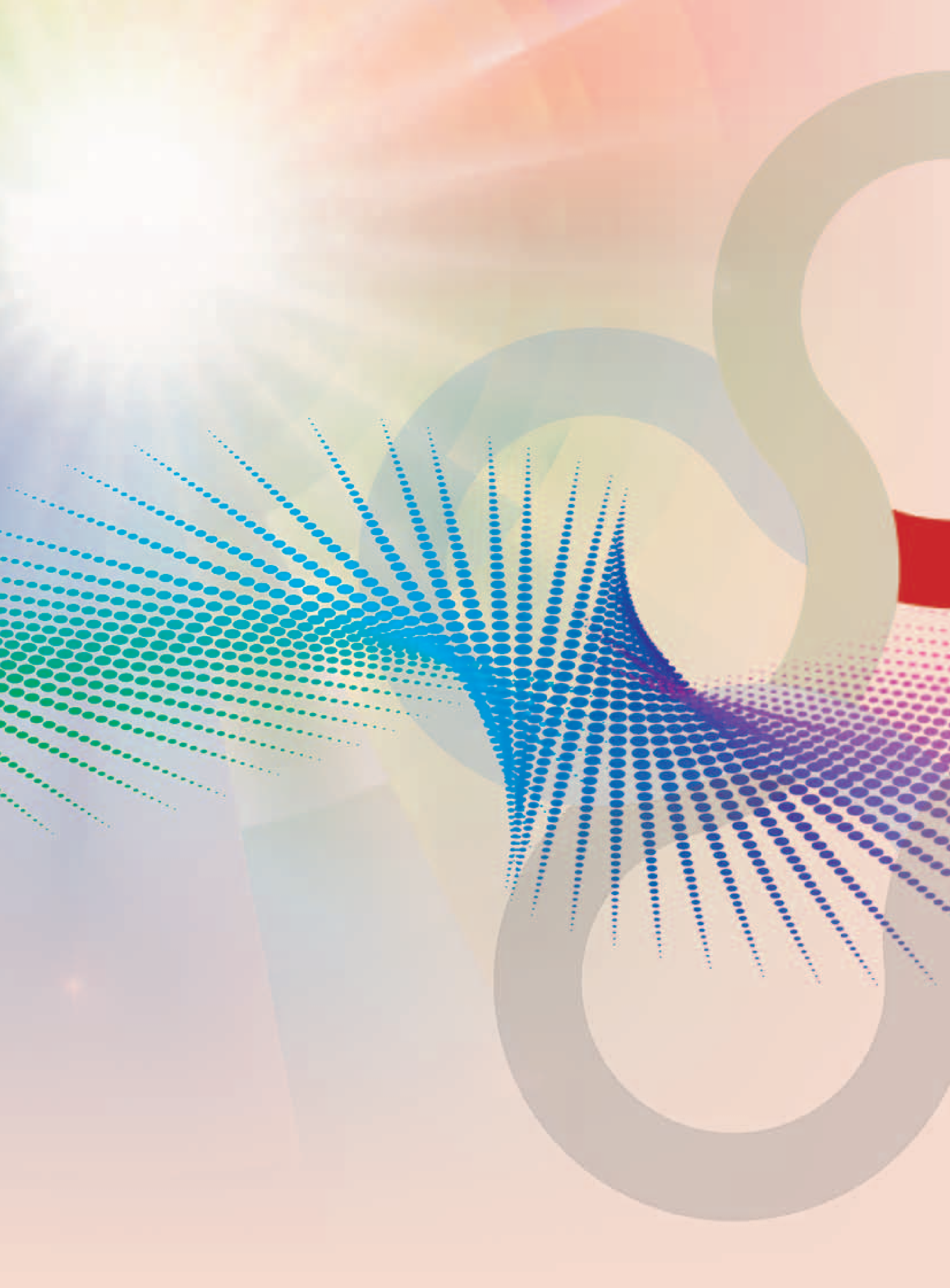
CONTRIBUTING TO THE SOCIETY

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

EXCELLENT TEAM

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

Currently, AGTech has around 400 employees with qualifications in lottery, mobile games, information technology and other specialised fields. With such a strong team, it enables AGTech to build a solid business foundation and to achieve breakthroughs in the future.



HAPPINESS

As a form of entertainment, lotteries and social or mind games are growing in popularity among the Chinese citizens, and we are privileged to bring lottery and social or mind games players happiness and an exciting experience

CHAIRMAN'S STATEMENT

Dear Shareholders,

2017 was a crucial year for AGTech, as we advanced our business on many important strategic fronts, continued to solidify our industry position, and began to demonstrate the power and potential of being a part of the Alibaba family.

Throughout the year, we began executing on many key commercial opportunities across both lottery and non-lottery, delivering important breakthroughs for the industries we operate in, while marking many major milestones for the Group. With a relentless focus on innovation in mind, we continued to solidify our position in the PRC lottery industry, contributing to the healthy growth and development of the industry by delivering new products and synergies not seen before. Outside of lottery, we began to leverage our deep experience and DNA in lottery to launch complementary businesses in areas such as mobile entertainment and mind sports, leveraging the channels and resources of Alibaba Group and Ant Financial Group, with the goal of reaching more online customers and enriching their leisure experiences. Importantly, for the first time in our Company's history, we commenced our inaugural significant strategic international expansion, taking first of many steps towards globalising our business, allowing us to serve more customers than ever before.

Importantly, we continued to invest in our future, laying the necessary foundation for our team, systems, technology and infrastructure that will allow us to capitalise on the many opportunities still ahead. As we always have in the past, we continue to make operating and investment decisions based on long-term market leadership considerations rather than short-term profitability or market reactions. It is our firm belief that our commitment to innovation, coupled with our persistence and focus on the long term, will significantly reward our Shareholders and their patience in the future. While we are proud of the work we have accomplished so far, we have much more to do to capture the enormous opportunities still ahead.

Becoming a part of the Alibaba family in 2016 has been a pivotal moment for AGTech. For the first time in our Company's history, we have access to enormous resources at our disposal, including a well-capitalised balance sheet and a wealth of resources at Alibaba Group and Ant Financial Group, including many advanced technologies as well as a robust ecosystem with significant customer reach and scale – all of which we believe will help propel our growth. As such, over the last year, we devoted significant time and energy to integrating our resources, identifying ways to leverage and complement Alibaba Group's vast products and services, putting in place the necessary business and commercial arrangements, all with the goal of deepening our partnership with Alibaba Group in order to further enhance our business as a whole.

Importantly, as the exclusive lottery platform of Alibaba Group and Ant Financial Group, our ability to capture the potential opportunities as it relates to the potential resumption of online lottery distribution is better than ever. We continue to believe any new lottery games and systems potentially approved for online sales will require robust and scalable technology to deliver effective and efficient monitoring and control, and as a part of the Alibaba family, we believe we are well-positioned to participate in such potential opportunities. In line with our past practice, we will continue to conduct all of our lottery businesses in the PRC in full compliance with all relevant lottery regulations, and will always work to contribute to the healthy development of the industry as a whole.

While we believe online lottery distribution will resume in time, in the meanwhile, in preparation of this enormous opportunity, we are now actively building our presence and customer-base online. As such, in 2017, we began providing a number of proprietary non-lottery games and entertainment platforms populated with content such as casual games and popular poker games on various online channels (such as those of Alibaba Group and Ant Financial Group). These offerings leverage our operating experience and technical knowledge in lottery, and allow us to provide more digital entertainment to the fast-evolving tastes of customers than ever before. Notably, our offering of casual and competitive poker marks our entry into mind sports, an area of focus for us in the coming year. In addition, as we head into this important year of World Cup, we are working to develop more exciting and entertainment offering related to sports, further allowing us to capitalise on the powerful development of sports industry in the PRC as a whole.

Notably, in 2017, we strategically expanded our business abroad, forming a joint venture with the owner of Paytm, India's leading mobile payment platform, to tap into the enormous potential of the world's second most populous country. Looking forward, we will continue to seek strong suitable local partners in selected international markets to further leverage our platforms of games and entertainment offerings and technical abilities, allowing us to serve more customers globally in the future.

Parallel to growing our non-lottery related businesses, we continued to focus and further our commitment to lottery in China. As we have always been since more than a decade ago, AGTech is at the forefront of innovation in the lottery industry, driving many new initiatives across areas such as products, channels and marketing that we believe help expand the access and appeal of lottery, thus contributing to the healthy development and growth of the industry as a whole.

CHAIRMAN'S STATEMENT

During 2017, we made considerable developments in the channel distribution of lottery products. We began incorporating lottery products and services into Alibaba Group's vast physical presence nationwide, starting with Rural Taobao, with the goal of further expanding to other Alibaba Group's physical networks in the coming year. In addition, we successfully launched SF Lottery, a joint venture set up with SF Holding, one of China's largest logistics companies, to leverage their vast network of couriers in delivering a new breed of instant scratch lottery products with industry breakthrough features. In addition to new products and channels, we are helping to reinvent the way the lottery authorities engage with existing and potential customers. During Alibaba's marquee Double 11 shopping festival, we orchestrated the collaboration among NSLAC, AGTech and Alibaba, integrating resources from each stakeholder to deliver a unique value proposition for end customers. Further, as disclosed in the announcement of the Company dated 2 February 2018, AGTech was awarded the successful bid by NSLAC to help deliver a new omni-channel experience to customers to promote instant scratch sports lottery products in a unique collaboration and innovative marketing and promotional campaign.

In all, we are able to execute and deliver these innovative lottery developments by leveraging our deep experience and relationships in the industry fostered throughout the past decade, and by leveraging our access to and ability to bring in important resources of Alibaba Group and Ant Financial Group as well as prominent third party partners, all of which significantly set us apart from our competitors. Ultimately, we believe these efforts will contribute to the healthy development and growth of the lottery industry, benefiting all stakeholders involved, and in turn, solidifying our positioning in the industry as a whole.

Lastly, as we focus on realising our vision to building the leading lottery, games and entertainment technology company, we are embracing the future by embracing powerful and emerging technologies. Looking forward, we will continue to explore the application of such fundamentally transformative technologies as big data analytics, internet of things and blockchain, to help enhance our business and deliver more values to our ever expanding network of partners and customers. As such, we will continue to invest in our future, focusing on research and development and further bolstering our technology and platforms going forward.

CHAIRMAN'S STATEMENT

I want to take this opportunity to thank our colleagues for their dedication and hard work, and express my gratitude to our Board members, management team, business partners and customers around the world. To our Shareholders – thank you for being with us on this exciting journey. As you can see, we've had a busy 2017. However, we recognise we have much more work to do in delivering a very bright future for AGTech.

Yours faithfully,

Sun Ho
Chairman & CEO

Hong Kong, 23 March 2018

LUCK

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

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

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

- the frequency and proper conduct of Board meetings;
- the well-balanced composition of the Board, with independent non-executive Directors representing not less than one-third of the total number of Directors;
- the proper procedures for appointment and re-election of Directors;
- the annual review of individual Directors' contributions to the Group and the years of service of each independent non-executive Director;
- the establishment of an audit committee to review the financial reporting, risk management and internal controls of the Group and the enhanced communications between the audit committee and the auditor of the Company through meetings held for the pre-audit planning and the annual results of the Group;
- the establishment of a remuneration committee to review the remuneration policy and other remuneration-related matters for the Group;
- the establishment of a nomination committee to formulate a policy concerning diversity in the Board and a nomination policy, make recommendations to the Board on any proposed appointment of Directors and assess the independence of the independent non-executive Directors on a regular basis;
- the establishment of a corporate governance committee to assist the Board in performing the corporate governance duties as required under the Code;
- the establishment of a risk management and internal control committee to assist the Board in discharging its ongoing responsibility to oversee the Group's risk management and internal control systems;
- the provision of briefing or training (at the expense of the Company) on the relevant requirements of the GEM Listing Rules (including the Code) and the Securities and Futures Ordinance to all newly appointed Directors and to the entire Board;

- the provision of insurance coverage for Directors' liabilities;
- the timely supply of sufficient information to Directors for matters seeking their approval or opinions;
- the timely publications of announcements, circulars, annual, interim and quarterly results and reports (collectively referred to as the "**Publications**") to keep the Shareholders posted of the latest business developments and financial performance of the Group;
- the holding of an annual general meeting each year to meet with the Shareholders and answer their enquiries; and
- the timely updating of the Company's official website with the latest Publications of the Company and the provision of a platform for communications with the Shareholders and investors through such website.

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

(a) under the Code provision A.2.1, the roles of chairman and CEO should be separate and should not be performed by the same individual. The roles of chairman and CEO of the Company were performed by the executive Director, Mr. Sun Ho, during the year under review. The Company considered that the combination of the roles of chairman and CEO could effectively formulate and implement the strategies of the Company. The Company considered that under the supervision of its Board and its independent non-executive Directors, a balancing mechanism existed so that the interests of the Shareholders were adequately and fairly represented. The Company considered that there was no imminent need to change the arrangement;

(b) under the Code provision A.4.2, every Director should be subject to retirement by rotation at least once every three years. However, pursuant to the Bye-laws, the chairman of the Company shall not be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. During the year under review, the chairman of the Board was not subject to retirement by rotation, as the Board considered that the continuity of the office of the chairman provided the Group with strong and consistent leadership and was of great importance to the smooth operations of the Group;

(c) under the Code provision A.2.7, the chairman of the Board should at least annually hold meetings with the non-executive Directors (including independent non-executive Directors) without the executive Directors' presence. During the year under review, the chairman of the Board did not hold such kind of private meetings with the non-executive Directors. The chairman of the Board considered that it was unnecessary as it would be more transparent to let the non-executive Directors speak out their views to all executive Directors in the full Board meetings which would be held at least four times a year. Besides, the chairman of the Board, being an executive Director himself, always welcomes all non-executive Directors to directly communicate with him via his email or phone to discuss any matters of the Company from time to time;

(d) under the Code provision A6.6, each Director should disclose to the Company, among other things, an indication of the time involved by him/her in his/her offices held in other public companies or organisations and other significant commitments. During the year under review, no such disclosure was made by the Directors to the Company. As the Board had adopted a corporate governance practice that each Director's contributions to the Group were reviewed and discussed at the Board meeting annually (the "**Annual Contributions Review**"), the Board considered that assessing the time spent by each Director on his/her commitments outside the Group was not necessary for the purposes of the Annual Contributions Review and that the disclosure of the time spent by a Director in performing his/her duties did not necessarily indicate accurately the efficiency of such Director and the effectiveness of his/her work, and may therefore be misleading;

(e) under the Code provision B.1.2, the remuneration committee should review and recommend to the Board for approval of the specific remuneration packages of senior management. The remuneration committee of the Company had reviewed its scope of duties and considered that the delegated responsibility to review and recommend to the Board to approve the specific remuneration packages of senior management should be vested in the executive Directors who have a better understanding of the level of expertise, experience and performance expected of the senior management in the daily business operations. Notwithstanding the foregoing, the remuneration committee would continue to be primarily responsible for the review and recommendation of the remuneration packages of the Directors; and

(f) under the Code provision B.1.5, the Company should disclose details of any remuneration payable to members of senior management by band in its annual report. The Company did not make such disclosure in its annual report as the Board considered that (i) the remuneration of any newly appointed "chief executive" (as defined under the GEM Listing Rules) would have already been disclosed in the announcement previously issued by the Company in respect of such appointment in accordance with GEM Listing Rule 17.50(2)(g); (ii) the five highest paid employees within the Group had already been disclosed in the notes to the consolidated financial statements of the Group in the annual report, and (iii) giving further details of remuneration for each and every senior management staff would result in particulars of excessive length and no additional value to the Shareholders, whilst at the same time may impair the flexibility of the Group in its negotiations of remuneration packages for senior management staff (especially those who are not Directors or chief executive of the Group and hence are not supposed to be subject to the aforesaid disclosure requirement under GEM Listing Rule 17.50(2)(g)) should it need to find replacement staff or recruit additional senior personnel in the future.

(The above deviations (a) to (f) were similarly disclosed on pages 31 and 32 of the Company's annual report for the year ended 31 December 2016, and on pages 42 to 44 of the Company's interim report for the six months ended 30 June 2017.)

DIRECTORS' SECURITIES TRANSACTIONS

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

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

THE BOARD

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

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

Executive Directors:	Mr. Sun Ho *(Chairman)* Mr. Zhou Haijing
Non-executive Directors:	Mr. Zhang Qin Mr. Yang Guang Mr. Ji Gang Mr. Zou Liang (appointed on 10 November 2017) Mr. Zhang Wei (resigned on 10 November 2017)
Independent non-executive Directors:	Ms. Monica Maria Nunes Mr. Feng Qing Dr. Gao Jack Qunyao

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

To the best of the Directors' knowledge, there are no financial, business, family or other material relationships among the members of the Board, except that Mr. Zhang Qin and Mr. Yang Guang are both employees of Alibaba Group and that Mr. Ji Gang, Mr. Zou Liang and Mr. Zhang Wei are all employees of Ant Financial Group. During the year under review, there were at least three independent non-executive Directors (representing not less than one-third of the total number of Directors) at all times and at least one of them possesses the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 5.05(2) of the GEM Listing Rules.

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

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

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

Respective responsibilities of Directors and auditor

The Board has the ultimate responsibility for the preparation of financial statements of the Group. For the year under review, the Board was not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Board continued to adopt the going concern approach in preparing the financial statements for the year under review. The reporting responsibilities of the auditor of the Company for such financial statements are stated in the independent auditor's report on pages 144 and 149.

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

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

Directors' work commitments outside of the Group

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

Directors' training

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

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

Directors	Type of training received
Executive Directors	
SUN Ho	A, B
ZHOU Haijing	A
Non-executive Directors	
ZHANG Qin	A
YANG Guang	A
JI Gang	A
ZOU Liang (appointed on 10 November 2017)	A
ZHANG Wei (resigned on 10 November 2017)	Not applicable
Independent non-executive Directors	
Monica Maria NUNES	A, B
FENG Qing	A
GAO Jack Qunyao	A

A: studying materials or watching training webcasts launched by the Stock Exchange on topics related to corporate governance, GEM Listing Rules and/or regulations

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

CHAIRMAN AND CHIEF EXECUTIVE

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

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

Furthermore, the chairman is responsible for ensuring that:

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

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

NON-EXECUTIVE DIRECTORS

Each of Mr. Zhang Qin, Mr. Yang Guang, Mr. Ji Gang, Mr. Zou Liang and Mr. Zhang Wei (resigned on 10 November 2017) was appointed as a non-executive Director by way of a letter of appointment for a fixed term of one year (with renewal option). Each of the other independent non-executive Directors was appointed by way of a service agreement on a two-year basis.

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

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

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

BOARD COMMITTEES

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

CORPORATE GOVERNANCE REPORT

1. Remuneration committee

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

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

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

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

During the year under review, the remuneration committee held meetings to consider and recommend to the Board the remuneration packages of certain Directors, the adoption of the Share Award Scheme and the grant of share awards thereunder.

2. Nomination committee

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

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

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

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

During the year under review, a meeting of the nomination committee was held to approve the appointment of Mr. Zou Liang as non-executive Director with effect from 10 November 2017. The number of years of service of the three independent non-executive Directors had been reviewed and none of them had served the Board for more than 9 years. The independence of all the independent non-executive Directors was also reviewed and confirmed during such meeting.

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

Summary of the Company's Board diversity policy

(a) Purpose

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

(b) Scope of application

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

(c) Policy statement

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

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

(d) Measureable objectives

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

(e) Monitoring and reporting

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

(f) Review of the Policy

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

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

Board composition of the Company
(composed of 9 Directors)

		Number of Directors	%	Measurable objectives	Achieved
Gender	Male	8	88.9%	**Both genders present** to ensure different views from different genders are considered	✓
	Female	1	11.1%		
Age (Years)	31-40	1	11.1%	**Age spans over at least a decade** to ensure a balanced mix of conservative and ambitious experience from relatively sophisticated veteran and energetic young Directors	✓
	41-50	6	66.7%		
	51-70	2	22.2%		
Nationality	Chinese	8	88.9%	**More than a single nationality** to ensure the international perspectives and global view are considered	✓
	Portuguese	1	11.1%		
Tenure (Number of years)	below 1	1	11.1%	**Different tenures of Directors' service contracts** to ensure the consistency of business strategies implemented by the veteran Directors being complemented by new ideas from relatively new Directors	✓
	1 – 3	6	66.7%		
	above 3	2	22.2%		
Directorship Designation	Executive Directors	2	22.2%	**Presence of substantial percentage of non-executive Directors** to ensure interests of minority Shareholders and the Company as a whole are considered	✓
	Non-executive Directors	4	44.5%		
	Independent non-executive Directors	3	33.3%		
Other Public Company Directorship Experience (Number of companies)	Nil	6	66.7%	**At least one Director having directorship experience with other public companies** to share directorship experience from other public companies and help the Board keep abreast of the current practices of other public companies	✓
	One	2	22.2%		
	Two or above	1	11.1%		

3. Corporate governance committee

The Company established a corporate governance committee on 23 March 2012 with its specific terms of reference posted on the websites of the Company and of the Stock Exchange and are available to the Shareholders upon request. The corporate governance committee is to assist the Board in performing the corporate governance duties as required under the Code. The corporate governance committee comprises two members, namely, the chairman of the Board, Mr. Sun Ho (as chairman of such committee), and the company secretary, Mr. Ng Lok Ming.

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

During the year under review, the corporate governance committee formulated a new reporting procedure to collect certain key performance indicators for specified environmental protection aspects of the Group and fine-tuned the internal control procedures in respect of continuing connected transactions of the Group for the adoption by the risk management and internal control committee of the Company.

4. Audit committee

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

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

The Group's draft interim, quarterly and annual results were reviewed by the audit committee during the year under review, and the committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures had been made. The audit committee also attended two meetings during the year under review with the external auditor of the Company, PricewaterhouseCoopers ("**PwC**"), to discuss the audit for the financial statements of the Group for the year ended 31 December 2016, the review of the quarterly financial information of the Group for the nine months ended 30 September 2017 and the audit strategy of the Group for the year ended 31 December 2017 respectively.

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

5. Risk management and internal control committee ("RMICC")

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

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

The RMICC comprises at least three members as follows:

- the compliance officer of the Company (currently being Mr. Sun Ho) who shall act as the chairman of the RMICC;

- the chief financial officer/head of accounting department of the group (currently being Mr. Zhou Haijing), and/or the company secretary of the Company (currently being Mr. Ng Lok Ming), who (or who together) shall be responsible for monitoring the overall RM and IC functions of the Group on an ongoing basis; and

- the internal audit ("**IA**") senior manager of the Group from time to time, who shall be responsible for carrying out IA on different operating units of the Group by rotation on an ongoing basis.

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

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

(a) RM functions

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

(b) IC functions

The monitoring of the IC system of the Group was delegated to the chief financial officer/head of accounting department and/or the company secretary of the Company who had ensured, on an ongoing basis, that various financial, operational and compliance internal control policies and/or procedures in place were adhered to.

(c) IA functions

As part of the overall IC system, the Group has IA functions in place which were delegated to the IA senior manager of the Group.

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

During the year under review, no significant risks or significant internal control deficiencies or failures had been noted by the RMICC which reported the findings accordingly to the Board via the audit committee. The RMICC also confirmed with the Board via the audit committee that the RM and IC systems (including the IA functions) of the Group were effective and adequate, and that the Group's processes for financial reporting and GEM Listing Rules compliance were effective.

RISK MANAGEMENT AND INTERNAL CONTROL

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

During the year under review, the Board has delegated to the RMICC the implementation of the internal control systems and reviewing of all relevant financial, operational and compliance controls, risk management functions, the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions.

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

(i) an internal audit senior manager was appointed by the Group to carry out internal audit functions as described in the section headed "5. Risk management and internal control committee ("RMICC")" in this Corporate Governance Report;

(ii) the RMICC was established with effect from 1 January 2016 to assist the Board in performing various RM and IC functions;

(iii) a whistle-blowing arrangement was implemented to give all staff of the Group an opportunity to raise, in confidence, concerns about any possible improprieties in financial reporting, risk management, internal control, plans and ideas about the Group to the Group's internal audit senior manager and the audit committee for further investigation, if required; and

(iv) a "Disclosure Policy" was adopted by the Company, providing a general guide to directors, officers, senior management and relevant employees of the Group in the handling of inside information and/or monitoring of information disclosure pursuant to the relevant rules and regulations.

The Board has conducted, on an annual basis, a review of the effectiveness of the IC system (including the IA functions) and the RM system of the Group for the year under review. Both the RM and IC systems (including the IA functions) of the Group were found to be effective and adequate, and no material deficiencies, failures or risks were noted in respect of such systems for the year under review and the last annual review by the Board.

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

CORPORATE GOVERNANCE REPORT

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

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

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

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

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

- heads of business units or departments should promptly ascertain the facts and gather all relevant details reported by the staff and notify and escalate the details of any potential proposal, transaction or business development which may give rise to disclosure obligations to the head of legal department or to the chief financial officer (for financial or accounting related matters) to verify and assess such details reported. After identifying any potential inside information, the head of legal department or the chief financial officer should notify the company secretary and the CEO;

- the CEO, with the assistance of the company secretary if necessary, shall seek professional advice (where appropriate) and report to the Board or its delegate(s) and provide them with adequate details for review and assessment of the likely impact of such proposal, transaction or business development and ascertain whether it constitutes inside information or is subject to disclosure in order to avoid a false market of the Shares;

- the Board or its delegate(s) should review all relevant details and factors and decide whether disclosure is required and approve the relevant announcement and any further actions where applicable;

- inside information should be disseminated via the electronic publication system operated by the Stock Exchange before the information is released via other channels, such as the media or posting on the Company's official website;

- all Directors and employees are made aware of the "Disclosure Policy" and their obligations to maintain the confidentiality of any confidential information of the Group;

- no employee is permitted to disclose, discuss or share any confidential information about the Group with outside parties without the Company's prior approval;

- all Directors and employees are absolutely prohibited to deal or procure another person to deal in any securities of the Company when they possess any unpublished inside information; and

- any breach of the above obligations and professional conduct may result in internal disciplinary actions and where applicable, personal sanctions (civil or criminal) under applicable laws and regulations.

AUDITOR'S REMUNERATION

PwC was appointed as the auditor of the Company in December 2016 to replace the former auditor, HLB Hodgson Impey Cheng Limited, following its resignation on 8 November 2016. Save as aforesaid, there have been no other changes of auditors of the Company in the preceding three years. A resolution for the re-appointment of PwC as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company. The Board concurred with the views of the audit committee in determining the re-appointment of the auditor of the Company.

Remuneration to PwC amounted to HK$2,300,000 for the year ended 31 December 2017.

MEETING ATTENDANCE

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

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee	RMICC	Annual General Meeting	Special General Meetings
Executive Directors								
SUN Ho	9/9	N/A*	N/A*	3/3	N/A[c]	4/4	1/1	2/2
ZHOU Haijing	9/9	N/A*	N/A*	N/A*	N/A*	4/4	1/1	2/2
Non-executive Directors								
ZHANG Qin	8/9	N/A*	N/A*	N/A*	N/A*	N/A*	1/1	2/2
YANG Guang	9/9	N/A*	N/A*	N/A*	N/A*	N/A*	1/1	2/2
JI Gang	8/9	N/A*	N/A*	N/A*	N/A*	N/A*	1/1	2/2
ZOU Liang	1/1 [a]	N/A*	N/A*	N/A*	N/A*	N/A*	N/A[a]	1/1 [a]
ZHANG Wei	8/8 [b]	N/A*	N/A*	N/A*	N/A*	N/A*	1/1	1/1 [b]
Independent non-executive Directors								
Monica Maria NUNES	9/9	4/4	3/3	3/3	N/A*	N/A*	1/1	2/2
FENG Qing	9/9	4/4	3/3	3/3	N/A*	N/A*	1/1	2/2
GAO Jack Qunyao	7/9	4/4	3/3	3/3	N/A*	N/A*	1/1	2/2

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

Notes:

a. Only one Board meeting and one special general meeting on 20 December 2017 but no annual general meeting of the Company had been held during the year under review after such Director was appointed by the Company on 10 November 2017.

b. Only eight Board meetings, one annual general meeting on 12 May 2017 and one special general meeting on 8 March 2017 had been held during the year under review before such Director resigned on 10 November 2017.

c. No physical meeting of such Board Committee was held as the relevant committee members had resolved the matters by written resolutions instead.

COMPANY SECRETARY

The company secretary is responsible for facilitating the Board's process and communications among Board members and with the Shareholders and the management, and advising the Board and its committees on all corporate governance matters. The company secretary reports to the chairman of the Board and/or the CEO and his selection, appointment or dismissal shall be a Board decision. During the year under review, Mr. Ng Lok Ming ("**Mr. Ng**") continued to be the company secretary, authorised representative and member of each of the corporate governance committee and RMICC of the Company.

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

During the year under review, the company secretary, Mr. Ng, had undertaken not less than 15 hours of relevant professional training required under Rule 5.15 of the GEM Listing Rules. While Mr. Ng is not a full-time employee of the Company, his primary contact persons at the Company are Mr. Zhou Haijing (executive Director and chief financial officer of the Group) and Mr. Sun Ho (chairman of the Board and CEO).

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

(i) The Directors shall host the annual general meeting each year to meet with the Shareholders and answer their enquiries. The chairmen of the Board, corporate governance, risk management and internal control, audit, nomination and remuneration committees shall attend the annual general meeting to answer questions from the Shareholders. A separate resolution shall be proposed to be considered by the attending Shareholders in respect of each substantially separate issue, and voting on each resolution shall be conducted by way of a poll. The poll voting procedures shall be explained fully to Shareholders during the meeting. The Company's branch share registrar shall be appointed as scrutineer to monitor and count the poll votes cast at the meeting. The results of the poll which include the number of shares voted for and against each resolution shall be posted on the websites of the Stock Exchange and the Company respectively on the same day of the meeting.

(ii) The Company shall update its Shareholders and the investors on the Group's latest business developments and financial performance through announcements, circulars as well as annual, interim and quarterly reports to be issued by the Company from time to time.

(iii) The corporate website of the Company shall serve as an effective communication platform to the investing public and the Shareholders, and the Company has posted the following documents to its website:

- list of Directors specifying their roles and functions;
- the updated and consolidated version of its Bye-laws and memorandum of association;
- the procedures for eligible Shareholders to propose a person for election as a Director;
- the procedures for eligible Shareholders to convene a special general meeting or to put forward proposals at Shareholders' meetings;
- the announcements, circulars as well as annual, interim and quarterly reports of the Company; and
- terms of reference of the Company's Board committees, including audit, remuneration, nomination, corporate governance and risk management and internal control committees.

(iv) Notice to the Shareholders in respect of the annual general meetings and other general meetings of the Company shall be sent by the Company at least 20 clear business days and at least 10 clear business days respectively before such meetings.

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

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

SHAREHOLDERS' RIGHTS

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

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

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

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

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

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

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

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

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

(B) Shareholders sending enquiries to the Board

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

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

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

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

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

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

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

(i) a written notice signed by the nominated candidate of the candidate's willingness to be appointed as Director;

(ii) the candidate's personal information as required to be disclosed under GEM Listing Rule 17.50(2) and such other information as set out in the section headed "Required information of the candidate(s) nominated by Shareholders" below; and

(iii) the candidate's written consent to the publication of his/her personal data by the Company.

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

Required information of the candidate(s) nominated by Shareholders

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

a) full name and age;

b) positions to be held with the Company and its subsidiaries (if any);

c) experience including (i) other directorships held in the past three years in public companies of which the securities are listed on any securities market in Hong Kong and overseas, and (ii) other major appointments and professional qualifications;

d) current employment and such other information (which may include business experience and academic qualifications) of which Shareholders should be aware of, pertaining to the ability or integrity of the candidate;

e) length or proposed length of service with the Company;

f) relationships with any Directors, senior management, substantial shareholders or controlling shareholders (as defined in the GEM Listing Rules) of the Company, or an appropriate negative statement;

g) interests in the Shares within the meaning of Part XV of SFO, or an appropriate negative statement;

h) a declaration made by the nominated candidate in respect of the information required to be disclosed pursuant to GEM Listing Rule 17.50(2)(h) to (w), or an appropriate negative statement to that effect where there is no information to be disclosed pursuant to any of such requirements nor there are any other matters relating to that nominated candidate's standing for election as a Director that should be brought to Shareholders' attention; and

i) contact details of the nominated candidate.

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

RESPONSIBILITY

We strive to actively contribute to the development of responsible lottery and online games industries. We are actively involved in sports development and charity events, and we are the sponsor of a wide range of sports events

SUSTAINABILITY REPORT

In compliance with the Environmental, Social and Governance ("**ESG**") Reporting Guide in Appendix 20 of the GEM Listing Rules, information on environmental and social matters of the Group is disclosed on an annual basis and regarding the same period covered in its annual report.

This Sustainability Report is organised into two ESG subject areas: "Environmental" and "Social". Corporate governance is addressed separately in the Corporate Governance Report on pages 32 to 55 of this annual report ("**CG Report**").

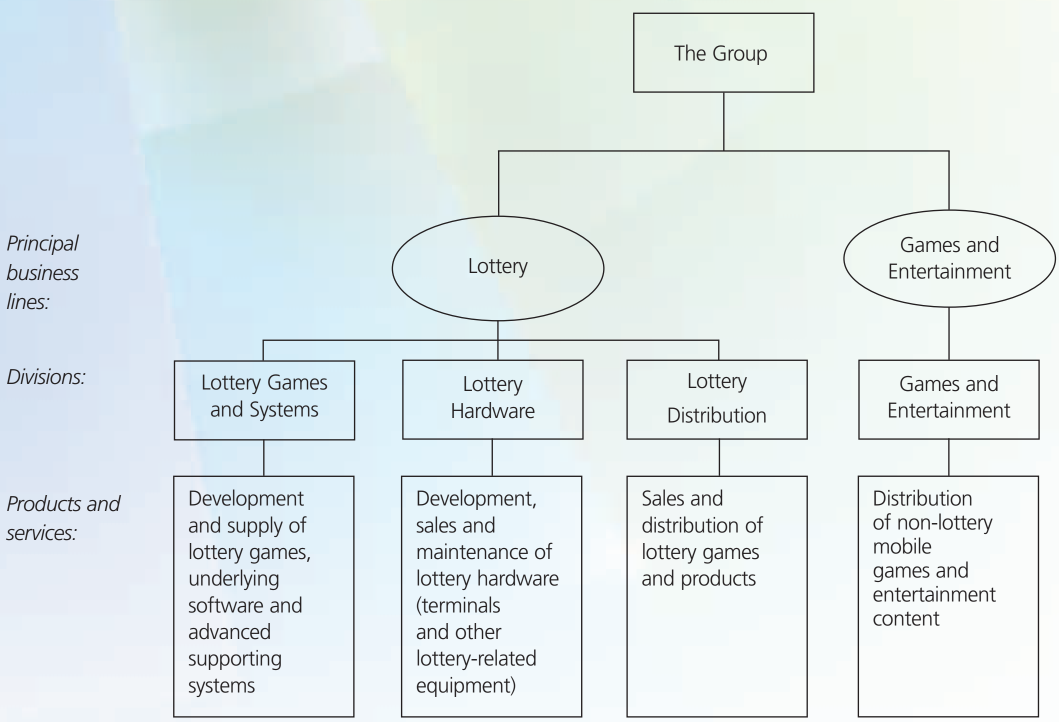
ABOUT OUR GROUP

Our Group is an integrated technology and services company, principally engaged in the lottery and mobile games and entertainment market with a focus on China and selected international markets. We are a member of the Alibaba Group, and are the exclusive lottery platform of Alibaba Group and Ant Financial Group. We have a team of around 400 employees, and the footprint of the Group's business now spans across China and selected international markets.

Our businesses are broadly divided into two categories:

- Lottery (including games and systems, hardware and distribution); and
- Games and Entertainment.

In terms of our principal business lines, our Group can be divided into four separate business divisions: namely, "Lottery Games and Systems", "Lottery Hardware", "Lottery Distribution", and "Games and Entertainment". The operations of all these four divisions have been covered in this Sustainability Report.



SUSTAINABILITY MANAGEMENT

Objectives

The objectives of the Group's sustainability management are to promote business growth and generate revenues for good causes, whilst managing the environmental and social impacts of the Group's operations and making them sustainable.

Stakeholder Engagement

We believe that stakeholder engagement is a key to successful sustainability management and the success of our operations depends largely on our long-term relationships with our stakeholders. By engaging with our key stakeholders (including our Shareholders, business partners, employees, suppliers/subcontractors, customers and the community) on an ongoing basis, it provides an opportunity for the Group to listen to their concerns and build on common goals. This will in turn drive our business development initiatives in the right direction and make our operations sustainable. Accordingly, when we formulate our sustainability management strategy, we have taken into due consideration our relationships with these stakeholders (as further illustrated in the section headed "Strategy" below).

Set out below is a table summarising the channels of communications deployed by the Group with our key stakeholders and areas of common concerns:

Stakeholders	Channels of communications	Areas of common concerns
Shareholders	• annual and special general meetings • announcements, circulars, quarterly, interim and annual reports • the Company's official website	• business development and financial performance of the Group • information on environmental and social matters • corporate governance matters

SUSTAINABILITY REPORT

Stakeholders	Channels of communications	Areas of common concerns
Business partners	• meetings • conference calls • negotiations of business cooperation agreements • joint development and customisation of lottery games and systems • participation in trade fairs	• products' compliance with applicable law and regulations • responsible lottery gaming • customisation of products to meet local requirements and enhance attraction to the local players
Employees	• emails, meetings and conference calls • discussions with superiors	• remuneration packages • professional development • career advancement • training
Suppliers/subcontractors	• meetings • conference calls • negotiations of commercial agreements	• products' compliance with applicable law and regulations • responsible lottery gaming • competitiveness in pricing

Stakeholders	Channels of communications	Areas of common concerns
Customers (including governmental lottery authorities or operators authorised by such authorities, and online consumers in respect of games and entertainment business)	• meetings • conference calls • negotiations of commercial agreements • written submissions of proposals and application for lottery game approval documentation • games and entertainment platforms	• introducing new lottery types and distribution channels for the PRC lottery markets • products' compliance with applicable related law and regulations • responsible lottery gaming • remuneration to the Group for its products and services • lottery games payout ratios to players • contributions to public funding
Community	• participation in sports development and charity events • sponsorship of sports events • staff recruitment	• donations for good causes • promotion of health through sports • job creation

Details of the Group's relationships with its key stakeholders can also be found in the paragraph headed "(h) Relationships with our stakeholders" under the section headed "BUSINESS REVIEW" in the Directors' Report of this annual report.

Management Approach and Monitoring Framework

While the Board has the overall responsibility for the Group's ESG strategy and reporting, it has delegated the ESG functions to the Legal Department of the Group, the Corporate Governance Committee ("CGC") and the RMICC of the Company.

The Legal Department of the Group is responsible for advising and safeguarding the interests of the Group on salient legal and regulatory related matters.

The CGC is responsible for reviewing and monitoring the adequacy of the corporate governance guidelines of the Company and for recommending any proposed changes to the Board for approval. The CGC also reviews and monitors, among other things, the Company's policies and practices on compliance with legal and regulatory requirements, the Company's compliance with the Corporate Governance Code as set out in Appendix 15 of the GEM Listing Rules and disclosure in the CG Report. Policies and internal control systems recommended by the CGC and approved by the RMICC will then be monitored on an ongoing basis by the RMICC.

The primary duties of the RMICC are to assist the Board in (i) deciding the Group's risk level and risk appetite; (ii) considering the Group's risk management strategies and gives directions where appropriate; (iii) reviewing and monitoring the RM and IC systems (which include systems governing ESG matters) of the Group; and (iv) providing advice on the RM and IC systems and reporting any findings (including any deficiencies, failures or risks noted) to the Board via the audit committee of the Company.

The RMICC shall confirm in writing to the Board via the audit committee at least four times a year (or as and when any material deficiency, failure or risk is noted) as to whether the RM and IC systems (which include systems governing ESG matters) are adequate and effective.

The Legal Department of the Group shall also confirm in writing to the RMICC *at least four times a year* (or as and when any material deficiency, failure or risk is noted) as to legal and regulatory related matters.

In addition, the Legal Department of the Group shall confirm in writing to the RMICC *on a monthly basis* as to whether there are any new policies, rules and/or regulations in China (or in any jurisdiction where the Group has operations) which may have a material impact on the business or trading prospect of the Group.

Strategy

On the basis of the business sectors in which our Group operates (namely, the lottery as well as games and entertainment businesses), we prioritise our sustainability management strategy (referred to as the "CHEER" Strategy) into the following five main focuses:

(i) Corporate social responsibilities:

We strive to actively contribute to the development of responsible lottery and online gaming industries. We are actively involved in sports development and charity events, and we have been the sponsor of a wide range of sports events.

(ii) Healthy market development:

We liaise closely with the PRC lottery authorities and strive to help them develop healthy lottery markets for the community. We not only introduce new lottery types to the PRC lottery markets (e.g. our MOF-approved lottery games, "Lucky Racing" and "e-Ball Lottery"), but also propose to the PRC lottery authorities to evaluate new forms of legal and regulated lottery distribution channels with a view to cracking down on the illegal gambling market in China. Such distribution channels include the channels of S.F. Holding to distribute instant scratch lottery cards, or various retail channels of Alibaba Group to distribute lottery products (e.g. Rural Taobao, a physical network of rural locations in China; small retail format "Ling Shou Tong" (零售通); and the franchised model stores, T-Mall Franchise Convenience Stores).

As an official partner of the IMSA and one of the strategic partners and organisers of the China Competition Two-on-One Poker Championship, the Group is committed to developing and raising awareness and popularity of mind sports in China.

Outside of China, the Group has entered into a joint venture agreement with One97 Communications Limited, owner of Paytm, India's leading mobile payment platform, to offer a variety of entertainment products and services to Paytm's approximately 225 million users in India. It is our plan to create a high quality mobile entertainment experience tailored for the Indian consumer market by leveraging the Group's operating experience and technical expertise in products and services such as casual mobile and social games and other user engagement activities.

(iii) Environmental protection management:

As we do not run any factories but outsource the manufacturing functions to outside suppliers/subcontractors, we do not anticipate any material risks in our operations in respect of environmental protection concerns. The Group has made continuous effort to support low-carbon offices, in that employees are encouraged to observe our policies and business practices on energy savings, use of recycled paper, increased use of soft copies, adoption of a 5-day work week for our Hong Kong office, use of public transportations for errands and adoption of office design which makes full use of natural light instead of electricity.

SUSTAINABILITY REPORT

(iv) Employee and human resources development:

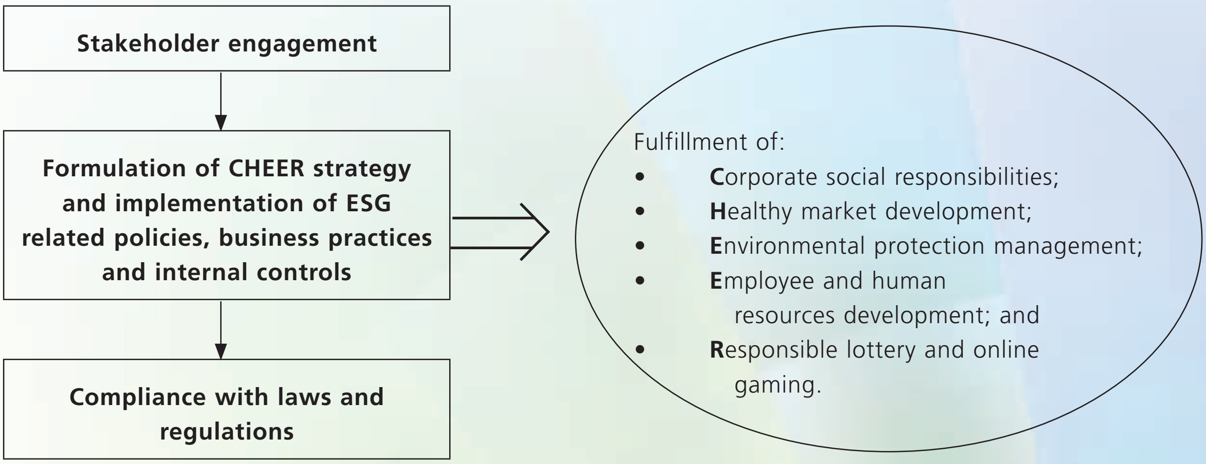
As a major part of our core business is founded on gaming technologies, our Group places great emphasis on research and development of our products and continues to work closely with our business partners (which are leading international gaming and/or gaming technology companies) with an aim to introducing innovative lottery products and services to the PRC lottery markets and enabling responsible lottery gaming. Not only will this enhance the technical knowledge and skills of our professional team, but this will also help create job opportunities in the communities where the Group operates. In view of our burgeoning games and entertainment business, the Group has also expanded its in-house research and development team rapidly.

(v) Responsible lottery and online gaming:

As a Gold Contributor of the World Lottery Association (WLA), an associate member the Asia Pacific Lottery Association (APLA), the Company is committed to working closely with our customers and/or business partners to implement responsible lottery measures and prevent problem gaming in various ways.

Focuses of the Group's sustainability management strategy		Stakeholders involved or affected
(i)	Corporate social responsibilities	Community
(ii)	Healthy market development	Customers and Community
(iii)	Environmental protection management	Suppliers/subcontractors, Employees and Community
(iv)	Employee and human resources development	Employees, Business Partners and Community
(v)	Responsible lottery and online gaming	Customers, Business Partners and Community
Outcome/output of overall sustainability management: Compliance with laws & regulations and this Sustainability Report		Shareholders

Sustainability management flowchart:



By following through on the above CHEER strategy, and implementing necessary ESG related policies, business practices and internal controls, we believe that our overall sustainability management will not only make our operations sustainable and compliant with the relevant laws and regulations to safeguard the interests of our Shareholders in the Company, but will also enhance our transparency and accountability to our Shareholders by means of this Sustainability Report.

SUMMARY OF INFORMATION ON ENVIRONMENTAL AND SOCIAL MATTERS OF THE GROUP

	Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
A. Environmental			
A1: Emissions	Policy relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste: As we do not run any factories but outsource the manufacturing functions to outside suppliers/subcontractors, we do not anticipate any material risks in our operations in respect of environmental protection concerns such as air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	N/A (As we do not run any factories but outsource the manufacturing functions to outside suppliers/subcontractors, the environmental protection related law and regulations in China do not apply to our operations.)	N/A
A2: Use of resources	Policies on the efficient use of resources, including energy, water and other raw materials: As mentioned above, we do not run any manufacturing factories ourselves and therefore material risks of wastage of water or raw materials are not applicable to our operations. As our continuous effort to support low-carbon offices, the Group also has policies and business practices on energy and resource savings, such as: **(i) Electricity savings:** Computers should be turned off completely when employees leave office or when not in use, and lights should be switched off in unoccupied space. **(ii) Use of recycled paper:** Recycled paper is used for printing emails and other documents for internal usage.	N/A	N/A

	Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
	(iii) Increased use of soft copies: As email has become an increasingly popular channel for employees to share information and communicate, a lot of the documents and information can now be distributed to, and circulated among, employees in soft copies via our corporate email accounts. This has immensely reduced the use of paper in our office. **(iv) 5-day work week:** Employees in Hong Kong are in general required to work 5 days a week only in order to save them on time and costs to commute between their homes and the workplace on Saturdays, and also help save electricity in the office on Saturdays as well as improve the air pollution condition in the city by reducing traffic. We believe that employees can still satisfactorily fulfill their job duties within a 5-day work week if they work efficiently and with proper time management. On the other hand, employees in the PRC are already not required to work on Saturdays by PRC law. **(v) Use of public transportations:** We encourage employees to use public transportations (subways and buses rather than taxi) for errands. **(vi) Office design that makes full use of natural light:** Scientific design of the office has been adopted so that natural light could be made full use of, rather than electricity.		
A3: Environment and natural resources	Policies on minimising the Group's significant impact on the environment and natural resources: same policies as disclosed above in item A2: "Use of resources".	N/A	N/A

	Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
B. Social Employment and Labour Practices			
B1: Employment	Policy, business practices and/or internal controls relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity and anti-discrimination, diversity, and other benefits and welfare: **(i) Compensation, other benefits and welfare:** The Group's remuneration policies are formulated on the basis of performance and experience of individual employees and are in line with local market practices. In addition to salary, the Group also offers to its employees other fringe benefits and welfare including year-end bonus, discretionary bonus, share options under the Share Option Schemes, Share Award Scheme, contributory provident fund, social security fund, medical benefits and training. **(ii) Dismissal:** Employees may be subject to dismissal if: **(a)** they commit material breach of the Employee Code of Conduct prescribed by the Group, such as: • repeated violation of the Employee Code of Conduct, with 3 written warnings given to the offending employee; • refusal to follow work assignments, or disruption of normal work flow, with 3 written warnings given to the offending employee;	Employment Ordinance of Hong Kong (Chapter 57 of the Laws of Hong Kong); Labour Law of the PRC (中華人民共和國勞動法); The Labour Contract Law of the PRC (中華人民共和國勞動合同法); and Regulations of Paid Annual Leave of Employees (職工帶薪年休假條例)	✓

Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
• consecutive absence from work for 3 days or more, or repeated absence (for less than 3 days) despite written warning has been given to the offending employee; • breach of training or confidentiality agreement, causing material loss to the Group; • perpetration of serious misconduct such as gross negligence, bribery, theft, fraud, violence, intimidation, insult, slander or sexual harassment; or • being detained or imprisoned for breaching the law. **(b)** they commit malpractice, causing "significant damage" to the Group, such as causing: • economic loss; • damage to the computer system of any department and disruption of its work; • write-off of production tools, equipment and products; • casualties; • negative publicity; • penalty from regulatory authorities;		

SUSTAINABILITY REPORT

	Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
	• damage to intangible assets of the Group including loss of business opportunities, reputation, industry status and social standing; or • other adverse consequences to the Group. **(c)** they are concurrently under the employment of another employer, causing material adverse impact on their job duties in the Group; or they refuse to terminate their outside employment despite written request from the Group. **(iii) Recruitment:** Staff recruitment is required to follow the Group's "annual headcount planning" (年度員額計劃). Application for staff recruitment needs to be first submitted to our respective Human Resources Departments of Hong Kong, Beijing or certain subsidiaries of the Company, or, in some cases, by the Finance & Administration Department (財行部) of the subsidiaries, and approved by designated senior management, before any recruitment process is allowed to commence. A reward will also be offered by the Group to any existing employee if he/she refers any suitable candidate to the Group and such candidate is eventually employed by the Group.		

Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
The Human Resources Departments of the Group will examine and verify identification documents, credentials or information contained in the résumés of all job applicants. **(iv) Promotion:** The majority of employees of the Group are in the PRC. Promotion of the Group's employees in Hong Kong is handled by our Human Resources Department in Hong Kong, and is based on the performance appraisal by the chairman of the Board. On the other hand, our Human Resources Department in Beijing is responsible for handling promotion of the Group's employees in the PRC on an annual basis, which shall usually take effect from 1st April each year, unless otherwise notified by such department. The Human Resources Department in Beijing will consider a number of criteria in determining whether an employee deserves a promotion, for instance: • the number of times that the employee was absent from training activities in the past year; • the grading of his/her performance appraisal; • whether the employee has been in his/her present position for more than one year; • whether there is any relevant vacancy to be filled; and • the existing salary level of the employee.		

Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
(v) Working hours: Employees in general are required to work 8 hours per working day (exclusive of lunch hour) or 40 hours per week. Certain posts (e.g. shift workers) may have different arrangements for their working hours. **(vi) Rest periods:** Employees who have worked continuously for one year or more are entitled to paid annual leave in accordance with the "Regulations of Paid Annual Leave of Employees" of the PRC. The annual leave shall be additional to national statutory holidays and off days prescribed by the Group. Where an employee is required to work overtime, the Group shall give overtime pay to the employee or grant the employee compensatory time off. **(vii) Equal opportunity and anti-discrimination:** The Group advocates equal opportunity for all employees and prohibits discrimination against any employee's age, gender, disability, religion, marital status, pregnancy, sexual orientation and nationality. Any discriminative behaviour at workplace will be prohibited. Employees are encouraged to report to their superiors and to the Human Resources Department, any event which may amount to discrimination at our workplace.		

Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
(viii) Diversity: Diversity of our workforce has been adopted both at the Board level and throughout our Group. To enhance the quality and effectiveness of performance of the Board in a continuously balanced manner, a Board Diversity Policy has been in place, having due regard to a range of diversity elements, including gender, age, nationality, tenure of service with the Company, presence of a substantial percentage of non-executive Directors on the Board to safeguard minority Shareholders' interests and at least one Director having directorship experience with other public company(ies) to keep the Board abreast of the current practices of other listed companies. Details of the Board Diversity Policy can be found in the CG Report contained in this annual report. As regards other employees, the Group's recruitment is based purely on the merits, ability, qualifications and working experience of individual candidates. It is our policy to maintain a diversified group of employees to complement one another, and our staff members indeed possess a wide variety of attributes such as age, gender, nationality, industry backgrounds, skill sets and years of working experience.		

SUSTAINABILITY REPORT

	Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
B2: Health and safety	Policy relating to providing a safe working environment and protecting employees from occupational hazards: (i) The Group selects and rents only offices that are situated in properly managed commercial buildings with satisfactory security measures. (ii) The last employee leaving the office should ensure that the front door of the office is securely locked to safeguard the properties of the Group and its employees. (iii) Employees are required to enter passcode or use registered radio frequency card to gain entry to the office premises. (iv) Burning candles, incense (including potpourri pots), or creating an open flame (e.g. for cooking) in office premises are prohibited. (v) Apart from medical scheme, the Group also takes out workers compensation insurance to cover the liabilities of employees in Hong Kong in the event that they suffer injuries at work. For employees in China, the Group has contributed to the social security fund (which includes basic pension insurance fund, basic medical insurance fund, personal injury insurance fund, unemployment insurance fund and maternity insurance fund) to provide similar coverage to them if they suffer injuries at work.	Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong); Labour Law of the PRC (中華人民共和國勞動法); The Labour Contract Law of the PRC (中華人民共和國勞動合同法); PRC Occupational Disease Prevention Law (中華人民共和國職業病防治法); Women's Rights Protection Law (婦女權益保障法); Special Provisions on Labour Protection of Female Workers (女職工勞動保護特別規定); The Industrial Injury Insurance Regulations (工傷保險條例); Measures for the Management of Summer Cooling Purposes (防暑降溫措施管理辦法); The Production Safety Law of the PRC (中華人民共和國安全生產法); The Social Insurance Law of the PRC (中華人民共和國社會保險法); The Labour Security Supervision Regulations (勞動保障監察條例); Provisions on Enterprise Workers Illness or Non-work Related Injury Medical Period (企業職工患病或非因工負傷醫療期規定)	✓

	Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
	(vi) Work arrangements under high temperature: (a) Employees are prohibited from carrying out outdoor work if temperature reaches over 40°C；(b) If temperature reaches above 37°C but below 40°C, outdoor work for the day should not exceed 6 hours in total (and no outdoor work should be allowed during the 3 hours of highest temperature); (c) If temperature reaches above 35°C but below 37°C, outdoor workers should take shifts and should not work overtime; and (d) Pregnant employees should not be allowed to work outdoors when temperature reaches above 35°C, or work in premises where temperature is above 33°C.		
B3: Development and training	Policies on improving employees' knowledge and skills for discharging duties at work: The Group offers valuable opportunities for our employees to enhance their professional knowledge and skills through on-the-job training and other training activities sponsored by the Group: **(i) On-the-job training:** The research and development team of the Group comprises veteran professionals in the PRC lottery industry. Through working with these professionals and other business partners (which are leading international gaming and/or gaming technology companies), employees can share knowledge base and learn state-of-the-art technology and business practices from other renowned companies.	N/A	N/A

SUSTAINABILITY REPORT

Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
(ii) Other training activities: In-house briefing materials on latest corporate governance and listing rule requirements are provided to Directors and company secretary. Directors and employees also attend in-house and outside training seminars on job-related topics, or participate in industry-specific seminars and conferences from time to time. Examples of in-house and outside training seminars offered by the Group to employees include the following: • Basic knowledge of information security • Web security testing • Information technology infrastructure library • Advanced project management of information system • Basic knowledge of EXCEL • Corporate financial analysis and risks detection • Human resources management • Labour dispute resolutions • Fire safety measures • Marketing strategy for major customers • International trade practice		

	Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
B4: Labour standards	Policy relating to preventing child and forced labour: (i) All employees should provide valid identification documents and other credentials to the Human Resources Department of the Group for recruitment purpose in order to verify their age, identity and working experience. It is our Group's recruitment policy not to employ persons under the age of 18. (ii) No employee should be coerced to work through the use of violence or intimidation. All employees are entitled to freely resign from their posts or terminate their employment by serving written notice (normally ranging from one to three months) to their superiors or the Human Resources Department of the Group in accordance with their respective service or employment contracts.	"Employment of Children Regulations" made under Employment Ordinance of Hong Kong (Chapter 57 of the Laws of Hong Kong); Labour Law of the PRC (中華人民共和國勞動法); Law of the PRC on the Protection of Minors (中華人民共和國未成年人保護法); Law of the PRC on Compulsory Education (中華人民共和國義務教育法); The Provisions Prohibiting the Use of Child Labour (禁止使用童工規定); The Fine Standard Provisions of the Use of Child Labour (使用童工罰款標準的規定); The Labour Contract Law of the PRC (中華人民共和國勞動合同法); PRC Criminal Law (中華人民共和國刑法); PRC Criminal Law Amendment (VIII) (中華人民共和國刑法修正案(八))	✓
B5: Supply chain management	Policies on managing environmental and social risks of the supply chain: Conformity by suppliers with the relevant industrial standards and ethical business norms in their supply of materials and products to the Group is one of the supplier selection criteria that the Group takes into account. Suppliers' fulfilment of the environment, health and safety requirements are relevant factors which the Group takes in account in its supplier selection process. The Group manages the supply chain by performing regular assessments on the environmental and social risks of the supply chain and strengthening the risk management. Suppliers are encouraged when appropriate to take measures to reduce their environmental and social risks.	N/A	N/A

SUSTAINABILITY REPORT

	Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
Operating Practices			
B6: Product responsibility (responsible lottery and online gaming practices)	Policies and/or business practices relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress: Unlike companies which supply consumer goods, food or beverages, our Group principally (i) supplies lottery games, related software and underlying supporting systems; (ii) provides lottery hardware (terminals and other lottery-related equipment); (iii) distributes lottery games and products; and (iv) provides non-lottery mobile games and entertainment content. Accordingly, we do not anticipate any material risks of health and safety to the public arising from our products and services. Generally, the lottery authorities in the PRC (being our customers) will conduct the advertising or "branding" of the lottery products to promote their sales. However, where we are engaged by our customers to provide marketing consultancy services for our lottery games, we may participate in the marketing and advertising campaigns in order to promote the sales of our lottery games. Under such circumstance, we shall advise our customers as to how to educate lottery players in order to avoid problem gaming issues of the players, where appropriate.	In respect of the Group's lottery business: Lottery Management Regulations (彩票管理條例); The Detailed Rules for the Implementation of Lottery Management Regulations (彩票管理條例實施細則); Measures for Lottery Issuance and Sales Management (彩票發行銷售管理辦法); The Interim Measures for the Administration of Internet Sales of Lottery (互聯網銷售彩票管理暫行辦法); The Interim Measures for the Administration of Telephone Sales of Lottery (電話銷售彩票管理暫行辦法) In respect of the Group's games and entertainment business: Interim Measures for the Administration of Online Games (《網絡遊戲管理暫行辦法》); Interim Provisions on the Administration of Internet Culture (《互聯網文化管理暫行規定》); Notice of the Ministry of Culture on Regulating the Operations of Online Games and Strengthening Interim and Ex Post Regulation (《文化部關於規範網絡遊戲運營加強事中事後監管工作的通知》)	✓

	Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
	Our lottery hardware, games and systems are supplied only to governmental lottery authorities or operators authorised by such authorities in the PRC or overseas in order to preclude from involvement in any possible illegal gaming activities in any jurisdiction where the Group has business. As regards our lottery games, "Lucky Racing" and "e-Ball Lottery": • proper approval of these games had been obtained from MOF before they were officially launched in Hunan and Jiangsu provinces in the PRC respectively; • the lottery shops where these two games are played prohibit betting by minors; • maximum limit is pre-set for the amount of each bet that can be placed by a player; and • the frequency and maximum number of draws of the games per day are fixed by the governmental lottery authorities to prevent problem gaming issues of the players. It is quite common that the PRC lottery authorities will review the performance of any new lottery game shortly after it has been launched and its social impact. In the event that such authorities wish to adjust the game rules, designs or other mechanisms to strengthen responsible lottery gaming, the technical team of the Group (and/or the technology partner involved, if any) will work closely with the authorities accordingly to meet their requirements and rectify any deficiencies. As regards the Group's games and entertainment business, anti-addiction measures are also implemented as appropriate and as required.		

SUSTAINABILITY REPORT

	Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
B7: Anti-corruption	Policies and/or internal controls relating to bribery, extortion, fraud and money laundering: Employees of the Group are prohibited from engaging in corrupt practices: • for achieving specific business purposes such as obtaining or retaining any business, business licences or permits; or influencing any act of the government officials or commercial decisions of the business partners; or • which may be seen as constituting improper influence on business relationships.	PRC Criminal Law (中華人民共和國刑法); PRC Anti-Unfair Competition Law (中華人民共和國反不正當競爭法); PRC Interim Provisions on Prohibiting Commercial Bribery (禁止商業賄賂行為的暫行規定); PRC Criminal Law Amendment (vi) (中華人民共和國刑法修正案(六)); Provisions of the Supreme People's Procuratorate on Bribery Filing Standards (最高人民檢察院關於行賄罪立案標準的規定); Opinions of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues concerning the Application of Law in the Handling of Criminal Cases of Commercial Bribery (最高人民法院、最高人民檢察院關於辦理商業賄賂刑事案件適用法律若干問題的意見); The Company Law of the PRC (中華人民共和國公司法); The Opinions on Correctly Grasping the Policy Boundaries at Special Work in the Management of Commercial Bribery (關於在治理商業賄賂專項工作中正確把握政策界限的意見); Hong Kong Prevention of Bribery Ordinance (Chapter 201 of the Laws of Hong Kong); and US Foreign Corrupt Practices Act of 1977	✓

	Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
	Specific policies are in place to govern the offering of gifts, entertainment, hospitality, free travel and accommodation to government officials or business partners. In line with the Group's accounting internal control system, all payments and receipts of money require valid supporting documents and proper records in order to identify and prevent possible bribery, extortion, fraud and money laundering activities engaged by any employee or member of the Group.		
Community			
B8: Community investment	Policies or business practices on community engagement to understand the needs of the communities where the Group operates and to ensure its activities take into consideration the communities' interests: (i) We collaborate closely with government bodies, charitable institutions and sports associations, and sponsor sports development and charity events organised by these parties. The Group has participated in a wide range of charity and sports development events such as Helping the Poor Children in Yunnan Province, Sponsoring Shanghai Youth Girls Soccer Team, AGTech Cup Olympic Photography Competition, Sponsoring Anhui Huangshan Martial Arts Competition Tournament, AGTech 15th He Long Cup Golf Celebrity Invitation, 2013 Shenzhen Charity Exhibition, 2015 Social Responsibility of China Lottery Forum as well as being the strategic partner of the Tennis Association for Central Government Agencies and sponsoring various tennis tournaments and tennis promotional campaign.	N/A	N/A

SUSTAINABILITY REPORT

	Relevant policies, business practices or internal controls of the Group	Relevant laws and regulations that have a significant impact on the Group	Complied with relevant laws and regulations?
	(ii) We continue to work closely with lottery authorities and endeavour to help the government evaluate new forms of legal and regulated avenues, with a view to fighting illegal gambling and raising funds for sports and welfare projects. (iii) Recognising that employees are assets of the Group, we shall continue to recruit talents to assist with our business expansion and create different job opportunities in the community where the Group operates.		

Notes:
N/A : Not applicable
✓ : Yes

KEY PERFORMANCE INDICATORS ("KPIs") FOR SPECIFIED ENVIRONMENTAL PROTECTION ASPECTS OF THE GROUP:

	KPIs	Details of KPIs/Remarks
a) Aspect A1: Emissions		
KPI A1.1	The types of emissions and respective emissions data.	N/A *(Note 1)*
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	N/A *(Note 1)*
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	N/A *(Note 1)*
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	N/A *(Note 1)*
KPI A1.5	Description of measures to mitigate emissions and results achieved.	N/A *(Note 1)*
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	N/A *(Note 1)*

SUSTAINABILITY REPORT

KPIs		Details of KPIs/Remarks
b) Aspect A2: Use of Resources		
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in ’000s) and intensity (e.g. per unit of production volume, per facility).	As mentioned above, the Group does not run any manufacturing factories and therefore material risks of wastage of resources such as electricity, water or raw materials are not applicable to its operations. Nevertheless, the Group continues to support low-carbon office and encourages its staff to save on the use of electricity and paper. For the year ended 31 December 2017: • Total electricity consumption of the Group: 180,195 (‘000 kilowatt hours); • Total electricity expenses of the Group: approximately HK$231,000 (i.e. approximately 18.4% decrease over approximately HK$283,000 in 2016) • Total expenses on paper consumption of the Group: approximately HK$15,000 (i.e. approximately 16.67% decrease over approximately HK$18,000 in 2016)

	KPIs	Details of KPIs/Remarks
		The above year-on-year decreases of electricity and paper consumption reflect that the effort of the Group's employees to save on electricity and paper consumption continues to be satisfactory.
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	N/A ((i) The Group does not run any factories, (ii) office rental paid by the Group already covers water consumed by the Group and there are no separate billings of water usage by landlords (and hence records of water consumption) to various offices of the Group, and (iii) certain water facilities are provided in common areas of the office buildings and shared with other tenants located on the same floors of our various offices in China and Hong Kong, and therefore no data of water consumption can be available for individual tenants including the Group)

SUSTAINABILITY REPORT

	KPIs	Details of KPIs/Remarks
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	As mentioned in A2 above regarding the Group's policies on the use of resources, the energy use efficiency initiatives undertaken by the Group include: • switching off computers and lights when employees leave the office; • use of recycled paper; • increased use of soft copies; • adoption of a 5-day work week for the Group; • use of public transportations for errands; and • scientific design of the office has been adopted so that natural light could be made full use of, rather than electricity. As mentioned in KPI A2.1 above, the effort of the Group's employees to save on electricity and paper consumption is found to be satisfactory.
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	N/A *(Note 1)*

	KPIs	Details of KPIs/Remarks
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	N/A (The Group does not run any factories)
c) Aspect A3: The Environment and Natural Resources		
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	N/A *(Note 1)*

Note 1: The Group does not run any factories but outsources the manufacturing functions to outside suppliers/subcontractors.

DISCUSSION AND ANALYSIS OF THE GROUP'S RESULTS AND BUSINESS

ABOUT THE GROUP

AGTech was incorporated in Bermuda and its Shares are listed on GEM (Stock Code: 8279). AGTech is an integrated technology and services company engaged in the lottery and mobile games and entertainment market with a focus on China and select international markets. A member of the Alibaba Group with around 400 employees, AGTech is the exclusive lottery platform of Alibaba Group and Ant Financial Group.

AGTech's businesses are broadly divided into two categories:

- Lottery (including games and systems, hardware and distribution); and

- Games and Entertainment.

AGTech is a Gold Contributor of the World Lottery Association (WLA), an associate member of the Asia Pacific Lottery Association (APLA), an official organiser and operator of the competition card games Guan Dan and Two-on-One poker in China, and an official partner of the International Mind Sports Association (IMSA).

CORPORATE STRATEGY AND OBJECTIVES

AGTech is committed to evolving its business into a comprehensive lottery, mobile games and entertainment content and technology provider to customers around the world.

In view of the potential approval and authorisation of online distribution of regulated lottery products in China, beginning in 2017, the Group began leveraging our technical know-how, operating experience and in-house capabilities to expand our business in the Games and Entertainment industry, actively building our online presence and customer-base, leveraging on Alibaba Group and Ant Financial Group's vast portfolio of networks and channels. The Group will continue to develop differentiated proprietary games and entertainment platforms with the goal of integrating unique games and entertainment content with various resources on e-commerce and e-payment platforms, ultimately creating an innovative business model to increase the Group's commercial value.

Looking forward, AGTech will continue pursuing opportunities abroad, globalising our business by offering our proprietary systems and platforms, as well as operational and technical expertise, and strategically working with leading local partners in overseas markets such as India, South East Asia and beyond.

Nonetheless, lottery technology and services have been and will continue to be AGTech's domain expertise. To this end, we continue to support both of China's legal lottery operators, namely the Welfare Lottery and the Sports Lottery, across the full value chain by bringing together industry expertise, innovative technology and infrastructure, as well as management and operating experience into the Chinese lottery market. The Group believes that it is well positioned to receive the appropriate authorisation in online (internet and mobile) distribution of lottery products as and when approved by the lottery authorities.

Importantly, we will continue focusing on innovations in physical lottery channel distributions, seeking out suitable third party partners to expand our retail network, and leveraging our position as the exclusive lottery platform of Alibaba Group and Ant Financial Group, all of which are expected to help broaden the reach of lottery products in China. We believe that our position in both existing and potential new lottery channels is strengthened as we continue to improve upon the appeal and access of lottery products to the end consumers in China, thereby helping to expand the lottery industry as a whole.

INDUSTRY OVERVIEW

Lottery*

PRC annual lottery sales in 2017 set a new record high of approximately RMB427 billion, increasing 8.1% over 2016. Despite the significant size of today's China lottery market, the penetration rate of regulated lottery in China remains comparatively low by international standards. Given that lottery participation in China is well below that of developed markets such as Europe and the United States, there is enormous potential for future growth in China's legal lottery market.

There are two legal lottery operators in the PRC: the national welfare lottery (Welfare Lottery) and the national sports lottery (Sports Lottery). For 2017, Welfare Lottery and Sports Lottery grew 5.1% and 11.4%, representing 50.9% and 49.1% of the total market respectively.

The Welfare Lottery and the Sports Lottery have five main product categories: lotto type lottery game product that are either traditional in nature with a daily or weekly draw pattern as well as modern high frequency games featuring multiple draws per hour ("Lotto"), sport betting ("Sports"), video lottery terminal ("VLT"), a keno product ("Keno") and instant scratch cards ("Scratch"). In 2017, with the exception of Scratch, all of the lottery products enjoyed year on year sales growth, with Sports as the stand-out product growing 21.4% over 2016. The Scratch declined 13.6%, continuing several years of decline. Overall, Lotto remains by far the largest category, representing 61.6% of the overall market, followed by Sports, VLT, Scratch and Keno.

* *Source: Ministry of Finance of the PRC*

Games and Entertainment

The proliferation of smartphones in the PRC over the last several years, coupled with ever improving content across games categories, has increased mobile games consumption significantly. New technologies, improved network infrastructure, less expensive access to high-speed data, enhanced mobile devices have all contributed to the increase of mobile content consumption, thereby driving impressive levels of innovation in mobile games and entertainment content.

As such, over 74%* of total smartphone users are now smartphone gamers in the PRC, lagging only behind Korea in terms of penetration, as mobile gaming spread across age and gender demographics. In fact, according to the latest 2017 Global Mobile Games Industry White Paper, China has become the largest mobile game market in the world, with total revenue reaching approximately RMB92.8 billion*.

* *Statistica, Google trends*

India

We believe India currently holds the world's fastest growing active online users, with mobile driving the content consumption boom. According to surveys by Internet and Mobile Association of India, Indian internet user base reached approximately 481 million in 2017, and is expected to reach approximately 500 million by June 2018*. Further, according to a joint report released by India's National Association of Software and Services (NASSCOM) and App Annie, in 2016 mobile game downloads in India totaled approximately 1.6 billion, which put India fifth in the world.

* *Jointly published in July 2017 by Game Publishers Association Publications Committee, Games Research Center and International Data Corporation*

DISCUSSION AND ANALYSIS OF THE GROUP'S RESULTS AND BUSINESS

BUSINESS REVIEW

Games and Entertainment

Online non-lottery games and entertainment content

The Group is dedicated to evolving our business into a comprehensive lottery, mobile games and entertainment content and technology provider to customers around the world. With this in mind, and in view of the potential approval and authorisation of online distribution of regulated lottery products, the Group has been active in building our online presence and customer-base through various online channels by offering various types of proprietary non-lottery games and entertainment content. The Group is able to leverage our technical know-how and operating expertise in lottery to create various games and entertainment content and platforms, integrating different and unique resources and elements of e-commerce and e-payment platforms, to create a fun and healthy experience that aims to enrich online users' experience.

As such, during 2017, the Group successfully launched the games and entertainment platform on the Taobao mobile channel, uniquely combining various online games and entertainment with e-commerce resources. During this first year of operation, the Group was primarily focused on building up our user base as well as encouraging their engagement throughout the platform. As such, the Group was active in offering different types of attractive games and entertainment content and merchandise to users, with the goal of optimizing the overall value proposition of the platform. In addition, we carried out various marketing and promotional activities, such as those during Alibaba's marquee Double 11 shopping festival, as well as various free-to-play promotions and in-game marketing activities, which generated positive engagement and participation from users. While we are encouraged by online users' positive reception thus far, during the fourth quarter and continuing thereafter, having operated the platform for a period of time and gained substantial first-hand operating experience, and based on market and customer feedback, we implemented various adjustments and measures aimed at improving the overall quality as well as the sustainability of the platform.

In addition, the Group became one of the strategic partners and organisers of the China Competition Two-on-One Poker Championship in early 2017, marking the Group's official entry into the mind sports field of the China sports industry. Moreover, the Group is an official partner of the IMSA, which is an internationally recognised association of different mind sports federations with the goal of promoting and educating the public on the merits and benefits of participating in these mind sports. As a recognition of the Group's work in this area, Mr. Sun Ho, Chairman and CEO of the Group, was appointed as Chairman of the IMSA Advisory Board in May 2017. As such, the Group has begun distributing and is continuing to seek various channels of distribution of our casual and competition poker platform, including the mobile Alipay, which is consistent with our goal of establishing and building our online customer base, while demonstrating our commitment to developing and raising awareness and popularity of mind sports in China.

We continue to believe that our businesses in the Games and Entertainment division are complementary to our regulated lottery activities, and they are synergistic from a business model, market development, technical infrastructure and user experience perspective. While we are encouraged with the progress in our Games and Entertainment division thus far, given that many of the initiatives are relatively new, this division faces inherent short-term adjustments and fluctuations associated with new business initiatives. The Group will continue to refine and improve the value proposition of this new business in order to achieve sustainable scalability and growth over the long term.

DISCUSSION AND ANALYSIS OF THE GROUP'S RESULTS AND BUSINESS

International Market

Strategic expansion in selected markets overseas

2017 marked an important milestone for the Group's business overseas, as we announced our first strategic expansion in India. In July 2017, the Group announced our joint venture agreement with One97 Communications Limited to create a high quality mobile entertainment experience tailored to the Indian consumers. One97 Communications Limited is the parent company of Paytm, India's leading mobile payment platform. This cooperation is expected to enable both companies to tap into the significant potential of the fast growing mobile entertainment market in India.

Through this cooperation, the Group has leveraged its operating experience and technical expertise, and along with Paytm, successfully launched the mobile games and entertainment platform, Gamepind, in January 2018. This unique mobile games and entertainment platform offers online users with a unique online experience combining casual games and online shopping, seamlessly integrating with Paytm's leading mobile payment platform in India.

Through this joint venture, the Group expands its business to India, the second most populous country in the world, and lays the foundation for future collaborations for the Group as it continues to globalise its business by strategically working with leading local partners in selected overseas markets.

Lottery Distribution

The sales and distribution of lottery games and products

The Lottery Distribution division is active in expanding and broadening the reach of lottery to end consumers by developing unique and innovative products as well as distribution channels and networks under applicable lottery laws and regulations. To this end, we continue to work with suitable third party partners as well as the Group's shareholders, Alibaba Group and Ant Financial Group, to achieve this goal.

SF Lottery

Importantly, as a testament to the Group's ability to deliver innovation in lottery, the Group successfully launched the SF Express-themed instant scratch lottery ("**SF-Themed Instant Scratch Lottery**") in July 2017, by working with the relevant lottery authorities while bringing third party partners and their resources to the lottery industry. SF-Themed Instant Scratch Lottery, a unique innovation in the lottery industry, was launched by SF Lottery, a joint venture established by the Group with SF Holding. SF Lottery designed this unique lottery offering in conjunction with NSLAC, and received approval from the MOF. In July 2017, the SF-Themed Instant Scratch Lottery was successfully launched, initially in four cities in the Guangdong, Jiangsu, Hunan and Jiangxi provinces. Since then, we have continued to offer this innovative product to additional cities across those provinces.

The SF-Themed Instant Scratch Lottery is the first product that is able to achieve comprehensive penetration and integration of the lottery business with a logistics network in China. SF Lottery distributes this product through the relevant channel resources of SF Holding and provides services such as logistics and distribution, lottery maintenance and prize management. This will not only help to enhance the efficiency of logistics and delivery of the SF-Themed Instant Scratch Lottery, but will also be complementary to the NSLAC's existing system for instant scratch lottery. Moreover, SF Lottery's innovative self-service redemption model provides instant scratch lottery players with a brand new redemption experience, complementing the redemption in traditional physical stores and enhancing the experience of instant scratch lottery services for the public. The cross-sector cooperation and innovative model is a positive development across product supply, channel expansion, referral of users and revenue streams.

Alibaba Retail Channels

The Group continues to explore new ways to collaborate with Alibaba Group's network of physical retail stores in order to develop new physical lottery distribution models, further broadening the reach of lottery products to existing consumers and reaching a new customer base. These retail networks include Rural Taobao, a physical network of rural locations in China, and Alibaba's small retail format Ling Shou Tong (零售通), as well as Alibaba's franchised model stores, T-Mall Franchise Convenience Stores. We believe that the integration of innovative lottery products with physical retail network will create room for more opportunities in the future.

Lastly, thanks to its position as the exclusive lottery platform of Alibaba Group and Ant Financial Group, the Group remains well placed to take advantage of lottery sales via online (internet and mobile) channels as and when they are approved by China lottery authorities and the Group receives the appropriate authorisation. To this end, the Group continues to closely monitor policy developments with respect to the government approval of lottery sales online. To date, in line with the relevant lottery regulations, the Group has not conducted any internet lottery sales or maintained any website to conduct such sales.

Lottery Games and Systems

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

The Lottery Games and Systems division has a reserve of rich and attractive lottery content designed to fulfill the demands of the market and players.

Lucky Racing and e-Ball Lottery

AGT, which is owned as to 51% by the Group and as to 49% by Ladbroke Group (one of the world's largest sports betting companies), supplies China's only virtual sports lottery platform to Sports Lottery and has successfully launched two virtual sports games in the country. AGT's motor racing-themed virtual game "Lucky Racing" ("幸運賽車") was launched in Hunan Province in 2011 while its football themed game "e-Ball Lottery" ("e球彩") was launched in Jiangsu Province during 2013. "Lucky Racing" and "e-Ball Lottery" are virtual sports lottery games that are broadcasted to lottery shops via a central server and cable television, allowing customers to bet on computer generated car races or football matches respectively. To date, "Lucky Racing" and "e-Ball Lottery" have been successfully launched in traditional dedicated Sports Lottery shops in Hunan and Jiangsu provinces. We are encouraged by the continued increase in popularity of these games throughout the year, leading to an almost 70% year-on-year growth in revenues. Since both games are approved lottery products as defined by MOF, we believe that both "Lucky Racing" and "e-Ball Lottery" could be introduced via the internet and mobile channel across China (subject to regulatory approval).

Other Lottery Games

In addition to virtual sport lottery games, the Group has several initiatives to introduce other new types of lottery games in China, including a mobile smart phone lottery game and system and a high frequency numbers-based lottery game and system, as and when they are approved by the relevant lottery authorities.

Lottery Hardware

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

AGTech's Lottery Hardware division supplies both the Welfare Lottery and Sports Lottery and has lottery hardware deployed in multiple provinces, cities and municipalities across China. The Group is a leading manufacturer and supplier in China of both paper scratch card sales hardware (instant ticket verification terminals, "IVT(s)") and traditional lottery terminals.

In view of the anticipated technology development in the hardware market, the Group believes that effective research and development activities are essential to ensure that the Group's lottery hardware business remains up-to-date and equipped with competitive technology. The Group's Lottery Hardware division plans to focus on research and development, increase its domestic market share and broaden its product spectrum with new hardware ranges.

BUSINESS OUTLOOK

Through our games and entertainment and casual and competition poker platforms, we hope to continue growing our online presence, and maximising the value of our business partnership with Alibaba Group and Ant Financial Group, in anticipation of the potential approval and authorisation of online distribution of lottery products in the future. These developments mark a major milestone for the Group and present exciting opportunities in the coming years for our Games and Entertainment division.

Looking forward, in our games and entertainment platform, we aim to continue to invest our resources to improving the overall quality as well as the sustainability of the platform, with the goal of creating a healthy and entertaining online experience to our customers.

DISCUSSION AND ANALYSIS OF THE GROUP'S RESULTS AND BUSINESS

In addition, through our casual and competition poker platform, the Group marks its official entry into the mind sports field of the China sports industry. Looking forward, to further raise popularity of mind sports, as well as promote our poker game, the Group plans on engaging in more focused marketing and promotional efforts. These efforts may include organising offline tournaments to attract existing and potential mind sports players, and in turn raising awareness of our poker game and helping to drive demand.

The Group is also leveraging on our existing products and technology on our games and entertainment platform to develop additional sports-related online entertainment offerings in order to capitalise on the growing trends in the sports entertainment sector as a whole. We believe having a robust sports-related entertainment and media solution will help the Group capture opportunities in the sports sector in general, as well as nationally popular sporting events such as World Cup going forward.

Notably, the Group announced our first significant international strategic expansion in July 2017 via a joint venture agreement with the owner of Paytm, India's leading mobile payment platform. Since then, in January 2018, the joint venture successfully launched Gamepind, an innovative mobile platform offering a host of popular and exciting social and casual games, accessible through Paytm's app by its 300 million and growing customers, as well as through its own standalone app. In the coming months, the Group will continue to work with our partners at Paytm to add to the games and entertainment offerings tailored to Indian consumer taste. Looking forward, the Group will continue to seek strong suitable partners in selected international markets to leverage our platforms of games and entertainment offerings and various user engagement activities, as well as technical and operation abilities, to further globalise our business.

In China's lottery industry, the Group continues to actively build on our industry leading position in both existing and potential new lottery channels. As the exclusive lottery business platform of Alibaba Group and Ant Financial Group, we expect to benefit from significant potential synergies from our cooperation with Alibaba Group and Ant Financial Group by accessing their vast portfolio of resources and channels.

This is evidenced by our partnering with Alibaba Group and suitable third party partners to expand our distribution network and by developing innovative lottery products. In the coming year, the Group will continue to explore new ways to collaborate with Alibaba Group's vast network of physical retail stores, adding more lottery products and services to their channels where appropriate. The Group also plans on expanding the reach of SF-Themed Instant Scratch Lottery products throughout the year in additional provinces and cities, as we continue to work with the relevant provincial lottery authorities to raise the awareness and popularity of the product.

DISCUSSION AND ANALYSIS OF THE GROUP'S RESULTS AND BUSINESS

Importantly, we are helping to reinvent the way the lottery authorities engage with existing and potential customers. During Alibaba's marquee Double 11 shopping festival, we orchestrated the collaboration among NSLAC, AGTech and Alibaba Group, integrating resources from each stakeholder to deliver a unique value proposition for end customers. Further, as disclosed in the announcement of the Company dated 2 February 2018, AGTech was awarded the successful bid by NSLAC to help deliver a new omni-channel experience to customers to promote instant scratch sports lottery products in a unique collaboration and innovative marketing and promotional campaign. This national campaign, launched officially on 9 March 2018 across 31 provinces in China, leverages Ant Financial Group's enormous presence and customer base to help increase the exposure of Sports Lottery and encourage Alipay customers to experience lottery first hand, thus driving online traffic to offline engagement. Additionally, the Group will utilize its proprietary marketing and promotional platform and connect participating customers with many of Alibaba Group's merchants, providing customers with additional exciting benefits, further adding to their overall lottery purchasing experience.

Apart from our virtual sports system and its first two games Lucky Racing and e-Ball Lottery, our Lottery Games and Systems division continues to develop, build and deploy regulated lottery content and systems. We will also continue to bolster our in-house development capabilities for games and systems by focusing on research and development.

Our Lottery Hardware division continues to be well positioned to take advantage of any new opportunities in hardware, given our leading positions in point of sale and handheld terminals and long track-record in the Chinese lottery market, which we believe is likely to demand new and more sophisticated hardware solutions over time.

The Group continues to closely monitor policy developments with respect to the government approval of lottery sales via internet and mobile channels. We continue to be hopeful that new online (internet and mobile) channels for lottery sales in China will be approved, although timing remains uncertain. We believe that any new lottery games and systems that will be approved for online sales will require robust and scalable technology in order to deliver effective and efficient monitoring and control systems. We consider that the Group is well positioned to participate in these areas, which is further strengthened by our business partnership with Alibaba Group and Ant Financial Group.

The underlying industry growth of the Chinese lottery market, coupled with the numerous catalysts for strategic growth outlined above overall suggest a positive outlook for the Group for 2018 and the years ahead.

Lastly, the Group continues to invest in its business to enhance our technology infrastructure and develop our in-house capabilities, working to pull together our technical resources, customer behavioral data, our games, entertainment and lottery content as well as distribution channels into a fully integrated platform in order to truly innovate the way we add value to stakeholders through games and lottery entertainment as a medium, thereby generating long term sustainable shareholder value.

REVIEW OF OPERATING RESULTS

Revenue and Profitability

Revenue of the Group for the year under review amounted to approximately HK$302.2 million (2016: approximately HK$251.5 million), representing an increase of approximately 20.2% over 2016. Revenue contributions were mainly derived from lottery hardware, lottery games and systems, provision of distribution and ancillary services, games and entertainment business in the PRC. The increase in revenue during the year under review as compared to 2016 was mainly due to an increase in revenue of approximately HK$93.9 million from games and entertainment business driven by new development in the division; partially offset by a decrease in sales of lottery hardware of HK$49.9 million. The supply of lottery hardware in the PRC is highly regulated with only a small number of approved suppliers. Hence, revenue in this business typically exhibits an irregular pattern and has short-term volatility.

The loss for the year under review was approximately HK$370.3 million (2016: profit of HK$332.7 million). The change from profit to loss for the year was mainly attributable to several non-cash and non-operating items relating to the convertible bonds and contingent consideration payables.

During the year under review, employee benefits expenses were approximately HK$265.4 million (2016: approximately HK$156.3 million). The increase was mainly due to the recruitment of staff across the Group to enhance its technical capability to cope with the business growth and expansion.

During the year under review, other operating expenses were approximately HK$227.0 million (2016: approximately HK$220.7 million). Excluding the one-off payment of PRC individual income tax in respect of the exercise of share options by PRC employees incurred and settled in 2016 of HK$53.9 million, other operating expenses increased by HK$60.2 million in 2017. This increase was primarily due to (i) expenses incurred for the utilisation of certain channels and networks for the operation of the games and entertainment business and (ii) increase in marketing expenses for the games and entertainment business.

Liquidity and financial resources

Net cash (defined as total cash and cash equivalents less total debts, which include trade payables, accruals and other payables, amounts due to fellow subsidiaries, secured bank borrowings, contingent consideration payables and convertible bonds) as at 31 December 2017 were approximately HK$983.9 million (2016: approximately HK$670.0 million). The total assets and net current assets of the Group as at 31 December 2017 were approximately HK$3,988.9 million and approximately HK$2,463.0 million respectively (2016: approximately HK$4,034.4 million and approximately HK$2,665.4 million respectively). Current liabilities of the Group as at 31 December 2017 were approximately HK$332.0 million (2016: approximately HK$228.7 million). As at 31 December 2017, the Group had no available banking facilities. There were no bank borrowings of the Group as at 31 December 2017 (2016: HK$45.0 million). The liquidity ratio (defined as current assets divided by current liabilities) of the Group as at 31 December 2017 was approximately 8.4 (2016: 12.7) which continuously reflected adequacy of financial resources of the Group.

Capital structure and foreign exchange risk

During the year under review, the Group financed its capital requirements through its equity, its internally generated cash flows as well as the proceeds from the Subscription and from the exercising by grantees of the share options granted under the Share Option Schemes.

As at 31 December 2017, there were no bank borrowings of the Group. The gearing ratio (defined as bank borrowings divided by equity) of the Group as at 31 December 2017 was therefore not applicable (2016: 0.02).

As at 31 December 2017, majority of the Group's bank deposits were denominated in US$, HK$ and RMB. Since US$ is pegged to HK$, and substantially all of the revenue-generating operations, monetary assets and liabilities of the Group are conducted or transacted in functional currencies, the Group faced minimal foreign exchange risk during the year under review. The Group had neither foreign currency hedging activities nor any financial instruments for hedging purposes during the year under review.

Contingent liabilities and capital commitment

As at 31 December 2017, the Group did not have any material contingent liabilities and capital commitment that constituted "notifiable transactions" under Chapter 19 of the GEM Listing Rules.

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

There were no significant investments, material acquisitions and disposals that constituted "notifiable transactions" under Chapter 19 of the GEM Listing Rules during the year under review.

Employees' information and remuneration policies

As at 31 December 2017, the Group had 399 (2016: 336) employees in Hong Kong and the PRC. Total staff costs (excluding Directors' emoluments) for the year ended 31 December 2017 amounted to approximately HK$247.3 million (2016: approximately HK$142.4 million).

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

Charges on Group's assets

As at 31 December 2017, bank deposits of approximately HK$5.5 million (2016: approximately HK$41.7 million) were held in designated bank accounts to secure letters of guarantee granted to the Group. The pledged bank deposits will be released upon the release of the relevant letters of guarantee granted to the Group.

In addition, as at 31 December 2017, a sum of approximately HK$15,438,000 was held by a trustee of the Company for purchases of award Shares under the Share Award Scheme. Such sum was not available for general use by the Group.

Save as disclosed above, as at 31 December 2017, there was no charge on the assets of the Group.

Future plans for material investments and acquisition of capital assets

As at 31 December 2017, there was no specific plan for material investments and acquisition of capital assets that is required to be disclosed pursuant to Rule 17.10 of the GEM Listing Rules and the inside information provisions under Part XIVA of the SFO.

Significant changes to financial position

Inventories of the Group amounted to approximately HK$10.1 million as at 31 December 2017 (2016: HK$18.8 million), with inventory turnover period decreased from 77 days in 2016 to 64 days in 2017. Trade receivables of the Group amounted to approximately HK$49.2 million as at 31 December 2017 (2016: HK$25.6 million), with debtor turnover period increased from 40 days in 2016 to 66 days in 2017. Inventory turnover period improved in 2017 and the debtor turnover period deteriorated in 2017 as compared to that in 2016 primarily because there were more sales made in the last two months of 2017 as compared to 2016, resulting in more outstanding trade receivables and lower inventory balance as at 31 December 2017.

Goodwill of the Group increased to approximately HK$1,120.5 million as at 31 December 2017 (as at 31 December 2016: approximately HK$1,067.4 million), primarily due to the currency translation difference of approximately HK$53.1 million in 2017 when translating the goodwill denominated in RMB into HK$.

During the year under review, a loss of approximately HK$124.0 million was recorded from the remeasurement of the fair value of embedded derivative of the Convertible Bonds and a gain of approximately HK$13.8 million was recorded from the remeasurement of the fair value of the outstanding contingent consideration payables under the Score Value Transaction. Please refer to Notes 29 and 28 to the consolidated financial statements of the Group for details of the remeasurement of the fair values of (a) the Convertible Bonds and (b) the outstanding contingent consideration payables under the Score Value Transaction respectively.

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

Details of the principal risks and uncertainties facing the Group, the risk management measures deployed by the Group to mitigate such risks and the Group's compliance with relevant laws and regulations can be found in the Directors' Report on pages 113 to 141 of this annual report.

Significant event after the reporting period

As of the date hereof, there was no significant event affecting the Group after 31 December 2017.

CONVERTIBLE BONDS

During the year under review, the conversion rights attaching to the Convertible Bonds in the aggregate principal amount of HK$174,906,763 were exercised on 30 March 2017 and the Company allotted and issued to Ali Fortune an aggregate of 600,000,000 Conversion Shares at the then conversion price of HK$0.2915 per Conversion Share.

As at 31 December 2017, Convertible Bonds in the aggregate principal amount of HK$332,328,165 remained outstanding (the "**Outstanding Convertible Bonds**"). As at 31 December 2017, the then prevailing conversion price had been adjusted to HK$0.2556 per Share (the "**Prevailing Adjusted Conversion Price**"), and the maximum number of Shares that would be issued upon full conversion of the Outstanding Convertible Bonds at the then Prevailing Adjusted Conversion Price was 1,300,040,497 (representing approximately 11.56% of the issued share capital of the Company as at 31 December 2017 and approximately 10.36% of the issued share capital of the Company as enlarged by such outstanding conversion Shares).

Assuming that the Outstanding Convertible Bonds were converted in full as at 31 December 2017, the respective shareholdings of the substantial shareholders of the Company would have been changed as follows:

Name of substantial Shareholders	Before conversion of Outstanding Convertible Bonds in full		Immediately after conversion of Outstanding Convertible Bonds in full	
	Number of Shares held	% of total issued Shares	Number of Shares held	% of total issued Shares
Ali Fortune	6,102,723,993	54.26%	7,402,764,490	59.00%
Mr. Sun Ho and his wholly-owned corporation, MAXPROFIT GLOBAL INC	2,033,328,000	18.08%	2,033,328,000	16.21%
Total issued Shares as at 31 December 2017	**11,247,299,760**		**12,547,340,257**	

DISCUSSION AND ANALYSIS OF THE GROUP'S RESULTS AND BUSINESS

As at 31 December 2017, the Company had cash and bank balances totalling approximately HK$2,624.3 million, which were more than sufficient to meet its redemption obligations under the Outstanding Convertible Bonds in the aggregate principal amount of HK$332,328,165.

As the Convertible Bonds bear no interest on the principal amount, it would be equally financially advantageous for the bondholders to convert or redeem the Convertible Bonds (and therefore the bondholders would be indifferent as to whether the Convertible Bonds are converted or redeemed) in the event that the price of each Share traded on the Stock Exchange equals the then adjusted conversion price of the Convertible Bonds.

Key terms of the Convertible Bonds

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

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

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

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

- The conversion price of the Convertible Bonds will be subject to customary anti-dilution adjustment for, among other things, consolidation, subdivision or reclassification of the Shares, capitalisation of profits or reserves, capital distribution, rights issues of Shares or options over Shares, rights issues of other securities and other dilutive events.

- If the Company shall issue Shares or grant options to subscribe for any Shares under the Score Value Transaction, or shall issue Shares under the Rainwood Options or the Consultant Options, the conversion price of the Convertible Bonds shall be adjusted in a manner so that:

  (i) the shareholding of the Subscriber (the "**Subscriber Shareholding**") in the Company (based on the number of Shares that the Subscriber acquired upon Completion and that it (or any of its affiliates) continues to hold plus such Shares that the Subscriber would acquire upon conversion of the Convertible Bonds in full) on a fully-diluted basis immediately following the issuance of such Shares and/or the grant of such options

  is equal to

  (ii) the Subscriber Shareholding immediately prior to the issuance of such Shares and/or the grant of such options.

  Following such adjustment due to the grant of the options under the Score Value Transaction, the conversion price of the Convertible Bonds shall not be further adjusted when such options are exercised.

  If, at the time all or any part of the Convertible Bonds are to be converted into Shares, there are outstanding options to subscribe for Shares under the Rainwood Options or the Consultant Options, the conversion price of the Convertible Bonds shall be adjusted as if such options had been exercised.

- The payment obligations of the Company under the Convertible Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable laws, at all times rank at least equally with all of the Company's other present and future direct, unsubordinated, unconditional and unsecured obligations.

- No application will be made for a listing of the Convertible Bonds.

USE OF PROCEEDS FROM THE SUBSCRIPTION

The net proceeds from the Subscription received by the Company from the Subscriber amounted to approximately HK$2.38 billion (the "**Net Proceeds**") upon completion of the Subscription (the "**Completion**").

The Net Proceeds were intended to be used to fund the existing operations and future development of the Company's existing principal businesses, and the Group planned to utilise approximately HK$1,330 million (representing approximately 55.88% of the Net Proceeds) within 12 months from the date of Completion. From the date of Completion (i.e. from 10 August 2016) up to and including 31 December 2017, approximately HK$335.4 million in total has been used by the Group in each of the business divisions of the Group and for general corporate purposes in the manner as set out below and in the section headed "USE OF PROCEEDS" on pages 45 to 51 of the Whitewash Circular.

DISCUSSION AND ANALYSIS OF THE GROUP'S RESULTS AND BUSINESS

Business divisions of the Group, or general corporate purposes, to which the Net Proceeds are intended to be allocated	Amount intended to be used within 12 months from the date of Completion on 10 August 2016 (as disclosed in the Whitewash Circular)	Aggregate amount actually used from the date of Completion on 10 August 2016 up to and including 31 December 2017	Actual application of Net Proceeds	Explanations for material deviation from intended usage, if any
(i) **Games and systems:**				
(a) capital investment in on-going development of new lottery games to be introduced to the market pending regulatory approval (approximately HK$300 million to be allocated)	approximately HK$100 million	Nil	N/A	Since the relevant lottery games of the Group are still in the pipeline pending the approval of the relevant PRC lottery authorities, the Group has not made capital investment in this respect.
*(b) research and development ("**R&D**") of new lottery products of the Group (approximately HK$300 million to be allocated)*	approximately HK$100 million	approximately HK$11.5 million	Development costs for the localisation and customisation of new games system	The Group continues to invest resources in the localisation and customisation of new lottery games. However, given that the Group's existing pipeline of the relevant new lottery games are still pending the approval of the relevant PRC lottery authorities, the Group is now exercising caution in working with business partners to introduce new lottery games into the PRC.
(c) expansion and development of the Group's R&D capability in technology development for games and systems (approximately HK$150 million to be allocated)	approximately HK$50 million	approximately HK$111.4 million	Staff costs for expansion of the R&D team of the Group	The Group continues to enhance its R&D capability by accelerating the expansion of the R&D team for the games (which can be introduced as lottery games as well as casual games, depending on the market demand and applicable regulatory requirements) and systems (which can support lottery games as well as casual games wherever necessary). This provides valuable flexibility in the Group's business operations under different circumstances.

Business divisions of the Group, or general corporate purposes, to which the Net Proceeds are intended to be allocated	Amount intended to be used within 12 months from the date of Completion on 10 August 2016 (as disclosed in the Whitewash Circular)	Aggregate amount actually used from the date of Completion on 10 August 2016 up to and including 31 December 2017	Actual application of Net Proceeds	Explanations for material deviation from intended usage, if any
(d) *acquisition of lottery systems and lottery games or companies which have such systems and games (approximately HK$400 million to HK$800 million to be allocated)*	approximately HK$500 million	Nil	NA	The Group is in the process of identifying certain suitable targets for acquisition.
(e) *funding the remaining consideration for the Score Value Transaction contingent upon certain performance targets (approximately HK$50 million to be allocated)*	approximately HK$50 million	approximately HK$30 million	Cash deferred consideration for the achievement of prior years' profit guarantee under the Score Value Transaction	The remaining HK$20 million of the intended usage is reserved as the contingent cash consideration in the event that certain conditions for payments under the Score Value Transaction are fulfilled.
Sub-total for "Games and systems":	**approximately HK$800 million**	**approximately HK$152.9 million**		

- Total amount earmarked for "Games and systems": approximately HK$1,200 million or approximately 50.42% of Net Proceeds
- Remaining balance of Net Proceeds still available for "Games and systems" as at 31 December 2017: approximately HK$1,047.1 million

(ii) **Hardware:**

Business divisions of the Group, or general corporate purposes, to which the Net Proceeds are intended to be allocated	Amount intended to be used within 12 months from the date of Completion on 10 August 2016 (as disclosed in the Whitewash Circular)	Aggregate amount actually used from the date of Completion on 10 August 2016 up to and including 31 December 2017	Actual application of Net Proceeds	Explanations for material deviation from intended usage, if any
R&D activities to upgrade the Group's hardware products with more sophisticated technology that are supplied to customers based on a revenue-sharing model	**approximately HK$80 million**	**approximately HK$9.0 million**	R&D costs for upgrading the hardware products	Since the relevant new lottery game of the Group that is intended to utilise the hardware products is still in the pipeline pending the approval of the relevant PRC lottery authorities, the Group has not made material investment on hardware terminals operating on a revenue-sharing model.

- Total amount earmarked for "Hardware": approximately HK$120 million or approximately 5.05% of Net Proceeds
- Remaining balance of Net Proceeds still available for "Hardware" as at 31 December 2017: approximately HK$111.0 million

DISCUSSION AND ANALYSIS OF THE GROUP'S RESULTS AND BUSINESS

Business divisions of the Group, or general corporate purposes, to which the Net Proceeds are intended to be allocated	Amount intended to be used within 12 months from the date of Completion on 10 August 2016 (as disclosed in the Whitewash Circular)	Aggregate amount actually used from the date of Completion on 10 August 2016 up to and including 31 December 2017	Actual application of Net Proceeds	Explanations for material deviation from intended usage, if any
(iii) **Distribution:**				
(a) *expansion of offline sales and distribution business (approximately HK$100 million to be allocated)*	approximately HK$50 million	approximately HK$56.5 million	Investment for expansion of offline sales business	No material deviation from intended usage noted and in line with continuous business growth from 10 August 2017 onwards.
(b) *marketing and advertising campaigns for its existing offline lottery games (approximately HK$100 million to be allocated)*	approximately HK$50 million	Nil	NA	Since the Group's plan to promote its existing offline lottery games to new provinces is still pending the approval of the relevant PRC lottery authorities, it has not incurred any related marketing and advertising expenses.
(c) *acquisitions of online and offline distributors (approximately HK$250 million to be allocated)*	approximately HK$150 million	Nil	NA	Since the relevant PRC lottery authorities have not re-opened the online lottery distribution, the Group did not proceed with the proposed acquisition of the targets which would potentially provide the Group with online distribution rights. Meanwhile, the Group continues to expand its offline distribution network by leveraging resources of Alibaba Group and third parties (e.g. SF Holding).
(d) *online sales and distribution of lottery products (including but not limited to the future cooperation with Taobao (China) Software Co., Ltd. and Alipay.com Co., Ltd.) (approximately HK$400 million to be allocated)*	approximately HK$100 million	Nil	NA	Since the relevant PRC lottery authorities have not re-opened the online lottery distribution, the Group has put on hold spending in this respect.
Sub-total for "Distribution":	**approximately HK$350 million**	**approximately HK$56.5 million**		

DISCUSSION AND ANALYSIS OF THE GROUP'S RESULTS AND BUSINESS

Business divisions of the Group, or general corporate purposes, to which the Net Proceeds are intended to be allocated	Amount intended to be used within 12 months from the date of Completion on 10 August 2016 (as disclosed in the Whitewash Circular)	Aggregate amount actually used from the date of Completion on 10 August 2016 up to and including 31 December 2017	Actual application of Net Proceeds	Explanations for material deviation from intended usage, if any
• Total amount earmarked for "Distribution": approximately HK$850 million or approximately 35.71% of Net Proceeds				
• Remaining balance of Net Proceeds still available for "Distribution" as at 31 December 2017: approximately HK$793.5 million				
(iv) **General corporate purposes:**				
(a) *repayment of existing debts of the Group (approximately HK$60 million to be allocated)*	approximately HK$60 million	approximately HK$45.3 million	Repayment of bank borrowings of the Group	No material deviation from intended usage noted.
(b) *general working capital of the Group (approximately HK$150 million to be allocated)*	approximately HK$40 million	approximately HK$71.7 million	Amount was used as general working capital of the PRC subsidiaries of the Company	No deviation from intended usage noted up to 30 September 2017 and subsequent continuous increase in actual amount used to reach approximately HK$71.7 million was in line with continuous business growth of the Group thereafter.
Sub-total for "General corporate purposes":	**approximately HK$100 million**	**approximately HK$117.0 million**		
• Total amount earmarked for "General corporate purposes": approximately HK$210 million or approximately 8.82% of Net Proceeds				
• Remaining balance of Net Proceeds still available for "General corporate purposes" as at 31 December 2017: approximately HK$93.0 million				
Grand total:	**approximately HK$1,330 million**	**approximately HK$335.4 million**		
• Total remaining balance of Net Proceeds as at 31 December 2017: approximately HK$2,044.6 million (Note)				

Note: Remaining balance of Net Proceeds is placed in the bank accounts of the Group.

UPDATE ON SCORE VALUE TRANSACTION

(i) Performance of the Score Value Group during the year under review

The Shenzhen Subsidiary of Score Value recorded audited net profit after taxation of approximately RMB19.7 million (equivalent to approximately HK$23.3 million) for the year ended 31 December 2017, and this together with its audited net profits after taxation of approximately RMB20.6 million (equivalent to approximately HK$24.8 million) and RMB20.5 million (equivalent to approximately HK$23.0 million) for the two years ended 31 December 2015 and 2016 respectively, amounted to an aggregate of approximately RMB60.8 million (the "**Aggregate Net Profit for 2015, 2016 and 2017**").

As disclosed in the Score Value Circular, a profit guarantee of not less than RMB60 million for the aggregate net profits after taxation of the Shenzhen Subsidiary for the three financial years ended 31 December 2015, 2016 and 2017 (the "**2017 Profit Guarantee**") was provided by the vendors of Score Value. Accordingly, the Aggregate Net Profit for 2015, 2016 and 2017 achieved by the Shenzhen Subsidiary exceeded the 2017 Profit Guarantee.

(ii) Status of outstanding deferred consideration for the Score Value Transaction

Pursuant to the sale and purchase agreement in respect of the Score Value Transaction (the "**Score Value Agreement**"), the Company or the Purchaser shall be required to pay deferred consideration in a maximum amount of HK$300 million to the vendors of Score Value upon fulfilment of certain pre-conditions at a later stage, including obtaining the approval of the relevant PRC government authority for the lottery game to be supplied by a subsidiary of Score Value ("**Game Approval Pre-condition**") and meeting the profit guarantees of an average of RMB20.0 million (equivalent to approximately HK$25.2 million) per year provided by such vendors in respect of the Shenzhen Subsidiary of Score Value for each of the three financial years ended 31 December 2015, 2016 and 2017 as described in the paragraph headed "Deferred Consideration" on pages 9 and 10 of the Score Value Circular.

As of the date hereof, the Game Approval Pre-condition has not yet been fulfilled but the parties to the Score Value Agreement have mutually agreed to further extend the deadline for fulfilment of such pre-condition to 31 December 2018. Accordingly, the First Deferred Consideration, Second Deferred Consideration and Third Deferred Consideration as described under the paragraph headed "Deferred Consideration" on page 9 of the Score Value Circular have not been paid to the vendors of Score Value.

In addition, as mentioned above, the Shenzhen Subsidiary of Score Value has achieved the 2017 Profit Guarantee. Accordingly, the Purchaser or the Company shall pay to the vendors of Score Value a further amount of HK$40 million which shall be satisfied as to HK$20 million in cash and as to HK$20 million by the Company allotting and issuing 13,513,514 Consideration Shares (as defined in the Score Value Circular) to the vendors of Score Value within fifteen business days after the issue of the audit report of the Shenzhen Subsidiary of Score Value for the year ended 31 December 2017. Such Consideration Shares are not subject to any lock-up restriction.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Mr. Sun Ho – Executive Director, Chairman & CEO

Mr. Sun Ho, aged 49, is the executive Director, chairman & CEO, authorised representative, compliance officer, member of the nomination committee, and chairman of the corporate governance committee and risk management and internal control committee of the Company. He is also the director of various subsidiaries of the Company and is responsible for the strategic planning, business development and general management of the Group. Mr. Sun is the president of Federation of Card Games. He is also the chairman of the Advisory Board of International Mind Sports Association.

Mr. Sun also has extensive experience in auditing and financial management of enterprises. He holds a bachelor degree in Economics from the University of Sydney in Australia and a master degree in Corporate Finance from the Hong Kong Polytechnic University. Mr. Sun is a member of CPA Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants.

Mr. Zhou Haijing – Executive Director and Chief Financial Officer

Mr. Zhou, aged 41, is an executive Director, chief financial officer of the Group and a member of the risk management and internal control committee of the Company. Mr. Zhou joined Alibaba Holding in May 2008. Before joining the Group, Mr. Zhou served as a finance director at the financial planning and analysis department of Alibaba Group and was responsible for budgeting, forecasting and financial analysis for Alibaba Group. Mr. Zhou had extensive financial knowledge and deep understanding of Alibaba Group's businesses including the lottery business. He provided assistance to the senior management and the chief financial officer of Alibaba Group in data and financial analysis during the decision making process.

From 2001 to 2008, Mr. Zhou worked for PricewaterhouseCoopers as audit manager and was a member of each of Certified General Accountants Association of Canada and the Chinese Institute of Certified Public Accountants. He holds a bachelor degree from Tsinghua University School of Economics and Management and a master degree from Sichuan University in China.

Mr. Zhang Qin – Non-executive Director

Mr. Zhang, aged 44, is a non-executive Director. He joined Alibaba Group in January 2006. He is currently the Vice President of Corporate Development for Alibaba Group. Before the current position, he led Taobao.com marketplace operations, eTao.com and Alibaba's Search Business Unit, 1688.com B2B operations and advertisement business, and Yahoo! Search in China respectively.

He has extensive experience in the internet and e-commerce industry. He holds a bachelor degree in Computer Software from Peking University and a Master of Business Administration degree from China Europe International Business School in China.

Mr. Yang Guang – Non-executive Director

Mr. Yang, aged 40, is a non-executive Director. He joined Alibaba Group in September 2007. He is currently the general manager of the department of supply chain innovation of Alibaba Group and is responsible for innovative product and business in supply chain and logistics services in Taobao.com. Mr. Yang has extensive experience in the internet industry and the lottery industry. Before the current position, Mr. Yang led the operation team of consumer electronics product in Taobao.com. Mr. Yang was one of the core members of the team responsible for the establishment of Tmall.com and Taobao Travel. From 2012 to 2015, Mr. Yang was responsible for Taobao.com's innovative business including Taobao Lottery. He graduated from Jilin University, China, majoring in biological pharmacy.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Ji Gang – Non-executive Director

Mr. Ji, aged 43, is a non-executive Director. He joined Ant Financial in January 2016 as Vice President and Head of Strategic Investment. He is responsible for the global strategic investments for Ant Financial and has many years of experience in investment and the internet industry. Before joining Ant Financial, he served as a Vice President of Alibaba Group and was responsible for strategic investment. He holds a bachelor degree in international business management from University of International Business and Economics, China.

Mr. Zou Liang – Non-executive Director

Mr. Zou, aged 45, is a non-executive Director. He obtained a bachelor's degree in economics technology from Hunan University in the PRC, a master's degree in Administration Management from Zhongnan University of Economics and Law in the PRC and also an Executive Master of Business Administration degree from China Europe International Business School in China. Mr. Zou joined Ant Financial Group in 2015 and is currently the senior director of the Payment Business Group-Business Solution & Open Platform division of Ant Financial Group. Prior to joining Ant Financial Group, Mr. Zou was a general manager at Hunan Yuanchen Investment Group* (湖南遠晨投資集團) from February 2010 to March 2015.

Ms. Monica Maria Nunes – Independent Non-executive Director

Ms. Monica Maria Nunes, aged 49, has been appointed as the independent non-executive Director as well as the chairperson of each of the audit, remuneration and nomination committees of the Company. She was first appointed as an executive director of Vodatel Networks Holdings Limited ("**Vodatel**"), the shares of which are listed on GEM (stock code: 8033), on 13th December 1999. She is currently the managing director, finance director and the compliance officer of Vodatel. She graduated from the University of Calgary, Canada with a bachelor degree in commerce and from the University of Hong Kong, with a master degree in social sciences. She has over 23 years of accounting and banking experience. She holds a Certified Management Accountant Designation of Certified Management Accountants of Alberta, Canada. She is a member of the Chartered Professional Accountants of Alberta, Canada and is entitled to use the designation Chartered Professional Accountant. She is an associate of the Chartered Institute of Management Accountants and is entitled to use the description Chartered Management Accountant. She is also entitled to hold and use the designation of Chartered Global Management Accountant.

Mr. Feng Qing – Independent Non-executive Director

Mr. Feng Qing, aged 64, was appointed as the independent non-executive Director on 4 May 2015. Mr. Feng Qing is the chairman of Beijing Yi Xin Tech Corporation. Mr. Feng was the author of the marketing economics book titled"Practical Market Theory (實用市場理論)" which was well received by the market, and became an instrumental reading in learning western economics. In 1983, Mr. Feng commenced study of macroeconomics in Switzerland.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Gao Jack Qunyao – Independent Non-executive Director

Dr. Gao Jack Qunyao, aged 59, was appointed as the independent non-executive Director on 6 May 2015. Dr. Gao has extensive experience in information technology ("**IT**"), media and entertainment, and venture capital. He is currently the adjunct professor of the Business School of The Chinese University of Hong Kong. During the 2015-2017, Dr. Gao was the Group Senior Vice President and CEO of International Investments and Business Operation Department of 北京萬達文化產業集團有限公司 (Beijing Wanda Culture Industry Group Co., Ltd.*) and in 2017, Interim CEO of Legendary Pictures Productions; a director of several Wanda Group companies including Legendary Pictures Productions, AMC Entertainment Holdings, Inc. (NYSE: AMC) and Sunseeker International Limited, and the director for the EuropaCity (巴黎歐洲城) project. Dr. Gao was previously the founder and president of Gao Entertainment LLC; an independent director of AirMedia Group Inc. (the American depositary shares ("**ADSs**") of which are listed on NASDAQ under the symbol: AMCN); and an independent director of 萬通投資控股股份有限公司 (Vantone Holdings Co., Ltd.*); a director of Infront Sports & Media AG, Bona Film Group Limited (the ADSs of which are listed on NASDAQ under the symbol: BONA); and an alternate director of Phoenix Satellite Television Holdings Limited (a company listed on the Stock Exchange under stock code: 2008).

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

SENIOR MANAGEMENT

Mr. Bai Jinmin – Chief Operating Officer

Mr. Bai Jinmin is the Chief Operating Officer of the Group. He is also a director of various subsidiaries of the Company in the PRC, responsible for their operational supervision.

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Cheng Guoming – President of Investment and Global Strategy

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

Mr. Wei Guangqin – General Counsel

Mr. Wei Guangqin is the General Counsel of the Group. Mr. Wei has over 13 years of experience in the legal industry. Prior to joining the Group in 2017, he was a Partner at Dentons Hong Kong and an Associate and subsequently Special Counsel at the Hong Kong and New York offices of Fried, Frank, Harris, Shriver & Jacobson LLP. Mr. Wei is qualified to practice law in the State of New York and is a solicitor of the High Court of Hong Kong. He holds a bachelor's degree in nuclear physics and a bachelor's degree in intellectual property law from Peking University and a juris doctor degree from the University of Pennsylvania Law School.

Mr. Ng Lok Ming – Company Secretary

Mr. Ng Lok Ming is the company secretary of the Company, an authorised representative under Rule 5.24 of the GEM Listing Rules, an authorised representative to accept on behalf of the Company the service of process in Hong Kong under the Companies Ordinance and a member of each of the corporate governance committee and risk management and internal control committee of the Company.

Mr. Ng has more than 10 years of experience working in senior legal positions and as company secretary of companies listed in Hong Kong. Mr. Ng graduated from the University of Hong Kong with an LL.B. and a P.C.LL. in 1995 and 1996, respectively. He later obtained an LL.M. in Comparative and PRC law from the City University of Hong Kong in 2002. Mr. Ng was admitted as a solicitor of the High Court of Hong Kong in 2001. He is also a member of the Law Society of Hong Kong.

Mr. Fu Xiaobing

Mr. Fu was appointed as the Chief Technical Officer of the Company. He is also a director of a few subsidiaries of the Company in the PRC. Mr. Fu has over 13 years of experience in the lottery industry in terms of technology business research and development. Prior to joining the Group, Mr. Fu was the chief of the Lottery Technology Security Research and Development Centre in Chinese Academic of Sciences. Mr. Fu has rich experience with lottery industry as well as system architecture technology and has been engaged in researching and developing lottery games, lottery system security, testing as well as industry standard development. Mr. Fu holds a bachelor's degree in Engineering from China University of Petroleum as well as MBA from Renmin University of China.

Mr. Liu Meng

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

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

Mr. Luo Shihui

Mr. Luo Shihui is the general manager of 世紀星彩企業管理有限公司 (China Lottery Management Co., Ltd.*) and 浙江世紀星彩企業管理有限公司 (Zhejiang China Lottery Management Co., Ltd.*). He is the legal representative, executive director and general manager of 深圳市銀溪數碼技術有限公司 (Shenzhen Silvercreek Digital Technology Co., Ltd.*). All are indirect wholly-owned subsidiaries of the Company.

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

Ms. Yu Carrie Chiu Ying

Ms. Carrie Yu is Head of Investor Relations of the Company, responsible for leading the development and execution of the Company's overall investor relations and corporate communications strategy.

Ms. Yu joined the Group in 2017. Prior to this, she spent three years with Union Gaming Group, a boutique investment bank focused exclusively on the global casino gaming industry, establishing and developing the firm's Hong Kong presence and serving as Head of Asia Institutional Sales. Before Hong Kong, she spent eight years with JPMorgan Asset Management in New York, most recently as equity research analyst covering various Consumer Discretionary sectors including the global gaming industry. Ms. Yu holds a bachelor of science degree from Carnegie Mellon University.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Adam Greenblatt

Mr. Adam Greenblatt is a director of three of the Company's subsidiaries, namely Asia Gaming Technologies Limited, 亞博泰科科技(北京)有限公司 (Asia Gaming Technologies (Beijing) Co., Ltd.*), and 亞博泰科科技(天津)有限公司 (Asia Gaming Technologies (Tianjin) Co., Ltd.*). Mr. Greenblatt began his career as a Chartered Accountant in the UK with Arthur Anderson before moving into mergers and acquisitions at renowned international investment bank Rothschild, specialising in betting and gaming. Mr. Greenblatt left his role as Director of European Investment Banking in 2008 to effect the successful turnaround of a South African manufacturing business. After a brief period as managing director for Northern Europe of a digital recruitment business, Mr. Greenblatt returned to the betting and gaming sector to join Ladbrokes as director of corporate development. Following the merger with Coral, Mr. Greenblatt's role expanded to include group strategy for the enlarged Ladbrokes Coral Group.

Mr. Michael Charlton

Mr. Michael Charlton is a director of three of the Company's subsidiaries, namely Asia Gaming Technologies Limited, 亞博泰科科技(北京)有限公司 (Asia Gaming Technologies (Beijing) Co., Ltd.*) and 亞博泰科科技(天津)有限公司 (Asia Gaming Technologies (Tianjin) Co., Ltd.*). Mr. Charlton has over 20 years' experience in the leisure & gaming industry and is currently responsible for developing Ladbrokes Coral Group's international business in the Asian region. Mr. Charlton joined Ladbrokes plc following his graduation from Glasgow University in 1995. During his time with Ladbrokes plc he has held various senior management positions, initially within the Retail sector of the business before joining the International Department in 2005. Mr. Charlton is currently China General Manager for Ladbrokes Coral Group and serves as a director of Ladbrokes Lottery (Asia) Co. Limited.

Mr. Paul Southworth

Mr. Paul Southworth is a director of three of the Company's subsidiaries, namely; Asia Gaming Technologies Limited, 亞博泰科科技(北京)有限公司 (Asia Gaming Technologies (Beijing) Co., Ltd.*), and 亞博泰科科技(天津)有限公司 (Asia Gaming Technologies (Tianjin) Co., Ltd.*). Mr. Southworth joined Gala Coral Group as Head of Finance of the online division in 2006 and moved to the Group Director of Financial Control role three years later. In 2013, Mr. Southworth moved to the role of chief financial officer (Italian Division). In 2016, Mr. Southworth was appointed into his current role as International CFO for the merged Ladbrokes Coral Group plc, where he is responsible for the four main trading divisions of Italy, Spain, Belgium and Australia. He is a member of the Institute of Chartered Accountants in England and Wales.

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

DIRECTORS' REPORT

The Directors present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

An analysis of the Group's performance for the year by operating segment is set out in note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 150.

The Board does not recommend the payment of a final dividend for the year under review (2016: Nil).

PROPERTY, PLANT AND EQUIPMENT

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

SHARES ISSUED IN THE YEAR

Details of the Company's shares issued in the year ended 31 December 2017 are set out in note 31 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company has no distributable reserves calculated under the laws of Bermuda at both balance sheet dates.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

FINANCIAL SUMMARY

A summary of the results of the Group and of the assets and liabilities of the Group for the past 5 years ended 31 December 2017 is set out on page 142.

DIRECTORS

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

Executive Directors:

Mr. Sun Ho
Mr. Zhou Haijing

Non-executive Directors:

Mr. Zhang Qin	
Mr. Yang Guang	
Mr. Ji Gang	
Mr. Zou Liang	(appointed on 10 November 2017)
Mr. Zhang Wei	(resigned on 10 November 2017)

Independent non-executive Directors:

Ms. Monica Maria Nunes
Mr. Feng Qing
Dr. Gao Jack Qunyao

Mr. Zhang Wei resigned from the Board on 10 November 2017 due to his other business engagements which require more time and dedication.

In accordance with Bye-law 87 of the Company, certain Directors (namely, Mr. Yang Guang, Mr. Ji Gang and Ms. Monica Maria Nunes) will retire by rotation, but being eligible, shall offer themselves for re-election, at the forthcoming annual general meeting of the Company to be held on 18 May 2018.

DIRECTORS' SERVICE AGREEMENTS

Mr. Sun Ho was appointed as an executive Director and CEO of the Company under a renewed service contract for a term of two years as from 10 August 2016, unless terminated earlier by the Company for cause.

Mr. Zhou Haijing was appointed as an executive Director and the chief financial officer of the Company under a service contract with effect from 10 August 2016. There is no specific term or proposed length of services for Mr. Zhou's appointment. The service contract with Mr. Zhou may be terminated by either party thereto giving the other party not less than one month's notice in writing.

Each of Mr. Zhang Qin, Mr. Yang Guang, Mr. Ji Gang and Mr. Zhang Wei (resigned on 10 November 2017) was appointed by the Company as a non-executive Director under a letter of appointment for a fixed term of one year commencing on 10 August 2016 (with renewal option for another year until 9 August 2018), unless terminated earlier by either party. Mr. Zou Liang was appointed by the Company as a non-executive Director under a letter of appointment for a fixed term of one year commencing on 10 November 2017 (with renewal option for another year until 9 November 2019), unless terminated earlier by either party.

Each of Ms. Monica Maria Nunes, Mr. Feng Qing and Dr. Gao Jack Qunyao was appointed as an independent non-executive Director under a renewed service agreement for a term of two years commencing from 12 May 2017, 4 May 2017 and 6 May 2017 respectively.

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

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

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

During the year under review, the Group entered into certain connected transaction and continuing connected transactions with Alibaba Group and Ant Financial Group respectively as more fully described in the sections headed "CONNECTED TRANSACTION" and "CONTINUING CONNECTED TRANSACTIONS" below.

Mr. Zhang Qin and Mr. Yang Guang are employees of Alibaba Group, and each of these Directors is deemed or may be perceived to have a material interest in the transactions between the Group and Alibaba Group. Accordingly, they abstained from voting on the resolutions passed by the Board in relation to such transactions.

Mr. Ji Gang, Mr. Zou Liang and Mr. Zhang Wei (resigned on 10 November 2017) are employees of Ant Financial Group, and each of these Directors is deemed or may be perceived to have a material interest in the transactions between the Group and Ant Financial Group. Accordingly, they abstained from voting on the resolutions passed by the Board in relation to such transactions.

Save as disclosed above, during the year under review, there were no transaction, arrangement or contract of significance in relation to the Group's business to which the Company, any of its controlling shareholders (as defined in the GEM Listing Rules) holding company, subsidiaries or fellow subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year under review or at any time during the year under review.

PERMITTED INDEMNITY PROVISIONS

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

CHANGE OF NON-EXECUTIVE DIRECTORS

During the year under review, Mr. Zhang Wei resigned as non-executive Director with effect from 10 November 2017. The Company appointed Mr. Zou Liang as non-executive Director with effect from 10 November 2017.

CONNECTED TRANSACTION

During the year ended 31 December 2017, the Group entered into the following connected transaction, details of which had been disclosed in compliance with the requirements of Chapter 20 of the GEM Listing Rules:

On 24 July 2017, the Company, AGTech Media Holdings Limited (a wholly-owned subsidiary of the Company) and One97 Communications Limited ("**Paytm**") entered into a joint venture agreement (the "**JV Agreement**"), whereby a joint venture company ("**JV Co**") owned as to 45% by the Group and as to 55% by Paytm and its subsidiaries ("**Paytm Group**") has been formed in India for the purpose of developing and operating platforms for users to participate in and play various games.

Each of AGTech Media Holdings Limited and Paytm Group shall make initial capital investment in an amount of the Rupee equivalent of US$7,200,000 (equivalent to approximately HK$56,232,000) and in an amount of the Rupee equivalent of US$8,800,000 (equivalent to approximately HK$68,728,000), respectively. The JV Co will be accounted for as an associate (in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants) of the Company.

Ali Fortune, the controlling shareholder of the Company, is indirectly held as to 60% by Alibaba Holding and as to 40% by Ant Financial. Ant Financial is deemed by the Stock Exchange as a connected person of the Company pursuant to Rule 20.17 of GEM Listing Rules. As Ant Financial Group holds more than 30% of shareholding interests in Paytm, Paytm is deemed to be an associate of Ant Financial Group and the transaction contemplated under the JV Agreement constituted a connected transaction for the Company under Chapter 20 of the GEM Listing Rules. Since one or more of the applicable percentage ratios as defined in the GEM Listing Rules in respect of this transaction are 0.1% or more but less than 5%, such transaction is subject to the annual review, reporting and announcement requirements but exempt from the independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. For details, please refer to the announcement of the Company dated 24 July 2017.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2017, the Group entered into the following continuing connected transactions ("**CCTs**") and revised the annual cap amounts for certain CCTs, details of which had been disclosed in compliance with the requirements of Chapter 20 of the GEM Listing Rules:

CCTs with Alibaba Group

1. As disclosed in the circular of the Company dated 20 February 2017, the Company entered into a framework agreement (the "**Framework Agreement**") with Alibaba Holding on 25 January 2017, pursuant to which the Group shall (i) utilise certain channels and networks of Alibaba Group for the sales and distribution of lottery products and other services on a revenue-sharing basis; and (ii) purchase technology services from Alibaba Group (collectively, the "**Channel Transactions**"), subject to the original annual cap amounts for a term commencing from 8 March 2017 (i.e. the effective date of the Framework Agreement) and ending on 31 December 2019. Ali Fortune, the controlling shareholder of the Company, is indirectly held as to 60% by Alibaba Holding. Accordingly, Alibaba Holding is an associate of Ali Fortune and hence a connected person of the Company. The transactions contemplated under the Framework Agreement constituted CCTs under Chapter 20 of the GEM Listing Rules and such agreement (together with the annual cap amounts in respect of such transactions for the period from 8 March 2017 to 31 December 2017 and for the two years ending 31 December 2018 and 2019) had been approved by the Shareholders at the special general meeting of the Company held on 8 March 2017.

2. As the Channel Transactions (in particular the sale and distribution of other services) had been running more smoothly and developing more sustainably during the year ended 31 December 2017 since their commencement, the Group proposed to increase the original annual cap amounts for the Channel Transactions to the revised annual cap transaction amounts of RMB106,021,000, RMB251,093,000 and RMB360,951,000 for the period from 8 March 2017 to 31 December 2017 and for the two years ended 31 December 2018 and 2019 respectively (the "**Revised Channel Cap(s)**") in order to cater for the development of the Channel Transactions. The Revised Channel Caps are determined mainly with reference to the estimated income for the sale and distribution of the lottery products and other services, which is determined based on projected revenue and costs in respect of the sales and distribution of lottery products and other services taking into account the historical amount and growth rate during the period commencing from 8 March 2017 and ending on 31 July 2017, as well as the expected future growth rate and the Group's business plan. For details, please refer to the circular of the Company dated 4 December 2017. The Revised Channel Caps had been approved by the Shareholders at the special general meeting of the Company held on 20 December 2017.

DIRECTORS' REPORT

3. As disclosed in the circular of the Company dated 4 December 2017, the Company and Zhejiang Tmall Technology Company Limited* (浙江天貓技術有限公司) ("**Tmall**") entered into a procurement framework agreement (the "**Procurement Framework Agreement**") on 29 August 2017, subject to the annual cap amounts in respect of the marketing fees payable under the Procurement Framework Agreement of RMB52,343,000, RMB389,811,000 and RMB570,722,000 for the period from 20 December 2017 (i.e. the effective date of such agreement) to 31 December 2017 and for the two years ending 31 December 2018 and 2019 respectively (the "**Procurement Cap(s)**"). The Procurement Caps are determined mainly with reference to the projected amount of marketing fees which is estimated taking into account factors including (i) the historical figures of the value of the products purchased by the online users and the proportion of such products offered by Alibaba Merchants during the period commencing from 8 March 2017 and ending on 31 July 2017; (ii) the estimated growth in the value of the products to be purchased by online users; and (iii) the Group's projected marketing initiatives and campaigns to promote and boost online users' activities on certain online platforms of Alibaba Group utilised and operated by the Group for conducting the transactions pursuant to the Framework Agreement and the Procurement Framework Agreement. Ali Fortune, the controlling shareholder of the Company, is indirectly held as to 60% by Alibaba Holding. Tmall is a wholly-owned subsidiary of Alibaba Holding. Accordingly, each of Alibaba Holding and Tmall is an associate of Ali Fortune and hence a connected person of the Company. The transactions contemplated under the Procurement Framework Agreement constituted CCTs under Chapter 20 of the GEM Listing Rules and such agreement (together with the Procurement Caps) had been approved by the Shareholders at the special general meeting of the Company held on 20 December 2017.

During the year ended 31 December 2017, the Group entered into the following transactions with Alibaba Group:

Nature of transactions	**Total amount** (RMB'000)
(i) In respect of the Framework Agreement:	
The Group's utilisation of certain channels and networks of Alibaba Group for sales and distribution of lottery products and other services on a revenue-sharing basis and the Group's purchase of technology services from Alibaba Group	58,299 Note a
(ii) In respect of the Procurement Framework Agreement:	
The Group's payment of marketing fees to Alibaba Merchants for supply of products or services offered to individual users on certain online platforms operated by the Group at a discounted price	31,941 Note b

Notes:

a. The aggregate amount of these transactions amounted to RMB58,299,000 for the year ended 31 December 2017, which fell within the Revised Channel Cap of RMB106,021,000 for such period.

b. The aggregate amount of these transactions amounted to RMB31,941,000 for the year ended 31 December 2017, which fell within the Procurement Cap of RMB52,343,000 for such period.

CCTs with Ant Financial Group

4. The Company and Alipay, which is a wholly-owned subsidiary of Ant Financial, entered into a framework agreement (the "**Alipay Framework Agreement**") on 23 March 2017, whereby the Group shall provide online activities and services which are not subject to the applicable PRC lottery laws and regulations, including information subscription and other content, and the sales and distribution of the lottery and its relevant products that the Group has developed or is authorised to operate (in online form), in the event that and so long as it is allowed under applicable laws and regulations in the PRC, on the lottery channel(s) of the online platform(s) of Alipay and its subsidiaries on a revenue-sharing basis under the Alipay Framework Agreement. As disclosed in the announcement of the Company dated 23 March 2017, Ant Financial Group (including Alipay) are deemed by the Stock Exchange as connected persons of the Company pursuant to Rule 20.17 of GEM Listing Rules. Accordingly, the transactions contemplated under the Alipay Framework Agreement constituted CCTs under Chapter 20 of the GEM Listing Rules.

   The transactions contemplated under the Alipay Framework Agreement are subject to the annual cap amounts of RMB13,300,000, RMB13,300,000 and RMB13,300,000 for the period from 23 March 2017 (i.e. the date of such agreement) to 31 December 2017 and for the two years ending 31 December 2018 and 2019 respectively (the "**Alipay Cap(s)**"). The Alipay Caps include potential income generated from online activities and services on the lottery channel(s) on the online platform(s) of Alipay and its subsidiaries ("**Alipay Group**"), calculated with reference to the traffic volume of and the income generated from comparable online platform(s) of the Alipay Group, and having considered that the business cooperation on the aforesaid lottery channel(s) will still be at a start-up stage and the potential income will be affected by the actual implementation of the cooperation model and the market conditions and reactions thereof. Since one or more of the applicable percentage ratios as defined in the GEM Listing Rules in respect of the highest Alipay Cap for the transactions is 0.1% or more but less than 5%, the transactions contemplated under the Alipay Framework Agreement are subject to the annual review, reporting and announcement requirements but exempt from the independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

During the year ended 31 December 2017, the Group entered into the following transactions with Ant Financial Group:

Nature of transactions	Total amount (RMB'000)
In respect of the Alipay Framework Agreement:	
The Group's utilisation of certain channels on the online platforms of Alipay Group for operation of online activities or services which are not subject to the applicable PRC lottery laws and regulations, and sales and distribution of lottery products (in online form) on a revenue-sharing basis	9,297 [Note a]

Note:

a. The aggregate amount of these transactions amounted to RMB9,297,000 for the year ended 31 December 2017, which fell within the Alipay Cap of RMB13,300,000 for such period.

Annual review of CCTs

The independent non-executive Directors reviewed the CCTs set out above, and confirmed that the CCTs set out above have been entered into:

(i) in the ordinary and usual course of the business of the Group;

(ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

(iii) in accordance with the relevant agreements governing them and are on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The independent non-executive Directors also considered that the internal control procedures put in place by the Group to monitor the CCTs are adequate and effective. The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules.

The Company's auditor was engaged to report on the Group's CCTs in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "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 issued its unqualified letter containing its findings, conclusions and confirmations in respect of the CCTs disclosed above in accordance with Rule 20.54 of the GEM Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

During the year ended 31 December 2017, the Company reviewed its related party transactions and confirmed that, save as disclosed above, there was no connected transaction or continuing connected transaction of the Company which is required to be disclosed pursuant to Chapter 20 of the GEM Listing Rules. Save as disclosed above, none of the related party transactions set out in note 35 to the consolidated financial statements are such transactions required to be disclosed pursuant to Chapter 20 of the GEM Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows:

(a) Interests in ordinary shares:

	Number of Shares			Approximate percentage held
Name of Director	**Personal interest**	**Corporate interest**	**Total**	**(Note 1)**
Mr. Sun Ho	33,078,000 (Note 2)	2,006,250,000 (Note 3)	2,039,328,000	18.13%
Mr. Zhou Haijing	12,200,000 (Note 4)	–	12,200,000	0.11%
Mr. Zhang Qin	–	–	–	0%
Mr. Yang Guang	–	–	–	0%
Mr. Ji Gang	–	–	–	0%
Mr. Zou Liang	–	–	–	0%
Ms. Monica Maria Nunes	1,375,000	–	1,375,000	0.01%
Mr. Feng Qing	375,000	–	375,000	negligible
Dr. Gao Jack Qunyao	375,000	–	375,000	negligible

Notes:

1. Based on a total of 11,247,299,760 Shares in issue as at 31 December 2017.

2. It represents 27,078,000 Shares and 6,000,000 restricted share units (granted under the Share Award Scheme) beneficially held by Mr. Sun Ho.

3. These 2,006,250,000 Shares were held in the name of MAXPROFIT GLOBAL INC. As MAXPROFIT GLOBAL INC is beneficially and wholly-owned by Mr. Sun Ho, the chairman, executive Director & CEO of the Company, Mr. Sun was deemed to be interested in such Shares.

4. It represents 2,300,000 Shares vested under the Share Award Scheme and 9,900,000 restricted share units (granted under the Share Award Scheme) beneficially held by Mr. Zhou Haijing.

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

Name of Director	Date of grant	Exercise price per Share (HK$)	Exercisable period (Note 2)	Number of underlying Shares	Approximate percentage held (Note 1)
Ms. Monica Maria Nunes	20 June 2013	0.474	20 June 2014 – 19 June 2018	375,000	0.003%
	21 January 2014	1.310	21 January 2015 – 20 January 2019	250,000	0.002%
Mr. Feng Qing	1 June 2015	0.858	1 June 2016 – 31 May 2020	1,125,000	0.010%
Dr. Gao Jack Qunyao	1 June 2015	0.858	1 June 2016 – 31 May 2020	1,125,000	0.010%

Notes:

1. Based on a total of 11,247,299,760 Shares in issue as at 31 December 2017.

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

(c) Long positions in shares and underlying shares of Alibaba Holding, an associated corporation of the Company within the meaning of Part XV of the SFO:

Name of Director	Nature of interests	Number of shares/underlying shares held	Percentage of issued shares of Alibaba Holding
Mr. Zhou Haijing	Beneficial and equity derivative interests	29,050 (Note 1)	0.001%
Mr. Zhang Qin	Beneficial and equity derivative interests	50,861 (Note 2)	0.002%
Mr. Yang Guang	Beneficial and equity derivative interests	37,185 (Note 3)	0.001%
Mr. Ji Gang	Beneficial and equity derivative interests	63,186 (Note 4)	0.003%
Mr. Zou Liang	Beneficial and equity derivative interests	3,700 (Note 5)	negligible

Notes:

1. It represents 22,625 ordinary shares and 6,425 restricted share units beneficially held by Mr. Zhou Haijing.

2. It represents 23,611 ordinary shares and 27,250 restricted share units beneficially held by Mr. Zhang Qin.

3. It represents 13,185 ordinary shares and 24,000 restricted share units beneficially held by Mr. Yang Guang.

4. It represents 22,486 ordinary shares and 40,700 restricted share units beneficially held by Mr. Ji Gang.

5. It represents 625 ordinary shares and 3,075 restricted share units beneficially held by Mr. Zou Liang.

Save as disclosed above, as at 31 December 2017, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying Shares (in respect of share options of the Company which were regarded as unlisted physically settled equity derivatives) and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save for the fact that certain Directors have been granted award Shares under the Share Award Scheme through on-market acquisition of the Shares by the trustee of such scheme, at no time during the year under review was the Company, any of its holding company, subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

Long position in the Shares

Name of Shareholder	Capacity	Number of Shares held	Number of underlying Shares entitled	Total (number of Shares)	Approximate percentage of issued share capital of the Company (Note 1)
Ali Fortune (Notes 2 and 8)	Beneficial owner	6,102,723,993	1,300,040,497	7,402,764,490	65.82%
Alibaba Investment Limited (Note 2)	Interest of controlled corporation	6,102,723,993	1,300,040,497	7,402,764,490 (Note 9)	65.82%
API Holdings Limited (Note 2)	Interest of controlled corporation	6,102,723,993	1,300,040,497	7,402,764,490 (Note 9)	65.82%
Alibaba Holding (Note 3)	Interest of controlled corporation	6,102,723,993	1,300,040,497	7,402,764,490 (Note 9)	65.82%
API (Hong Kong) Investment Limited (Note 4)	Interest of controlled corporation	6,102,723,993	1,300,040,497	7,402,764,490 (Note 9)	65.82%
Shanghai Yunju Venture Capital Investment Co., Ltd. (formerly known as Shanghai Yunju Investment Management Co., Ltd.) (Note 5)	Interest of controlled corporation	6,102,723,993	1,300,040,497	7,402,764,490 (Note 9)	65.82%
Ant Financial (Note 6)	Interest of controlled corporation	6,102,723,993	1,300,040,497	7,402,764,490 (Note 9)	65.82%
Hangzhou Yunbo Investment Consultancy Co., Ltd. (Note 7)	Interest of controlled corporation	6,102,723,993	1,300,040,497	7,402,764,490 (Note 9)	65.82%
Mr. Ma Yun (Note 7)	Interest of controlled corporation	6,102,723,993	1,300,040,497	7,402,764,490 (Note 9)	65.82%
MAXPROFIT GLOBAL INC (Note 10)	Beneficial owner	2,006,250,000	–	2,006,250,000	17.84%

Notes:

1. Based on a total of 11,247,299,760 Shares in issue as at 31 December 2017.

2. Alibaba Investment Limited ("**AIL**") and API Holdings Limited ("**API Holdings**") hold 60% and 40% of the issued share capital of Ali Fortune, respectively.

3. Alibaba Holding holds 100% of the issued share capital of AIL. Mr. Zhang Qin and Mr. Yang Guang, each a non-executive Director, are the employees of Alibaba Holding.

4. API (Hong Kong) Investment Limited holds 100% of the issued share capital of API Holdings.

5. Shanghai Yunju Venture Capital Investment Co., Ltd. (formerly known as Shanghai Yunju Investment Management Co., Ltd.) ("Shanghai Yunju") holds 100% of the issued share capital of API (Hong Kong) Investment Limited.

6. Ant Financial holds 100% of the equity interests in Shanghai Yunju. Hangzhou Junhan Equity Investment Partnership (Limited Partnership) ("**Junhan**") and Hangzhou Junao Equity Investment Partnership (Limited Partnership) ("**Junao**") hold approximately 42.28% and 34.15% of the equity interests in Ant Financial, respectively. Mr. Ji Gang and Mr. Zou Liang, each a non-executive Director, are the employees of Ant Financial.

7. Hangzhou Yunbo Investment Consultancy Co., Ltd. ("**Yunbo**") is the general partner of both Junhan and Junao, and is wholly-owned by Mr. Ma Yun.

8. Ali Fortune holds outstanding Convertible Bonds in the aggregate principal amount of HK$332,328,165 and the maximum number of Conversion Shares that would be issued upon full conversion of such outstanding Convertible Bonds at the then prevailing adjusted conversion price of HK$0.2556 per Conversion Share as at 31 December 2017 was 1,300,040,497. The allotment and issue of the new Shares under the Subscription and the Conversion Shares under a specific mandate, together with the Whitewash Waiver, were approved by the independent Shareholders at the special general meeting of the Company held on 30 July 2016.

9. Each of AIL, Alibaba Holding, API Holdings, API (Hong Kong) Investment Limited, Shanghai Yunju, Ant Financial, Junhan, Junao, Yunbo, and Mr. Ma Yun are taken to be interested in an aggregate of 7,402,764,490 Shares by virtue of Part XV of the SFO.

10. As disclosed in the section headed "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" above, Mr. Sun Ho was deemed to be interested in these 2,006,250,000 Shares by virtue of his interest in MAXPROFIT GLOBAL INC. Mr. Sun Ho is also a director of MAXPROFIT GLOBAL INC.

INTERESTS OF OTHER PERSONS

As at 31 December 2017, apart from the interests in the Shares, underlying Shares and debentures of the Company and its associated corporations held by the Directors, chief executive and substantial Shareholders of the Company stated above, there were no other persons with interests recorded in the register of the Company required to be kept under section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

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

SHARE OPTIONS

A new share option scheme of the Company was approved by the Shareholders at the special general meeting held on 23 December 2014 (the "**2014 Scheme**") and was adopted by the Company on the same date in place of the former share option scheme of the Company adopted on 18 November 2004 (the "**2004 Scheme**") (which had expired on 17 November 2014). Particulars of the Company's Share Option Schemes and details of movements in the share options under such schemes during the year under review are set out in note 33 to the consolidated financial statements.

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

During the year ended 31 December 2017, no options were granted by the Company pursuant to the Share Option Schemes. No options were cancelled but options in respect of 44,367,125 Shares were forfeited, whereas options in respect of 26,307,591 Shares had expired during the year ended 31 December 2017. As at the date of this report, the total number of Shares still available for issue under the Share Option Schemes (excluding, for the purpose of calculating the "scheme mandate limit", any options granted under the 2014 Scheme but forfeited or expired in accordance with the terms of such scheme) shall be 38,626,831 Shares, representing approximately 0.34% of the Company's issued share capital as at that date.

As a result of the options exercised during the year ended 31 December 2017, 142,208,355 Shares were issued by the Company, and the Company received a total cash consideration of approximately HK$120 million in respect of such option exercises. The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK$1.49 per Share.

As at 31 December 2017, the number of Shares in respect of which options had been granted and remained outstanding under the Share Option Schemes was 310,397,703 (2016: 523,605,774), representing approximately 2.8% (2016: 5.0%) of the Company's issued share capital as at that date.

GRANT OF AWARD SHARES PURSUANT TO SHARE AWARD SCHEME

As disclosed in the announcement of the Company dated 17 March 2017, the Company has adopted the Share Award Scheme on 17 March 2017 (the "**Adoption Date**") which will allow the Company to grant award Shares to selected participants as incentives and/or rewards for their contribution to the Group.

During the year under review, the trustee of the Share Award Scheme has purchased a total of 124,644,000 Shares on the Stock Exchange at a total consideration of approximately HK$174.6 million to satisfy award Shares granted under the Share Award Scheme.

On 15 May 2017, the Board resolved to grant a total of 100,618,500 award Shares on the same date as follows:

(i) a total of 6,000,000 award Shares to Mr. Sun Ho, an executive Director;

(ii) a total of 12,200,000 award Shares to Mr. Zhou Haijing, an executive Director;

(iii) a total of 9,300,000 award Shares to 4 directors of the subsidiaries of the Company; and

(iv) a total of 73,118,500 award Shares to 123 employees of the Group who are independent of the Company and its connected persons (as defined under the GEM Listing Rules).

The 100,618,500 award Shares granted represent approximately 0.89% of the issued share capital of the Company as at the date of this report (i.e. 11,248,674,760 Shares). Based on the closing price of HK$1.33 per Share on the date of the grant of the award Shares, the market value of the 100,618,500 award Shares in aggregate is HK$133,822,605.

All of the 100,618,500 award Shares shall be granted by way of acquisition of existing Shares through on-market transactions by the trustee of the Share Award Scheme (the "**Trustee**"). The Board shall cause to pay the Trustee the purchase price and the related expenses from the Company's cash resources. The Trustee shall purchase from the market the relevant number of award Shares and shall hold the award Shares on trust for the relevant selected participants until they are vested in such selected participants and delivered in accordance with the terms of the Share Award Scheme. There is no condition, performance target or lock up restriction attached to the award Shares.

The grant of the award Shares to the above-mentioned Directors has been approved by the Board (including the independent non-executive Directors). The grant of the award Shares to the above-mentioned Directors and the 4 directors of subsidiaries of the Company also forms part of their respective remuneration packages and is therefore exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 20.71(6) and Rule 20.93 of the GEM Listing Rules. Mr. Sun Ho and Mr. Zhou Haijing had abstained from voting so far as the resolution for the approval of the grant of the award Shares to them was concerned.

In the event that the Board elects to issue new Shares to satisfy any award Shares to be granted under the Share Award Scheme in the future, the maximum number of new Shares so issued shall be limited to 3% of the total issued Shares as at the Adoption Date (i.e. 315,426,263 Shares). The total number of issued Shares as at the Adoption Date was 10,514,208,770.

EQUITY-LINKED AGREEMENT

The following equity-linked agreement was entered into by the Group during the year under review or subsisted at the end of the year:

Sale and Purchase Agreement in respect of the Score Value Transaction

As disclosed in the Score Value Circular, an agreement dated 17 November 2014 (the "**Sale and Purchase Agreement**") was entered into between the Company, Silvercreek Technology Holdings Limited (being a wholly-owned subsidiary of the Company, as purchaser (the "**Purchaser**")), Immense Wisdom Limited ("**IWL**"), King Achieve Limited ("**KAL**") (with IWL and KAL together as vendors (the "**Vendors**")) and Score Value in relation to the acquisition by the Purchaser of a 100% equity interest in Score Value (the "**Acquisition**") for a maximum consideration of HK$489.5 million (subject to downward adjustments). The maximum consideration is to be satisfied as to HK$239.5 million in cash and as to HK$250.0 million by way of the allotment and issue of a maximum of 168,918,918 Consideration Shares (as defined in the Score Value Circular) at the issue price of HK$1.48 per Share. Subject to the Score Value Group meeting certain operational targets (namely, launching the sales of a lottery game through mobile smart phone channel in prescribed number of provinces in the PRC) as set out in the section headed "Bonus Options" on page 11 of the Score Value Circular, the Company shall also grant the Bonus Options (as defined in the Score Value Circular) to the Vendors which shall entitle the Vendors to subscribe for a maximum of 166,666,666 Bonus Option Shares (as defined in the Score Value Circular) at a subscription price of HK$1.8 per Bonus Option Share (for a maximum total amount of approximately HK$300 million receivable by the Company). As the pre-condition for the grant of the Bonus Options was not fulfilled within 2 years from the date of the Sale and Purchase Agreement, the Company will no longer grant the Bonus Options to the Vendors.

Initial consideration in respect of the Acquisition comprising HK$109,125,000 in cash and 33,783,783 Consideration Shares had been paid and issued by the Company to the Vendors.

Pursuant to the Sale and Purchase Agreement, the Company or the Purchaser shall be required to pay deferred consideration in a maximum amount of HK$300 million (comprising HK$100 million in cash and 135,135,135 Consideration Shares) to the Vendors upon fulfilment of certain pre-conditions at a later stage, including obtaining the approval of the relevant PRC government authority for the lottery game to be supplied by a subsidiary of Score Value and profit guarantees of an average of RMB20 million (equivalent to approximately HK$25.2 million) per year provided by the Vendors in respect of the Shenzhen Subsidiary of Score Value for each of the three financial years ended 31 December 2015, 2016 and 2017 as described in the paragraph headed "Deferred Consideration" on pages 9 and 10 of the Score Value Circular.

DIRECTORS' REPORT

The Shenzhen Subsidiary of Score Value met the profit guarantees for the two years ended 31 December 2015 and 2016 and a total of 20,270,270 Shares had been issued to the Vendors accordingly. In addition, the Shenzhen Subsidiary of Score Value has met the profit guarantee of an aggregate of not less than RMB60 million for the three years ended 31 December 2015, 2016 and 2017 as disclosed in the section headed "UPDATE ON SCORE VALUE TRANSACTION" in the "Discussion and Analysis of the Group's Results and Business" section of this annual report and a further 13,513,514 Shares shall be issued to the Vendors accordingly. Save as disclosed above, the other pre-conditions for the payment of the other tranches of deferred consideration have not yet been fulfilled.

Save as disclosed above, in the section headed "CONVERTIBLE BONDS" in the "Discussion and Analysis of the Group's Results and Business" section of this annual report, as well as in the sections headed "SHARE OPTIONS" and "GRANT OF AWARD SHARES PURSUANT TO SHARE AWARD SCHEME" in this Directors' Report, no equity-linked agreements were entered into by the Group during the year under review or subsisted at the end of the year.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

	2017	2016
– the largest customer	**20.6%**	26.5%
– five largest customers combined	**54.0%**	68.5%

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

	2017	2016
– the largest supplier	**26.3%**	35.6%
– five largest suppliers combined	**47.4%**	67.4%

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

As no single customer accounted for more than 30% of the Group's total revenue for the year under review, we do not consider that the relationships with our customers expose the Group's business to any substantial risks.

INTERESTS IN COMPETING BUSINESS

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

PRE-EMPTIVE RIGHTS

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

EMOLUMENT POLICY

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

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

RETIREMENT AND PENSION PLAN

To comply with the statutory requirements of the Mandatory Provident Fund ("**MPF**") Schemes Ordinance (Chapter 485 of the Laws of Hong Kong), the Group has set up the MPF Scheme. Mandatory contributions to the scheme are made by both the employers and employees at 5% of the employees' monthly relevant income capped at HK$30,000. The employees employed by the PRC subsidiaries are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes. During the year, the Group made contributions to the MPF Scheme amounted to approximately HK$0.6 million (2016: approximately HK$0.3 million). During the year under review, no forfeited contributions had been used by the employer to reduce the existing level of contributions.

DONATIONS

During the year under review, the Group did not make any donations for charitable or other purposes.

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

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

The Target Company is a company incorporated in Hong Kong with limited liability and is an investment holding company holding a 100% equity interest in 深圳市福悦信息諮詢有限公司 (Shenzhen Fortune Happy Information Advisory Co., Ltd.) (the "**WFOE**") which is a wholly foreign owned enterprise established under the laws of the PRC. The WFOE, in turn, controls a 100% equity interest in an operating subsidiary, Silvercreek, through a set of control agreements (the "**Control Agreements**") entered into between the WFOE and two individual shareholders of Silvercreek (the "**Nominee Shareholders**") who are PRC nationals acting as nominees to together hold the entire equity interest in Silvercreek on behalf of the WFOE. The WFOE has transferred all of its rights and obligations under Control Agreements to a wholly-owned subsidiary of the Company, 世紀星彩企業管理有限公司 (China Lottery Management Co., Ltd.) ("**CLMC**"), on 4 May 2017. Thus, CLMC controls 100% equity interest in Silvercreek. During the year under review, the Nominee Shareholders were Mr. Zhang Ting (who held a 95% equity interest in Silvercreek as at 31 December 2017) and Mr. Wang Jian (who held a 5% equity interest in Silvercreek as at 31 December 2017).

Silvercreek is a limited liability company established under the laws of the PRC and is principally engaged in online non-lottery game business (referred to as the "**Restricted Business**").

Silvercreek holds the necessary PRC internet content provider and PRC telecom service provider licences to operate the Restricted Business in the PRC which is subject to foreign investment restrictions. Accordingly, the Control Agreements were adopted so as to allow the CLMC to gain full effective control over the management and financial operation of Silvercreek and enable the economic benefits of Silvercreek to be consolidated into the consolidated financial statements of the Group. The Control Agreements were not adopted for reasons or requirements other than the aforesaid foreign investment restrictions in respect of the Restricted Business in the PRC. For the year ended 31 December 2017, revenue totalling approximately HK$15.2 million and net assets totalling approximately HK$2.1 million of Silvercreek were consolidated into the consolidated financial statements of the Group via the Control Agreements.

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

(i) under a *loan agreement (貸款協議)* between CLMC and the Nominee Shareholders, CLMC (as the lender) agreed to lend a loan amounting to RMB50 million (equivalent to approximately HK$60.0 million) to the Nominee Shareholders (as the borrowers) for their onward investment in Silvercreek such that they will together have 100% equity interest in Silvercreek. The loan must only be repaid by way of the Nominee Shareholders transferring their equity interests in Silvercreek to CLMC or its nominee and may only be used by the Nominee Shareholders for the purpose of investing in Silvercreek as its increased registered capital. The Nominee Shareholders shall pay any dividends, interests or benefits received from Silvercreek to CLMC. Where permissible under the PRC law, CLMC has the right to acquire from the Nominee Shareholders their entire equity interests in Silvercreek or all the assets of Silvercreek and use the outstanding loan owed by the Nominee Shareholders to CLMC as settlement of the consideration for the acquisition;

(ii) under an *equity pledge agreement (股權質押合同)* between CLMC and the Nominee Shareholders, the Nominee Shareholders agreed to pledge their respective equity interests in Silvercreek (together with any dividends, interests, investment return or other benefits generated from such equity interests) to CLMC to secure the due performance of their obligations under the loan agreement mentioned in (i) above. The equity pledge agreement ensures that the Nominee Shareholders cannot transfer their respective equity interests in Silvercreek to other parties;

(iii) under a *call option agreement (購買選擇權協議)* between CLMC, the Nominee Shareholders and Silvercreek, where permissible under the PRC law, CLMC or its nominee shall be entitled to exercise an exclusive and irrevocable option (granted by the Nominee Shareholders) to acquire part or all of the Nominee Shareholders' equity interests in Silvercreek or its assets. The consideration for such acquisition shall be settled with and offset against the outstanding loan owed by the Nominee Shareholders to CLMC under the loan agreement mentioned in (i) above, provided that such consideration shall be adjusted on a pro rata basis if the aforesaid option is partially exercised only. In the event that CLMC exercises the aforesaid option, the Nominee Shareholders and Silvercreek shall unconditionally assist CLMC in respect of all necessary procedures for the equity transfer such as obtaining government approval and consent, and handling registration and filing matters. The call option agreement allows CLMC to directly hold the entire equity interests or assets in Silvercreek when the PRC law lifts the foreign investment restrictions in respect of the Restricted Business in the PRC; and

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

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

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

During the year under review, the Group designated another wholly-owned subsidiary, 世紀星彩企業管理有限公司 (China Lottery Management Co., Ltd.), to replace 深圳市福悅信息諮詢有限公司 (Shenzhen Fortune Happy Information Advisory Co., Ltd.) as the signing party of the Control Agreements and the two Nominee Shareholders were also changed from Mr. Shen Weihong and Mr. Yao Jinhua to Mr. Zhang Ting and Mr. Wang Jian. Save as disclosed above, there had been no material change in the terms of the Control Agreements and/or the circumstances under which they were adopted.

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

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

AUDIT COMMITTEE

The audit committee of the Company comprises three independent non-executive Directors, namely, Ms. Monica Maria Nunes, Mr. Feng Qing and Dr. Gao Jack Qunyao. The consolidated financial statements of the Group for the year ended 31 December 2017 have been reviewed and commented on by the audit committee.

AUDITOR

PricewaterhouseCoopers ("**PwC**") was appointed as the auditor of the Company in December 2016 to replace the former auditor, HLB Hodgson Impey Cheng Limited, following its resignation on 8 November 2016. Save as aforesaid, there have been no other changes of auditors of the Company in the past three years. A resolution for the re-appointment of PwC as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company. The consolidated financial statements of the Group for the year ended 31 December 2017 have been audited by PwC.

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

There were no significant investments, material acquisitions and disposals that constituted "notifiable transactions" under Chapter 19 of the GEM Listing Rules during the year ended 31 December 2017.

BUSINESS REVIEW

(a) Review of the Group's business:

Detailed discussion and analysis of the industries in which the Group operates, and the Group's business and performance for the year ended 31 December 2017 are set out in the "Discussion and Analysis of the Group's Results and Business" section on pages 88 to 106 of this annual report.

(b) Principal risks and uncertainties facing the Group:

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

- The Group does not receive any revenue for the development of lottery games, game software, related supporting systems or lottery hardware. Income is only generated after the entering into of relevant technical services agreement with the customers (which are governmental lottery authorities or operators authorised by such authorities) and upon the launch of a lottery game. As the launch of a lottery game is subject to the approval of the MOF, there is no assurance that the new lottery games that the Group is currently developing or that have been submitted to the MOF for approval will be accepted and approved by the MOF. Without the prior approvals and consents from the necessary authorities, including the MOF's approval, there is no assurance that the new lottery games that are currently being developed by the Group or that have been submitted to the MOF for approval will be launched to the market. Accordingly, the Group may not be able to recover its costs and expenses incurred for the development of these lottery games and the Group may not be able to realise the revenues it is aiming to realise through these newly developed lottery games.

- The Group acts as a technology supplier to our customers and receives service fees on and subject to the terms and conditions of the relevant technical service agreements between the Group and the customers. Accordingly, the terms and conditions of such technical service agreements are critical to the Group. The terms of the technical service agreements that the Group may enter in the future in respect of lottery games that are currently under development or that have been submitted to the MOF for approval may not be as favourable as the terms that the Group is expecting. There is also no assurance that such service agreements can be entered into by the Group at all.

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

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

- The Group's business model in respect of the Group's existing supply of lottery games and the underlying supporting systems is largely based on revenue sharing of the sales of lotteries in certain provinces. There are risks that the administrative authorities might adjust the percentage of issue fees of sales of lotteries. In the case of decrease of issue fees, the technology providers receiving service fees on revenue-sharing basis may be requested to decrease their fees proportionally.

- While the Group believes that the potential of the mobile and internet distribution channels in the PRC lottery markets is huge, there is uncertainty as to when such channels will be approved by the relevant lottery authorities and whether the Group will obtain the requisite licenses or acquire the right target companies with such license to conduct online sales and distribution of lottery products.

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

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

- there are any new policies, rules and/or regulations in the PRC (or in any jurisdiction where the Group has operations) which may have a material impact on the business or trading prospect of the Group;

- the Group has complied with the relevant environmental, gaming or lottery related laws and regulations in the PRC (or in any jurisdiction where the Group has operations); and

- in respect of the Group's lottery business, counterparties of commercial contracts entered into by the Group are customers which are either governmental lottery authorities or operators authorised by such authorities.

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

During the year under review, the Group has been complying with the lottery and online gaming related laws and regulations in the PRC (including but not limited to Lottery Management Regulations (彩票管理條例); The Detailed Rules for the Implementation of Lottery Management Regulations (彩票管理條例實施細則); Measures for Lottery Issuance and Sales Management (彩票發行銷售管理辦法); The Interim Measures for the Administration of Internet Sales of Lottery (互聯網銷售彩票管理暫行辦法); The Interim Measures for the Administration of Telephone Sales of Lottery (電話銷售彩票管理暫行辦法); Interim Measures for the Administration of Online Games (網絡遊戲管理暫行辦法); Interim Provisions on the Administration of Internet Culture (互聯網文化管理暫行規定); and Notice of the Ministry of Culture on Regulating the Operations of Online Games and Strengthening Interim and Ex Post Regulation (文化部關於規範網絡遊戲運營加強事中事後監管工作的通知)), and there is no incidence of non-compliance with any other relevant laws and regulations affecting the Group (including but not limited to Employment Ordinance of Hong Kong (Chapter 57 of the Laws of Hong Kong); Labour Law of the PRC (中華人民共和國勞動法), The Labour Contract Law of the PRC (中華人民共和國勞動合同法); Regulations of Paid Annual Leave of Employees (職工帶薪年休假條例); PRC Criminal Law (中華人民共和國刑法); PRC Anti-Unfair Competition Law (中華人民共和國反不正當競爭法); PRC Interim Provisions on Prohibiting Commercial Bribery (禁止商業賄賂行為的暫行規定); The Company Law of the PRC (中華人民共和國公司法); Hong Kong Prevention of Bribery Ordinance (Chapter 201 of the Laws of Hong Kong)) that has come to the knowledge of the Directors.

(d) Significant event after the reporting period:

As of the date hereof, there was no significant event affecting the Group after 31 December 2017.

(e) Business outlook of the Group:

Details of the likely future development in the Group's business can be found in the section headed "Business Outlook" on page 93 of this annual report.

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

KPIs	Reasons for selection as KPIs	Financial Year 2017	Financial Year 2016	Variance
Revenue (HK$'000)	To assess the sales performance and volume of transactions of the Group.	302,210	251,492	↑ 20.2%
Operating loss (HK$'000)	To assess the Group's operating performance and cost management.	242,584	267,630	↓ 9.4%
(Loss)/Profit for the year attributable to owners of the Company (HK$'000)	To assess the Group's profitability (after expenses).	(365,664)	332,989	↓ 209.8%

(g) Information on environmental matters of the Group:

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

As we do not run any factories but outsource the manufacturing functions to outside suppliers/subcontractors to help produce our lottery hardware products, we do not anticipate any material risks in our operations in respect of environmental protection concerns, and the environmental related laws and regulations do not apply to our operations. Having said that, to help minimise the impact of our operations on the environment, the Group has made continuous effort to support low-carbon offices, in that employees are encouraged to observe our policies and business practices on energy and resource savings, such as:

- **Electricity savings:**
  Computers should be turned off completely when employees leave office or when not in use, and lights should be switched off in unoccupied space.

- **Use of recycled paper:**
  Recycled paper is used for printing emails and other documents for internal usage.

- **Increased use of soft copies:**
  As email has become an increasingly popular channel for employees to share information and communicate, a lot of the documents and information can now be distributed to, and circulated among, employees in soft copies via our corporate email accounts. This has immensely reduced the use of paper in our office.

- **5-day work week:**
  Employees in Hong Kong are in general required to work 5 days a week only in order to save them on time and costs to commute between their homes and the workplace on Saturdays, and also help save electricity in the office on Saturdays as well as improve the air pollution condition in the city by reducing traffic. We believe that employees can still satisfactorily fulfill their job duties within a 5-day work week if they work efficiently and with proper time management. On the other hand, employees in the PRC are already not required to work on Saturdays by PRC law.

- **Use of public transportations:**
  We encourage employees to use public transportations (subways and buses rather than taxi) for errands.

- **Office design that makes full use of natural light:**
  Scientific design of the office has been adopted so that natural light could be made full use of, rather than electricity.

(h) Relationships with our stakeholders:

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

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

Stakeholders of the Group	Relationships with the Group
Shareholders	The Group strives to not only maximise the Shareholders' return through continuous business development, but also to maintain a high level of transparency and accountability to the Shareholders in various ways, such as: • maintaining and employing a policy of open and timely disclosure of relevant information to the Shareholders through announcements, circulars, quarterly, interim and annual reports; • maintaining effective communications with the Shareholders through annual general meeting and the official website of the Company; • implementing policies of the Group in respect of sustainability management of its operations so as to reduce their impact on the environment but create a positive social impact on the community where the Group operates; and • setting up a Risk Management and Internal Control Committee of the Company to help detect risks associated with our operations and minimise their impact.
Business partners	The Group places emphasis on research and development of its products and continues to work closely with our business partners (which are leading international gaming and/or gaming technology companies) with an aim to introducing innovative lottery products and services to the PRC lottery markets and enabling responsible lottery gaming.

Stakeholders of the Group	Relationships with the Group
Employees	Apart from salaries, the Group offers to its employees other fringe benefits including year-end bonus, discretionary bonus, Share Option Schemes, Share Award Scheme, contributory provident fund, social security fund and medical benefits. In addition, the Group offers valuable opportunities for our employees to enhance their professional knowledge and skills through (i) on-the-job training, and (ii) other training activities sponsored by the Group. (i) On-the-job training: The research and development team of the Group comprises veteran professionals in the PRC lottery industry. Through working with these professionals and other business partners (which are leading international gaming and/or gaming technology companies), employees can share knowledge base and learn state-of-the-art technology and business practices from other renowned companies. (ii) Other training activities: In-house briefing materials on latest corporate governance and listing rule requirements are provided to Directors and company secretary. Directors and employees also attend in-house and outside training seminars on job-related topics, or participate in industry-specific seminars and conferences from time to time.
Suppliers/subcontractors	The Group does not run any factories but outsources the manufacturing functions to outside suppliers/subcontractors to help produce our lottery hardware products.
Customers (including governmental lottery authorities or operators authorised by such authorities, and online consumers in respect of games and entertainment business)	During the year under review, the largest customer and the five largest customers (combined) of the Group accounted for approximately 20.6% and approximately 54.0% of the total revenue of the Group respectively. As no single customer accounted for more than 30% of the Group's total revenue from sales of goods or rendering of services for the year under review, we do not consider that the relationships with our customers expose the Group's business to any substantial risks.

Stakeholders of the Group	Relationships with the Group
	The Group works closely with its customers in respect of its lottery business to implement responsible lottery measures and prevent problem gaming in various ways. As regards the Group's non-lottery games and entertainment business, anti-addiction measures are also implemented as appropriate and as required.
Community	We strive to actively contribute to the development of a responsible lottery gaming industry which will raise important public funds for charity, welfare and sports development projects in China. We are actively involved in sports development and charity events, and we have been the sponsor of a wide range of sports events. We liaise closely with the PRC lottery authorities and strive to help them develop healthy lottery markets for the community. We not only introduce new lottery types to the PRC lottery markets, but also propose to the PRC lottery authorities to evaluate new forms of legal and regulated lottery distribution channels with a view to cracking down on the illegal gambling market in China. The footprint of our lottery business spans across China and selected overseas markets. We employ around 400 employees and help create job opportunities in the communities where we operate.

On behalf of the Board

Sun Ho
Chairman & CEO

23 March 2018

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**302,210**	251,492	301,630	211,051	208,360
Operating loss	**242,584**	267,630	91,046	189,233	77,518
(Loss)/Profit for the year attributable to owners of the Company	**(365,664)**	332,989	(280,222)	(189,184)	(82,940)

ASSETS AND LIABILITIES

	As at 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**3,988,869**	4,034,351	1,613,920	1,335,556	1,314,398
Total liabilities	**(1,283,305)**	(1,730,606)	(555,397)	(113,649)	(79,019)
Net assets	**2,705,564**	2,303,745	1,058,523	1,221,907	1,235,379
Equity attributable to owners of the Company	**2,658,374**	2,267,872	1,059,205	1,218,840	1,234,088
Non-controlling interests	**47,190**	35,873	(682)	3,067	1,291
Total equity	**2,705,564**	2,303,745	1,058,523	1,221,907	1,235,379

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AGTech Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 8279

FINANCIAL REPORT 2017

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FINANCIAL CONTENTS

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

TO THE SHAREHOLDERS OF AGTECH HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

OPINION

What we have audited

The consolidated financial statements of AGTech Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 150 to 226, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

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.

KEY AUDIT MATTERS

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

Key audit matters identified in our audit are summarised as follows:

- Impairment assessment of goodwill
- Valuation of embedded derivative of convertible bonds

Key Audit Matter	How our audit addressed the Key Audit Matter
1. Impairment assessment of goodwill	
Refer to Notes 2.8 and 16 to the consolidated financial statements. We focused on this area due to the size of the goodwill balance (HK$1,120,548,000 as at 31 December 2017) and because management's assessment of the value in use of the cash generating units ("CGUs") involved significant judgment and estimates about the future results of the business, including revenue growth rates within the forecast period, the long term growth rates and the discount rates applied to the future cash flow forecasts. An independent external valuer was engaged by management to assist in the assessment of the value in use of the CGUs as at 31 December 2017. Management determined that no impairment of goodwill was necessary as at 31 December 2017.	We evaluated the composition of management's future cash flow forecasts, and the process by which they were drawn up. We found that the forecasts were subject to timely oversight and challenge by the Directors and were consistent with the Board approved budgets. We compared the current year actual results of the CGUs with the prior year forecasts to assess the accuracy of management's estimation process. While the actual performance of certain CGUs was lower than that included in prior management forecasts, we were able to see management adjusted their approach for the projected revenue in this year's model accordingly. We considered that this judgment was appropriate given the actual performance of the CGUs. Together with our in-house valuation experts, we assessed the valuation methodologies and considered the key assumptions adopted in the valuation. We challenged management's assumptions in the forecasts, including the revenue growth rates within the forecast period and the long term growth rates, by comparing them to economic and industry forecasts; and the discount rates, by assessing the cost of capital for the Group and comparable companies and considering country and industry specific factors. We found the assumptions to be consistent and in line with our expectations.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
1. Impairment assessment of goodwill (Continued)	
	We evaluated management's sensitivity calculations over the value in use of the CGUs. We determined that the calculations were most sensitive to assumptions used for revenue growth rates and discount rates. We calculated the extent to which these assumptions would need to move before an impairment conclusion was triggered. We discussed the likelihood of such movements with management and found their sensitivity assumptions on possible changes to be reasonable.
2. Valuation of embedded derivative of convertible bonds	
Refer to Notes 2.20 and 29 to the consolidated financial statements. We focused on this area due to the size of the convertible bonds balance (HK$900,190,000 as at 31 December 2017 of which the conversion options embedded in the convertible bonds were HK$636,361,000 and accounted for as financial liabilities at fair value through profit or loss) and because management's valuation of the embedded derivative of the convertible bonds involved significant unobservable inputs including the expected share price volatility and the likelihood of future issues of shares due to settlement of the contingent considerations and exercise of the outstanding consultant options. An independent external valuer was engaged by management to determine the fair value of the embedded derivative of convertible bonds as at 31 December 2017.	Together with our in-house valuation experts, we assessed the valuation methodologies and considered the key assumptions adopted in the valuation. We evaluated management's assumption for the expected share price volatility, by assessing the historical volatility of share prices of comparable companies in the similar industry over the expected life of the bonds. We evaluated management's assumption about the likelihood of future issues of shares due to settlement of the contingent considerations and exercise of the outstanding consultant options. We found the assumptions to be reasonable and in line with our expectations.

OTHER INFORMATION

The Directors of the Company are responsible for the other information. The other information comprises all of 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 DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible 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. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. 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.

INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with HKSAs, we exercise professional judgment 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.

- 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 those charged with governance 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 those charged with governance 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 those charged with governance, 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 Shin Wai Kit, Ricky.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Revenue	5	**302,210**	251,492
Other income	7	**2,901**	3,920
Net other gains/(losses)	8	**29,882**	(12,123)
Employee benefits expenses	9	**(265,438)**	(156,319)
Purchase of and changes in inventories		**(80,971)**	(129,161)
Depreciation expense	14	**(4,157)**	(4,735)
Other operating expenses		**(227,011)**	(220,704)
Operating loss		**(242,584)**	(267,630)
(Loss)/Gain on fair value changes of convertible bonds	29	**(123,969)**	408,077
Gain on fair value changes of contingent consideration payables	28	**13,764**	119,696
Write-back of contingent consideration payables	28	**–**	79,345
Net finance cost	10	**(5,956)**	(1,590)
Share of results of investments accounted for using equity method	19	**–**	(3)
(Loss)/Profit before income tax		**(358,745)**	337,895
Income tax expense	11	**(11,578)**	(5,230)
(Loss)/Profit for the year	12	**(370,323)**	332,665
Other comprehensive income:			
Item that will not be reclassified subsequently to profit or loss			
Currency translation differences		**67,204**	(68,840)
Other comprehensive income for the year, net of tax		**67,204**	(68,840)
Total comprehensive income for the year		**(303,119)**	263,825
(Loss)/Profit attributable to:			
Owners of the Company		**(365,664)**	332,989
Non-controlling interests		**(4,659)**	(324)
		(370,323)	332,665
Total comprehensive income attributable to:			
Owners of the Company		**(301,124)**	264,628
Non-controlling interests		**(1,995)**	(803)
		(303,119)	263,825
(Loss)/Earning per share			
Basic	13	**(HK3.33 cents)**	HK4.71 cents
Diluted	13	**(HK3.42 cents)**	(HK1.30 cents)

The notes on pages 157 to 226 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	14	**5,421**	7,447
Investment properties	15	**54,041**	49,100
Goodwill	16	**1,120,548**	1,067,388
Other intangible assets	17	**1,742**	1,742
Deferred income tax assets	18	**6,840**	7,950
Investments accounted for using equity method	19	**291**	–
Other receivables, deposits and prepayments	20	**4,934**	6,580
		1,193,817	1,140,207
Current assets			
Inventories	21	**10,071**	18,801
Trade receivables	22	**49,178**	25,584
Other receivables, deposits and prepayments	20	**111,550**	80,587
Cash and bank balances	23	**2,624,253**	2,769,172
		2,795,052	2,894,144
Total assets		**3,988,869**	4,034,351
Current liabilities			
Trade payables	24	**5,327**	18,418
Accruals and other payables	25	**166,014**	100,172
Current income tax liabilities		**3,636**	2,700
Amounts due to fellow subsidiaries	26	**9,532**	–
Secured bank borrowings	27	**–**	44,957
Contingent consideration payables	28	**147,504**	62,471
		332,013	228,718

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Non-current liabilities			
Convertible bonds	29	**900,190**	1,329,881
Deferred income tax liabilities	18	**5,502**	5,212
Provision for warranties	30	**45,600**	52,998
Contingent consideration payables	28	**–**	113,797
		951,292	1,501,888
Total liabilities		**1,283,305**	1,730,606
Net assets		**2,705,564**	2,303,745
Equity			
Share capital	31	**22,494**	20,990
Reserves attributable to owners of the Company		**2,635,880**	2,246,882
		2,658,374	2,267,872
Non-controlling interests		**47,190**	35,873
Total equity		**2,705,564**	2,303,745

The consolidated financial statements on pages 150 to 226 were approved by the Board of Directors on 23 March 2018 and were signed on its behalf by:

Sun Ho
Director

Zhou Haijing
Director

The notes on pages 157 to 226 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company													
	Share capital HK$'000 (Note 31)	Share premium HK$'000	Shares held for share award scheme HK$'000 (Note (a))	Share options reserve HK$'000	Share awards reserve HK$'000	Statutory reserve HK$'000 (Note (b))	Exchange reserve HK$'000	Contributed surplus HK$'000 (Note (c))	Property revaluation reserve HK$'000 (Note (d))	Other reserve HK$'000 Note (e))	Accumulated losses HK$'000	Subtotal HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2017	20,990	2,478,212	–	168,292	–	18,189	59,974	47,191	14,402	51,690	(591,068)	2,267,872	35,873	2,303,745
Loss for the year	–	–	–	–	–	–	–	–	–	–	(365,664)	(365,664)	(4,659)	(370,323)
Other comprehensive income for the year	–	–	–	–	–	–	64,540	–	–	–	–	64,540	2,664	67,204
Total comprehensive income for the year	–	–	–	–	–	–	64,540	–	–	–	(365,664)	(301,124)	(1,995)	(303,119)
Recognition of equity settled share-based payments	–	–	–	47,971	48,529	–	–	–	–	–	–	96,500	–	96,500
Issue of shares upon conversion of convertible bonds	1,200	597,934	–	–	–	–	–	–	–	–	–	599,134	–	599,134
Issue of shares upon exercise of share options under share option scheme	284	165,117	–	(45,842)	–	–	–	–	–	–	–	119,559	–	119,559
Lapse of share options	–	–	–	(33,467)	–	–	–	–	–	–	33,467	–	–	–
Issue of shares upon settlement of contingent consideration	20	9,102	–	–	–	–	–	–	–	(9,122)	–	–	–	–
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	13,312	13,312
Purchases of shares under share award scheme	–	–	(174,574)	–	–	–	–	–	–	–	–	(174,574)	–	(174,574)
Transfer of shares upon vesting of share awards under share award scheme	–	(451)	7,167	–	(6,716)	–	–	–	–	–	–	–	–	–
Lapse of share awards	–	–	–	–	(231)	–	–	–	–	–	231	–	–	–
Transfer to accumulated losses	–	–	–	–	–	932	–	–	–	–	(932)	–	–	–
Contribution from a shareholder	–	–	–	–	–	–	–	–	–	51,007	–	51,007	–	51,007
Balance at 31 December 2017	22,494	3,249,914	(167,407)	136,954	41,582	19,121	124,514	47,191	14,402	93,575	(923,966)	2,658,374	47,190	2,705,564

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company											
	Share capital HK$'000 (Note 31)	Share premium HK$'000	Shares options reserve HK$'000	Statutory reserve HK$'000 (Note (b))	Exchange reserve HK$'000	Contributed surplus HK$'000 (Note (c))	Property revaluation reserve HK$'000 (Note (d))	Other reserve HK$'000 Note (e))	Accumulated losses HK$'000	Subtotal HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2016	9,213	1,540,597	168,549	18,189	128,335	47,191	14,402	60,811	(928,082)	1,059,205	(682)	1,058,523
Profit for the year	–	–	–	–	–	–	–	–	332,989	332,989	(324)	332,665
Other comprehensive income for the year	–	–	–	–	(68,361)	–	–	–	–	(68,361)	(479)	(68,840)
Total comprehensive income for the year	–	–	–	–	(68,361)	–	–	–	332,989	264,628	(803)	263,825
Recognition of equity settled share-based payments	–	–	86,576	–	–	–	–	–	–	86,576	–	86,576
Issue of shares upon exercise of share options under share option scheme	325	156,245	(44,176)	–	–	–	–	–	–	112,394	–	112,394
Issue of shares upon exercise of share options by Rainwood Resources Limited	426	123,358	(38,632)	–	–	–	–	–	–	85,152	–	85,152
Lapse of share options	–	–	(4,025)	–	–	–	–	–	4,025	–	–	–
Issue of shares upon subscription	11,006	648,911	–	–	–	–	–	–	–	659,917	–	659,917
Issue of shares upon settlement of contingent consideration	20	9,101	–	–	–	–	–	(9,121)	–	–	–	–
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	37,358	37,358
Balance at 31 December 2016	20,990	2,478,212	168,292	18,189	59,974	47,191	14,402	51,690	(591,068)	2,267,872	35,873	2,303,745

Notes:

(a) Shares held for share award scheme represents shares of the Company that are held by the trustee for the purpose of granting award shares under the share award scheme (see note 33 for further information). Shares vested to selected participants are recognised on a weighted average basis. As at 31 December 2017, 119,594,375 shares were held for share award scheme (2016: nil).

(b) In accordance with the statutory requirements in the PRC, subsidiaries of the Company registered in the PRC are required to transfer a certain percentage of their annual net income from retained earnings to statutory reserve. Statutory reserve is not distributable.

(c) Contributed surplus represents the transfer from the share premium account in prior years.

(d) Property revaluation reserve represents cumulative gains arising from the revaluation of property, plant and equipment that have been transferred to investment properties. Items included in the property revaluation reserve will not be reclassified subsequently to profit or loss.

(e) Other reserve represents the equity portion of contingent considerations related to the acquisition of a subsidiary and contribution from a shareholder.

The notes on pages 157 to 226 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Cash flows from operating activities		
(Loss)/Profit before income tax	**(358,745)**	337,895
Adjustments for:		
Share-based payments	**96,500**	86,576
Depreciation of property, plant and equipment	**4,157**	4,735
Allowance for impairment of other receivables, deposits and prepayments	**435**	7,082
(Reversal of provision)/Provision for warranties	**(2,940)**	12,758
(Gain)/Loss on disposals of property, plant and equipment	**(91)**	76
Gain on fair value changes of investment properties	**(1,183)**	–
Impairment charge of goodwill	**–**	2,857
Loss on winding-up of a joint venture	**–**	8
Gain on fair value changes of contingent consideration payables	**(13,764)**	(119,696)
Write-back of contingent consideration payables	**–**	(79,345)
Loss/(Gain) on fair value changes of convertible bonds	**123,969**	(408,077)
Net finance cost	**5,956**	1,590
Share of results of investments accounted for using equity method	**–**	3
	(145,706)	(153,538)
Changes in working capital		
Inventories	**10,039**	37,505
Trade receivables	**(21,382)**	4,013
Other receivables, deposits and prepayments	**(19,063)**	(1,902)
Amounts due to fellow subsidiaries	**60,423**	–
Trade payables	**(14,318)**	(18,246)
Accruals and other payables	**73,211**	37,222
Provision for warranties	**(8,373)**	(6,516)
Cash used in operations	**(65,169)**	(101,462)
Income taxes paid	**(10,227)**	(5,596)
Net cash used in operating activities	**(75,396)**	(107,058)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Cash flows from investing activities		
Settlement of contingent consideration in relation to acquisition of a subsidiary	(30,000)	–
Purchases for property, plant and equipment	(2,032)	(1,421)
Proceeds from disposal of property, plant and equipment	635	346
Investment in an associate	(291)	–
Increase in fixed deposits held at bank with original maturity over three months	(3,025)	(387,765)
Decrease/(Increase) in pledged bank deposits	36,404	(26,634)
Increase in restricted cash	(15,438)	–
Interest received	36,229	5,727
Net cash generated from/(used in) investing activities	22,482	(409,747)
Cash flows from financing activities		
Proceeds from issue of ordinary shares	119,559	2,078,312
Proceeds from issue of convertible bonds	–	507,235
Purchase of shares under share award scheme	(174,574)	–
Proceeds from borrowings	–	55,102
Repayments of borrowings	(47,793)	(31,451)
Capital contribution from non-controlling interests	13,312	37,358
Interest paid	(1,117)	(1,654)
Net cash (used in)/generated from financing activities	(90,613)	2,644,902
Net (decrease)/increase in cash and cash equivalents	(143,527)	2,128,097
Cash and cash equivalents at the beginning of year	2,339,731	231,647
Exchange gains/(losses) on cash and cash equivalents	16,299	(20,013)
Cash and cash equivalents at the end of year	2,212,503	2,339,731

Note: The principal non-cash transactions included issues of shares upon settlement of contingent consideration and conversion of convertible bonds and transfer of shares upon vesting of share awards under share award scheme discussed in Notes 31 and 33.

The notes on pages 157 to 226 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

AGTech Holdings Limited (the "Company") and its subsidiaries (together "the Group") are principally engaged in lottery, games and entertainment businesses in the People's Republic of China ("PRC") and selected international markets.

The Company was incorporated in Bermuda as an exempted company with limited liability. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company's shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Directors regard Ali Fortune Investment Holding Limited, a private limited company incorporated in the British Virgin Islands ("BVI"), as the immediate holding company of the Company, and Alibaba Group Holding Limited ("Alibaba"), a company incorporated in the Cayman Islands and the American depositary shares of which are listed on the New York Stock Exchange, as the ultimate holding company of the Company.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, contingent consideration payables and embedded derivative of convertible bonds, which are measured at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Amended standards adopted by the Group

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

Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKAS 7	Disclosure Initiative

The adoption of these amendments did not have any significant impact on the amounts recognised in prior or current periods and is not likely to affect future periods.

New and amended standards not yet adopted

The following new standards and amendments to standards are effective for annual periods beginning on or after 1 January 2018 and have not been applied in preparing these consolidated financial statements:

		Effective for accounting periods beginning on or after
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 16	Leases	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group is in the process of making an assessment of the impact of these new standards and amendments to standards on its result of operation and financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

New and amended standards not yet adopted (continued)

HKFRS 9 "Financial instruments"

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement". The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces a new impairment model for financial assets and new rules for hedge accounting.

HKFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

For financial liabilities there are two classification categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognised in other comprehensive income, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognised in profit or loss. There is no subsequent recycling of the amounts in other comprehensive income to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss.

HKFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses model, which constitutes a change from the incurred loss model in HKAS 39. HKFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortised cost a day-1 loss equal to the 12-month expected credit losses is recognised in profit or loss. In the case of accounts receivables this day-1 loss will be equal to their lifetime expected credit losses. Where there is a significant increase in credit risk, impairment is measured using lifetime expected credit losses rather than 12-month expected credit losses.

HKFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more "rule-based" approach of HKAS 39.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

New and amended standards not yet adopted (continued)

HKFRS 15 "Revenue from contracts with customers"

HKFRS 15 replaces HKAS 18 "Revenue" and HKAS 11 "Construction Contracts", and the related interpretations on revenue recognition. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations; and (5) recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability' approach based on transfer of control.

HKFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

HKFRS 16 "Leases"

HKFRS 16 replaces HKAS 17 "Leases", and related interpretations. HKFRS 16 addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for on balance sheet for lessees.

Comparative figures

Certain comparative figures have been reclassified to conform with the consolidated financial statements presentation adopted for the current year.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(a) *Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss (Note 2.8).

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Investments accounted for using equity method

2.3.1 Joint arrangements

The Group has applied HKFRS 11 "Joint Arrangements" to all joint arrangements. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Investments accounted for using equity method (continued)

2.3.2 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

The Group's share of post-acquisition profit or loss is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of results of investments accounted for using equity method' in the consolidated statement of profit or loss and other comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive Directors.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Hong Kong dollar ("HK$") which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Foreign exchange gains and losses are presented in profit or loss within 'net other losses'.

Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Foreign currency translation (continued)

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

2.6 Property, plant and equipment

Property, plant and equipment comprise land and buildings held for use in the production or supply of goods or services, or for administrative purposes. Leasehold land classified as finance lease and all other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Property, plant and equipment (continued)

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold land	Over the lease term
Buildings	5%
Leasehold improvements	20% or over the relevant lease terms, whichever is shorter
Computer equipment	20% - 33 1/3%
Furniture, fixtures and equipment	20% - 33 1/3%
Motor vehicles	10% - 25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

2.7 Investment properties

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in profit or loss as part of a valuation gain or loss.

If a property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this property at the date of transfer is recognised in equity as a revaluation of property, plant and equipment. However, if the fair value of the property at the date of transfer which results in a reversal of the previous impairment loss, the write-back is recognised in the profit or loss.

2.8 Goodwill and intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGU"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Goodwill and intangible assets (continued)

(a) Goodwill (continued)

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Internally-generated intangible assets – research and development expenditure

Development costs that are directly attributable to the design and testing of identifiable and unique intangible assets controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the product so that it will be available for use;
- Management intends to complete the product and use or sell it;
- There is an ability to use or sell the product;
- It can be demonstrated how the product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the product are available; and
- The expenditure attributable to the product during its development can be reliably measured.

Costs associated with research activities and other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Development costs recognised as assets are amortised over their estimated useful lives.

(c) Intangible assets acquired separately

Intangible assets separately acquired are shown at historical cost. Intangible assets that have a finite useful life are carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the cost of intangible assets over their estimated useful lives. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Goodwill and intangible assets (continued)

(d) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised at fair value at the acquisition date. Intangible assets that have a finite useful life are carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method over the expected lives of the intangible assets. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment.

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

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to depreciation or amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

(a) Classification

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise trade receivables, other receivables and deposits, and cash and bank balances in the consolidated statement of financial position (Notes 2.13 and 2.14).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial assets (continued)

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

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

2.11 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors 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 where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. See Note 2.10 for further information about the Group's accounting for trade receivables and Note 2.11 for a description of the Group's impairment policies.

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Shares held for share award scheme

Share awards granted under share award scheme are satisfied by shares acquired by the trustee from the market. Where the Company's shares are acquired from the market by the trustee under the share award scheme, the total consideration of shares acquired from the market (including any directly attributable incremental costs) is presented as "shares held for share award scheme" and deducted from total equity. Upon vesting, the related costs of the vested shares for share award scheme purchased from the market are credited to "shares held for share award scheme", with a corresponding adjustment made to "share premium".

2.17 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.19 Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred. Borrowing costs include interest.

2.20 Convertible bonds

Convertible bonds with conversion options which are not settled by exchanging a fixed amount of cash or other financial asset for a fixed number of the Company's ordinary shares comprise a derivative component and a liability component.

At initial recognition, the derivative component of the convertible bonds is measured at fair value. Any excess of the proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs relating to the issue of the convertible bonds are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability component. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured at fair value, with changes in fair value recognised immediately in profit or loss. The liability component is subsequently measured at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

Convertible bonds are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Current and deferred income tax (continued)

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.22 Employee benefits

(a) Defined contribution plans

The Group pays contributions to publicly or privately administered funds on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

The contributions are recognised as 'employee benefit expense' when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Bonus plans

The Group recognises a liability and an expense for bonuses. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.23 Share-based payments

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from Directors, eligible employees and other eligible participants as consideration for equity instruments (share options and share awards) of the Group.

The fair value of the services received in exchange for the grant of the share options and share awards is recognised as an expense, with a corresponding increase in 'share options reserve' and 'share awards reserve'. The total amount to be expensed is determined by reference to the fair value of the share options and share awards granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

For share options and share awards that vest immediately at the date of grant, the fair value of the services received is expensed immediately to profit or loss. For share options and share awards that are conditional upon satisfying specified vesting conditions, the fair value of the services received is expensed on a straight-line basis over the vesting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Share-based payments (continued)

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

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

When the share options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to 'share capital' and 'share premium'. The amount previously recognised in 'share options reserve' is reversed.

When the share awards are vested, the Company transfers shares held by the trustee to Directors and eligible employees. The amount previously recognised in 'share awards reserve' is reversed. The difference between the acquisition cost of the vested shares and the fair value of the shares at grant date is recorded in 'share premium'.

When the share options and share awards are forfeited before the vesting date or when the share options are still not exercised at the expiry date, the amount previously recognised in 'share options reserve' and 'share awards reserve' is transferred to 'accumulated losses'.

2.24 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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

Warranties

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods or services supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

Where multiple-element arrangement exists, the transaction price is allocated at the inception of the arrangement to each element based on their relative fair values for revenue recognition purposes. The transaction price is allocated to each element using the price charged consistently when each element is sold separately or third party evidence of the stand-alone selling price for each element, or if neither type of evidence is available, using management's best estimate of selling price. Multiple-element arrangements primarily relate to the provision of games and entertainment business. Incentives to customers are recorded as reduction of revenue.

(a) Sales of goods

Sales of lottery hardware are recognised when a group entity has delivered products to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

(b) Provision of services

For provision of games and entertainment related services, distribution and ancillary services and repair and maintenance services, revenue is recognised in the accounting period in which the services are rendered.

2.26 Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease.

2.27 Interest income

Interest income is recognised using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.28 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Leases where the Group has substantially all the risks and rewards of ownership are classified as finance leases.

The Group as lessee

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

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

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

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

The Group as lessor

When assets are leased out under an operating lease, the asset is included in the consolidated statement of financial position based on the nature of the asset. Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

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

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

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk related primarily to its fixed deposits held at banks. The Directors consider the Group's exposure of fair value interest rate risk on fixed deposits is not significant as the interest bearing fixed deposits are within short maturity period.

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

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

(iii) Other price risk

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

As at 31 December 2017, the Group's maximum exposure to credit risk which may cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

Trade receivables of the Group primarily arise from sales with customers who are governmental lottery authorities or operators authorised by such authorities without significant credit risk.

As at 31 December 2017, the Group is subject to concentration of credit risk as 49% (2016: 25%) of the Group's trade receivables were due from the Group's largest customer. Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in Note 22.

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

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

(c) Liquidity risk

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

At 31 December 2017, the Group has no available unutilised banking facilities (2016: HK$54,076,000).

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Weighted average interest rate	On demand or within 1 year	More than 1 year but not more than 5 years	Total undiscounted cash flows	Carrying amounts
	%	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2017					
Trade payables	**–**	**5,327**	**–**	**5,327**	**5,327**
Accruals and other payables	**–**	**113,148**	**–**	**113,148**	**113,148**
Contingent consideration payables to be settled by cash	**–**	**70,000**	**–**	**70,000**	**65,747**
Debt instrument of convertible bonds	**–**	**–**	**332,328**	**332,328**	**263,829**
		188,475	**332,328**	**520,803**	**448,051**
At 31 December 2016					
Trade payables	–	18,418	–	18,418	18,418
Accruals and other payables	–	96,190	–	96,190	96,190
Secured bank borrowings	4.53%	46,992	–	46,992	44,957
Contingent consideration payables to be settled by cash	–	65,000	20,000	85,000	80,321
Debt instrument of convertible bonds	–	–	507,235	507,235	341,081
		226,600	527,235	753,835	580,967

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 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 stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2016.

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

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

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

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

	2017 **HK$'000**	2016 HK$'000
Debt	**1,228,567**	1,669,696
Less: cash and cash equivalents	**(2,212,503)**	(2,339,731)
Net cash	**983,936**	670,035
Equity attributable to owners of the Company	**2,658,374**	2,267,872
Net debt-to-equity ratio	**N/A**	N/A

As at 31 December 2017, the Group was in net cash position, taking into accounts its debt and cash and cash equivalents.

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2017 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	Level 1 HK$'000	**Level 2** HK$'000	**Level 3** HK$'000	**Total** HK$'000
Financial liabilities at fair value through profit or loss				
Contingent consideration payables	81,757	–	65,747	147,504
Embedded derivative of convertible bonds	–	–	636,361	636,361
	81,757	–	702,108	783,865

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2016:

	Level 1 HK$'000	**Level 2** HK$'000	**Level 3** HK$'000	**Total** HK$'000
Financial liabilities at fair value through profit or loss				
Contingent consideration payables	95,947	–	80,321	176,268
Embedded derivative of convertible bonds	–	–	988,800	988,800
	95,947	–	1,069,121	1,165,068

There were no transfers between level 1, level 2 and level 3 during the year.

See Notes 15, 28 and 29 for disclosures of the measurement of investment properties, contingent consideration payables and embedded derivative convertible bonds that are measured at fair value.

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

Valuation processes of the Group

The fair values of the Group's investment properties and contingent consideration payables as at 31 December 2017 and 2016 have been arrived at on the basis of valuation carried out on the respective dates by Asset Appraisal Limited ("AAL"). The fair values of the embedded derivative of convertible bonds as at 31 December 2017 and 2016 have been arrived at on the basis of valuation carried out by GW Financial Advisory Services Limited ("GWFASL"). AAL and GWFASL are independent professional valuers not connected to the Group, and are members of the Hong Kong Institute of Surveyors and have appropriate qualifications and relevant experience.

The Group's finance team reviewed the valuations performed by the independent valuers for financial reporting purposes. This team reports directly to the management. Discussions of valuation processes and results are held between the management, finance team and valuers at least two times per year, in line with the Group's interim and annual reporting dates.

At each financial year end, the finance team:

- verifies all major inputs to the independent valuation reports;
- assess valuations movements when compared to the prior year valuation reports;
- holds discussions with the independent valuers.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Fair value of investment properties

The fair value of investment properties is determined by using valuation technique. Details of the judgement and assumptions have been disclosed in Note 15.

(b) Impairment assessment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units, or group of cash-generating units, have been determined based on value-in-use calculations. These calculations require the use of estimates. Details of the judgement and assumptions have been disclosed in Note 16.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(c) Recognition of deferred income tax assets

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

(d) Withholding taxes arising from the distributions of dividends

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

(e) Valuation of embedded derivative of convertible bonds

The fair value of embedded derivative of convertible bonds that are not traded in an active market is determined by using valuation techniques with estimates including expected volatility of share price. Details of the judgement and assumptions have been disclosed in Notes 29.

(f) Valuation of contingent consideration payables

The fair value of contingent consideration payables has been determined based on discounted cash flows. These calculations require the use of estimates, including discount rates. Details of the judgement and assumptions have been disclosed in Notes 28.

(g) Estimated impairment of trade and other receivables

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

(h) Provision for warranties

The Group generally offers three-to-six year warranties for its hardware. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. Factors that could impact the estimated claim information include the success of the Group's productivity and quality initiatives, as well as parts and labour costs.

5 REVENUE

Revenue represents the amounts received and receivable from sales of lottery hardware (including provision of after-sale services), lottery games and systems, provision of distribution and ancillary services, games and entertainment primarily in the PRC for the year, and is analysed as follows:

	2017	2016
	HK$'000	HK$'000
Lottery hardware	**162,321**	212,270
Lottery games and systems	**27,255**	16,041
Provision of distribution and ancillary services	**18,703**	23,181
Games and entertainment	**93,931**	–
	302,210	251,492

6 SEGMENT INFORMATION

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

Accordingly, the CODM have determined that the Group has one sole operating segment. The information regarding revenue derived from the principal businesses described above is set out in Note 5.

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

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

6 SEGMENT INFORMATION (continued)

Geographical information

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

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

	Revenue from external customers		Non-current assets*	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
PRC	**300,404**	249,108	**1,185,192**	1,130,554
Hong Kong	**–**	–	**1,785**	1,703
Others	**1,806**	2,384	**–**	–
	302,210	251,492	**1,186,977**	1,132,257

* Non-current assets excluded deferred income tax assets.

Information about major customers

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

	2017	2016
	HK$'000	HK$'000
Customer A	**N/A***	66,525
Customer B	**62,347**	44,016
Customer C	**46,460**	32,223
	108,807	142,764

* The corresponding customer did not contribute over 10% to the Group's revenue in 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 OTHER INCOME

	2017 HK$'000	2016 HK$'000
Rental income from investment properties	**2,475**	3,920
Others	**426**	–
	2,901	3,920

8 NET OTHER GAINS/(LOSSES)

	2017 HK$'000	2016 HK$'000
Gain on fair value changes of investment properties (Note 15)	**1,183**	–
Allowance for impairment of other receivables, deposits and prepayments	**(435)**	(7,082)
Impairment charge of goodwill (Note 16)	**–**	(2,857)
Foreign exchange gain/(loss)	**29,043**	(2,100)
Gain/(loss) on disposals of property, plant and equipment	**91**	(76)
Loss on winding-up of a joint venture	**–**	(8)
	29,882	(12,123)

9 EMPLOYEE BENEFITS EXPENSES

	2017 HK$'000	2016 HK$'000
Fees, salaries, discretionary bonuses and other benefits	**179,227**	117,277
Share-based payments	**59,610**	25,387
Defined contributions plans	**26,601**	13,655
Total employee benefits expenses	**265,438**	156,319

9 EMPLOYEE BENEFITS EXPENSES (continued)

(a) Defined contribution plans

The Group participates in employee social security plans as required by the regulations in the PRC. The Group also participates in the Mandatory Provident Fund scheme to which all qualified employees of the Group in Hong Kong are entitled. The assets of the retirement benefit schemes are held, separately from those of the Group, in funds under the control of the trustees. The employees of the subsidiaries in the PRC are members of social security schemes operated by the relevant local government authorities. The pension plans are funded by payments from employees and by the relevant group companies. The amounts charged to profit or loss represent contributions payable by the Group at the specified rates according to the respective plans. The only obligation of the Group in respect of the retirement benefit schemes is to make the specified contributions.

Contributions totalling approximately HK$1,738,000 (2016: HK$1,037,000) were payable to the fund at the year-end.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2016: one) Director(s) whose emoluments are reflected in the analysis shown in Note 36. The emoluments payable to the remaining three (2016: four) individuals during the year are as follows:

	2017	2016
	HK$'000	HK$'000
Salaries and other benefits	**5,395**	5,410
Defined contributions plans	**325**	232
Discretionary bonuses	**859**	–
Share-based payments	**10,420**	18,437
	16,999	24,079

9 EMPLOYEE BENEFITS EXPENSES (continued)

(b) Five highest paid individuals

Their emoluments fell within the following bands:

	2017 Number of individuals	2016 Number of individuals
HK$4,000,001 to HK$4,500,000	**–**	1
HK$4,500,001 to HK$5,000,000	**1**	–
HK$5,000,001 to HK$5,500,000	**1**	1
HK$6,000,001 to HK$6,500,000	**–**	1
HK$7,000,001 to HK$7,500,000	**1**	–
HK$8,000,001 to HK$8,500,000	**–**	–
HK$8,500,001 to HK$9,000,000	**–**	1
	3	4

10 NET FINANCE COST

	2017 HK$'000	2016 HK$'000
Interest income on bank deposits	**40,635**	9,938
Interest expense on secured bank borrowings	**(1,117)**	(1,654)
Interest expense on convertible bonds (Note 29)	**(45,474)**	(9,874)
Net finance cost	**(5,956)**	(1,590)

11 INCOME TAX EXPENSE

Taxation has been calculated on the estimated assessable profit for the year at the rates prevailing in the countries in which the members of the Group operate.

No provision for Hong Kong profits tax has been made, as there were no assessable profits arising in or derived from Hong Kong for both years.

北京亞博高騰科技有限公司 (Beijing AGTech GOT Technology Co., Ltd.*) ("GOT"), 北京思德泰科科技發展有限公司 (Beijing Systek Science & Technology Development Co., Ltd.*) ("Beijing Systek") and 深圳中林瑞德科技有限公司 (Shenzhen Zoom Read Tech Co., Ltd.*) ("Shenzhen Subsidiary") are subject to PRC Enterprise Income Tax ("EIT") at 15% for both years, as GOT, Beijing Systek and Shenzhen Subsidiary are recognised as an Advanced and New Technology Enterprise under the PRC EIT Law. Other PRC subsidiaries of the Group are subject to PRC EIT at 25% for both years.

* For identification purpose only

11 INCOME TAX EXPENSE (continued)

	2017 HK$'000	2016 HK$'000
Current tax:		
– PRC EIT on assessable profit for the year	**8,088**	4,448
– Adjustments in respect of prior years	**1,744**	1,692
Deferred tax (Note 18):		
– Origination and reversal of temporary differences	**1,746**	(910)
Income tax expense	**11,578**	5,230

The tax on the Group's profit/loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profit/loss of the consolidated entities as follows:

	2017 HK$'000	2016 HK$'000
(Loss)/Profit before tax	**(358,745)**	337,895
Tax calculated at domestic income tax rates	**(61,994)**	48,442
Income not subject to tax	**(19,873)**	(101,572)
Expenses not deductible for tax purposes	**23,148**	24,003
Utilisation of previously unrecognised tax losses	**–**	(103)
Tax losses for which no deferred income tax asset was recognised	**68,553**	32,768
Adjustments in respect of prior years	**1,744**	1,692
Income tax expense	**11,578**	5,230

12 (LOSS)/PROFIT FOR THE YEAR

(Loss)/Profit for the year has been arrived at after charging:

	2017 **HK$'000**	2016 HK$'000
Share-based payments		
– Directors and eligible employees (Note 9)	**59,610**	25,387
– Other eligible participants	**36,890**	61,189
Marketing expenses	**51,447**	3,284
Operating lease rental payments	**16,622**	14,862
Auditor's remuneration		
– Audit services	**1,900**	1,100
– Audit-related services	**400**	–
PRC individual income tax ("IIT") in respect of the exercise of share options (Note)	**–**	53,898

Note:

During the year ended 31 December 2016, the Group agreed an arrangement with the relevant PRC tax authorities and settled the under-withheld IIT in respect of the exercise of share options by its PRC employees totalling approximately HK$53,898,000.

13 EARNING/(LOSS) PER SHARE

(a) Basic

Basic loss or earning per share is calculated by dividing the loss attributable to owners of the Company for the year ended 31 December 2017 of approximately HK$365,664,000 (2016: profit of approximately HK$332,989,000) by the weighted average number of ordinary shares outstanding during the year of approximately 11,034,885,000 (2016: approximately 7,063,295,000) shares and excluding the weighted average number of shares held for share award scheme of approximately 55,930,000 (2016: nil) shares.

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has four categories of dilutive potential ordinary shares: convertible bonds, contingent considerations, share options and share awards. The convertible bonds are assumed to have been converted into ordinary shares, and the loss or profit attributable to owners of the Company is adjusted to eliminate the relevant interest expense and fair value changes. The contingent considerations are assumed to have been settled in ordinary shares, and the loss or profit attributable to owners of the Company is adjusted to eliminate the relevant fair value changes.

For the year ended 31 December 2017, the computation of the diluted loss per share does not assume the conversion of the outstanding convertible bonds, the exercise of the outstanding share options and the vesting of the outstanding share awards, as they would decrease the loss per share.

13 EARNING/(LOSS) PER SHARE (continued)

(b) Diluted (continued)

For the year ended 31 December 2016, the computation of the diluted loss per share does not assume the exercise of the outstanding share options, as it would increase the earning per share.

	2017	2016
	HK$'000	HK$'000
(Loss)/Profit attributable to owners of the Company used in calculating basic loss or earning per share	**(365,664)**	332,989
Adjustments for:		
– Interest expense on convertible bonds	**–**	9,874
– Gain on fair value changes of convertible bonds	**–**	(408,077)
– Gain on fair value changes of contingent consideration payables settled by issue of shares	**(14,189)**	(40,539)
Loss attributable to owners of the Company used in calculating diluted loss per share	**(379,853)**	(105,753)

	2017	2016
	Number of shares (in thousand)	Number of shares (in thousand)
Weighted average number of ordinary shares used in calculating basic loss or earning per share	**10,978,955**	7,063,295
Adjustments for:		
– Assumed conversion of convertible bonds	**–**	951,390
– Assumed settlement of contingent considerations	**117,642**	125,000
Weighted average number of ordinary shares used in calculating diluted loss per share	**11,096,597**	8,139,685

14 PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Sports lottery sales terminals HK$'000	Leasehold improvements HK$'000	Computer equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost							
Balance at 1 January 2016	881	6,631	5,922	5,764	10,108	9,629	38,935
Additions	–	–	430	374	336	281	1,421
Disposals	–	(6,186)	–	(351)	(375)	(2,255)	(9,167)
Transfers	–	(12)	–	–	12	–	–
Currency translation differences	(58)	(433)	(359)	(320)	(1,006)	(476)	(2,652)
Balance at 31 December 2016	823	–	5,993	5,467	9,075	7,179	28,537
Additions	–	–	506	1,421	39	66	2,032
Disposals	–	–	(857)	(3,027)	(2,151)	(1,465)	(7,500)
Currency translation differences	63	–	416	398	1,067	364	2,308
Balance at 31 December 2017	886	–	6,058	4,259	8,030	6,144	25,377
Accumulated depreciation and impairment							
Balance at 1 January 2016	330	6,631	3,337	4,956	6,397	5,470	27,121
Depreciation charge	41	–	1,436	631	1,303	1,324	4,735
Disposals	–	(6,186)	–	(348)	(316)	(1,895)	(8,745)
Transfers	–	(12)	–	–	12	–	–
Currency translation differences	(21)	(433)	(195)	(270)	(768)	(334)	(2,021)
Balance at 31 December 2016	350	–	4,578	4,969	6,628	4,565	21,090
Depreciation charge	44	–	1,507	696	1,020	890	4,157
Disposals	–	–	(821)	(2,967)	(1,761)	(1,407)	(6,956)
Currency translation differences	27	–	321	122	899	296	1,665
Balance at 31 December 2017	421	–	5,585	2,820	6,786	4,344	19,956
Net book amount							
Balance at 31 December 2017	465	–	473	1,439	1,244	1,800	5,421
Balance at 31 December 2016	473	–	1,415	498	2,447	2,614	7,447

15 INVESTMENT PROPERTIES

	2017 HK$'000	2016 HK$'000
At fair value		
Balance at beginning of year	49,100	52,536
Gain on fair value changes	1,183	–
Currency translation differences	3,758	(3,436)
Balance at end of year	54,041	49,100

	2017 HK$'000	2016 HK$'000
Amounts recognised in profit or loss		
Rental income	2,475	3,920
Direct operating expenses from properties that generated rental income	(954)	(738)
	1,521	3,182

The Group's properties interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

As at 31 December 2017, no investment properties of the Group (2016: HK$49,100,000) were pledged to secure bank borrowings and banking facilities granted to the Group.

15 INVESTMENT PROPERTIES (continued)

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2017 and 2016 are as follows:

	Quoted prices in active markets for identical assets (Level 1) HK$'000	**Significant other observable inputs (Level 2)** HK$'000	**Significant unobservable inputs (Level 3)** HK$'000	**Total** HK$'000
Office units in the PRC				
31 December 2017	–	54,041	–	54,041
31 December 2016	–	49,100	–	49,100

There were no transfers between level 1, level 2 and level 3 during the year.

Valuation techniques

The fair value was determined using the market comparable approach based on recent market prices without any significant adjustments being made to the market observable data. In estimating the fair value of the properties, the highest and best use of the properties is their current use. The most significant input into this valuation approach is price per square foot.

There were no changes to the valuation techniques during the year.

16 GOODWILL

	2017 HK$'000	2016 HK$'000
Cost		
Balance at beginning of year	**1,070,245**	1,119,289
Currency translation differences	**53,160**	(49,044)
Balance at end of year	**1,123,405**	1,070,245
Accumulated impairment		
Balance at beginning of year	**2,857**	–
Impairment charge	**–**	2,857
Balance at end of year	**2,857**	2,857
Net book amount		
Balance at end of year	**1,120,548**	1,067,388

The recoverable amount of the group of cash-generating units ("CGUs") is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial forecasts approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates.

In performing the impairment testing, the Directors have made reference to a valuation performed by an independent qualified professional valuer not connected to the Group.

The key assumptions used in the value-in-use calculations of the group of CGUs, were the average revenue annual growth rates for the next five years of 62% (2016: 53%), the long term growth rate for the extrapolated periods of 3% (2016: 3%) and the discount rate of 17% (2016: 16%).

Sales growth was based on past performance, current industry trends, inflation forecasts and management's expectations of market development. Long term growth rate was consistent with the economic and industry forecasts. Discount rate was post-tax and reflected specific risks relating to the group of CGUs.

During the year ended 31 December 2017, the management determined that there was no impairment of goodwill (2016: HK$2,857,000).

17 OTHER INTANGIBLE ASSETS

	Club membership HK$'000	Capitalised development costs HK$'000	Non-competition agreements HK$'000	Contracted customer HK$'000	Total HK$'000
Cost					
Balance at 1 January 2016	1,742	2,693	5,882	200,482	210,799
Amounts written off	–	(2,517)	(5,497)	(187,368)	(195,382)
Currency translation differences	–	(176)	(385)	(13,114)	(13,675)
Balance at 31 December 2016 and 2017	1,742	–	–	–	1,742
Accumulated amortisation and impairment					
Balance at 1 January 2016	–	2,693	5,882	200,482	209,057
Amounts written off	–	(2,517)	(5,497)	(187,368)	(195,382)
Currency translation differences	–	(176)	(385)	(13,114)	(13,675)
Balance at 31 December 2016 and 2017	–	–	–	–	–
Net book amount					
Balance at 31 December 2017	1,742	–	–	–	1,742
Balance at 31 December 2016	1,742	–	–	–	1,742

The Directors consider that the club membership has indefinite useful life.

Capitalised development costs represents the expenditure capitalised for development of certain sports lottery products. The amount was amortised on a straight-line method over the estimated useful life of 6 years.

Non-competition agreements represents the fair value of the non-competition clause embedded in the employment contracts between top management and SYSTEK LTD and its subsidiary ("Systek Group") upon the acquisition of Systek Group by the Group. The amount was amortised on a straight-line method over the estimated useful life of 5 years.

17 OTHER INTANGIBLE ASSETS (continued)

Contracted customer represents the fair value of the contractual rights stated in the consultancy agreements with a principal customer of SHINING CHINA INC and its subsidiaries ("Shining China Group") for providing consultancy services upon the acquisition of Shining China Group by the Group. The amount was amortised on a straight-line method over the period of 4 to 6 years in accordance with the terms of the consultancy agreements.

Capitalised development costs, non-competition agreements and contracted customer were fully amortised in prior years. During the year ended 31 December 2016, their respective costs and accumulated amortisation and impairment were written off given that these intangible assets no longer generate economic benefits to the Group.

18 DEFERRED INCOME TAX

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2017	2016
	HK$'000	HK$'000
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	**5,130**	5,963
Deferred tax asset to be recovered within 12 months	**1,710**	1,987
	6,840	7,950
Deferred tax liabilities:		
Deferred tax liability to be recovered after more than 12 months	**5,502**	5,212
Deferred tax liability to be recovered within 12 months	**–**	–
	5,502	5,212

The movement in deferred income tax assets and liabilities during the year, without consideration of the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets

	Provision for warranties	
	2017	2016
	HK$'000	HK$'000
Balance at beginning of year	**7,950**	7,500
Currency translation differences	**456**	(460)
(Charged)/Credited to the profit or loss	**(1,566)**	910
Balance at end of year	**6,840**	7,950

18 DEFERRED INCOME TAX (continued)

Deferred tax liabilities

	Investment properties	
	2017	2016
	HK$'000	HK$'000
Balance at beginning of year	**5,212**	5,576
Currency translation differences	**110**	(364)
Charged to the profit or loss	**180**	–
Balance at end of year	**5,502**	5,212

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. As at 31 December 2017, no withholding tax had been provided for the earnings of approximately HK$113,916,000 (2016: HK$169,510,000) expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on management's estimation of overseas funding requirements.

At the end of the reporting period, the Group has estimated unused tax losses of approximately HK$661,366,000 (2016: HK$371,188,000) available for offsetting against future profits of the companies in which the losses arose. Included in the estimated unused tax losses are losses of approximately HK$316,294,000 (2016: HK$121,922,000) that will expire within 5 years. Other estimated unused tax losses of approximately HK$345,072,000 (2016: HK$249,266,000) may be carried forward indefinitely. No deferred tax asset has been recognised in respect of these estimated unused tax losses due to unpredictability of future profit streams.

19 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Associate

No amounts were recognised in the consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2016 and 2017.

Details of the Group's associate at 31 December 2017 are as follows:

Name of entity	Country of incorporation	Class of shares held	% of ownership interest	Principal activities	Measurement method
Star N Cloud Network Intelligence Company Limited	Macau	Ordinary	30%	I.T. Investment and business consulting	Equity

The associate is a private company and there is no quoted market price available for its shares.

Joint venture

The amounts recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

	2017 HK$'000	2016 HK$'000
Share of profit or loss	–	(3)
Share of other comprehensive income	–	–
	–	(3)

The joint venture was wound up during the year ended 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2017 HK$'000	2016 HK$'000
Other receivables	**70,321**	51,339
Interest receivable	**9,071**	4,666
Rental, utility and other deposits	**9,996**	4,661
Prepayments	**27,096**	26,501
	116,484	87,167
Less non-current portion	**(4,934)**	(6,580)
	111,550	80,587

At 31 December 2017, approximately HK$435,000 out of the above assets was impaired (2016: HK$7,082,000). The financial assets included in the above balances related to receivables on which there was no recent history of default.

The fair value of other receivables and deposits approximated to their carrying amount.

The carrying amounts of the other receivables and deposits were mainly denominated in RMB and HK$.

The maximum exposure to credit risk at the reporting date was the carrying value of each class of receivables mentioned above. The Group did not hold any collateral as security.

21 INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials	**5,122**	8,384
Work in progress	**731**	428
Finished goods	**4,218**	9,989
	10,071	18,801

The cost of inventories recognised as expense and included in 'purchase of and changes in inventories' amounted to approximately HK$80,971,000 (2016: HK$129,161,000). There were no inventory write-downs for the years ended 31 December 2017 and 2016.

22 TRADE RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	**49,178**	25,584

The credit terms granted to customers are varied and are generally the result of negotiations between individual customers and the Group. No interest is charged on trade receivables.

At 31 December 2017, the ageing analysis of trade receivables based on the date of the relevant invoice or demand note was as follows:

	2017 HK$'000	2016 HK$'000
0 to 30 days	**24,914**	23,815
31 to 60 days	**11,926**	1,228
61 to 90 days	**3,217**	13
91 to 120 days	**3,392**	473
121 to 365 days	**5,729**	55
	49,178	25,584

At 31 December 2017, trade receivables of approximately HK$24,914,000 (2016: HK$23,815,000) were full performing.

At 31 December 2017, trade receivables of approximately HK$24,264,000 (2016: HK$1,769,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The fair value of trade receivables approximated to their carrying amount.

The carrying amounts of trade receivables were denominated in RMB.

The maximum exposure to credit risk at the reporting date was the carrying value of trade receivables. The Group did not hold any collateral as security.

23 CASH AND BANK BALANCES

	2017 HK$'000	2016 HK$'000
Cash and cash equivalents	**2,212,503**	2,339,731
Fixed deposits held at bank with original maturity over three months	**390,790**	387,765
Pledged bank deposits	**5,522**	41,676
Restricted cash	**15,438**	–
	2,624,253	2,769,172

Cash and cash equivalents comprised cash held by the Group and short-term bank deposits carrying effective interest ranging from 0.001% to 1.850% (2016: 0.001% to 1.370%) per annum with original maturity of three months or less.

23 CASH AND BANK BALANCES (continued)

Fixed deposits held at bank with original maturity over three months carried effective interest at 2.150% (2016: 1.730%) per annum.

Pledged bank deposits represented deposits pledged with banks to secure letters of guarantee granted to the Group carrying effective interest at Nil% (2016: 1.831%) per annum. The pledged bank deposits will be released upon expiry of the relevant letters of guarantee.

Cash and bank balance above included approximately HK$15,438,000 which are held by trustee of the Company for purchases of shares under share award scheme. These deposits are not available for general use by the Group.

As at 31 December 2017 and 2016, cash and bank balances were denominated in the following currencies:

	2017 HK$'000	2016 HK$'000
HK$	**51,314**	153,801
RMB	**266,549**	284,780
United States dollars	**2,306,044**	2,330,315
Others	**346**	276
	2,624,253	2,769,172

RMB is currently not a freely convertible currency in the international market. The conversion of RMB into foreign currencies and remittance of RMB out of the PRC are subject to the rules and regulations of the foreign exchange control promulgated by the PRC government.

24 TRADE PAYABLES

At 31 December 2017, the ageing analysis of the trade payables based on invoice date was as follows:

	2017 HK$'000	2016 HK$'000
0 to 30 days	**2,785**	14,347
31 to 60 days	**858**	373
61 to 90 days	**8**	378
91 to 120 days	**3**	20
121 to 365 days	**1,197**	2,789
Over 365 days	**476**	511
	5,327	18,418

The average credit period is 30 days.

The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. Trade payables were non-interest bearing.

25 ACCRUALS AND OTHER PAYABLES

	2017 HK$'000	2016 HK$'000
Accrued expenses	**80,173**	60,723
Receipts in advance	**52,866**	2,344
Other payables	**32,975**	37,105
	166,014	100,172

As at 31 December 2017, other payables included an amount due to non-controlling interests of approximately HK$560,000 (2016: HK$964,000), which was unsecured, interest-free and repayable on demand.

The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame. Other payables were non-interest-bearing.

26 AMOUNTS DUE TO FELLOW SUBSIDIARIES

As at 31 December 2017, the balances were unsecured, interest free and repayable on demand. The balances was denominated in RMB.

The fair value of amounts due to fellow subsidiaries approximated to their carrying amount.

27 SECURED BANK BORROWINGS

	2017 HK$'000	2016 HK$'000
Secured term loans wholly repayable within one year	**–**	44,957

All the bank borrowings were repaid during the year ended 31 December 2017.

28 CONTINGENT CONSIDERATION PAYABLES

	2017 HK$'000	2016 HK$'000
Payables to be settled by cash		
– upon obtaining the game approval	**46,099**	47,768
– upon meeting 2016 profit guarantee	**–**	14,703
– upon meeting 2017 profit guarantee	**19,648**	17,850
	65,747	80,321
Payable to be settled by issue of shares upon commencing first round game sales	**81,757**	95,947
	147,504	176,268
Less non-current portion	**–**	(113,797)
	147,504	62,471

	2017 HK$'000	2016 HK$'000
At the beginning of year	**176,268**	390,309
Gain on fair value changes recognised in the profit or loss	**(13,764)**	(119,696)
Write-back of contingent consideration payable to be settled by grant of bonus options upon commencing second round game sales	**–**	(79,345)
Transfer of contingent consideration payable to be settled by cash upon meeting 2015 profit guarantee to 'other payables'	**–**	(15,000)
Payment of contingent consideration payable to be settled by cash upon meeting 2016 profit guarantee	**(15,000)**	–
At the end of year	**147,504**	176,268

28 CONTINGENT CONSIDERATION PAYABLES (continued)

Valuation techniques

The fair value of contingent consideration payables to be settled by cash (upon obtaining the game approval and upon meeting 2016 and 2017 profit guarantees) was determined by discounting the contractual cash flows over the contractual term of the consideration payables at discount rates which were appropriate to the riskiness of the consideration payables, with reference to the prevailing market rates, the latest financial information of Shenzhen Subsidiary, the financial performance forecast of Shenzhen Subsidiary and other relevant indicators.

The fair value of contingent consideration payable to be settled by issue of shares (upon commencing first round game sales) was determined by using the published closing price per share with reference to other relevant indicators.

There were no changes to the valuation techniques during the year.

Information about fair value measurement using significant unobservable inputs (level 3) – contingent consideration payables to be settled by cash

As at 31 December 2017

Description	Fair value (HK$'000)	Valuation technique	Unobservable inputs	Range (Weighted average)	Relationship of unobservable inputs to fair value
Payables to be settled by cash	65,747	Discounted cash flow	Discount rate	8.431% to 8.461%	The higher the discount rate, the lower the fair value

As at 31 December 2016

Description	Fair value (HK$'000)	Valuation technique	Unobservable inputs	Range (Weighted average)	Relationship of unobservable inputs to fair value
Payables to be settled by cash	80,321	Discounted cash flow	Discount rate	9.571% to 9.782%	The higher the discount rate, the lower the fair value

28 CONTINGENT CONSIDERATION PAYABLES (continued)

Information about fair value measurement using significant unobservable inputs (level 3) – contingent consideration payables to be settled by cash (continued)

As at 31 December 2017, the conditions of obtaining the game approval and commencing first round game sales have not yet been fulfilled by the deadline stated in the acquisition agreement, but the parties to the acquisition agreement have mutually agreed to extend the deadline for fulfilment of such conditions to 31 December 2018.

During the year ended 31 December 2017, the condition of meeting 2016 profit guarantee was fulfilled. The respective contingent consideration payable of approximately HK$15,000,000 was paid.

29 CONVERTIBLE BONDS

At 31 December 2017, the convertible bonds in an aggregate principal amount of HK$332,328,165 (2016: HK$507,234,928) allotted and issued to Ali Fortune Investment Holding Limited were outstanding.

The bonds bear no interest on the principal amount. The bonds mature three years from the issue date on 10 August 2016 or can be converted into shares at the holder's or the issuer's option (subject to public float requirements of the GEM Listing Rules) on or before the maturity date at the prevailing conversion price subject to adjustment.

	Debt instrument HK$'000	**Embedded derivative** HK$'000	**Total** HK$'000
Issue of convertible bonds	331,207	1,396,877	1,728,084
Gain on fair value changes	–	(408,077)	(408,077)
Interest expense	9,874	–	9,874
At 31 December 2016	341,081	988,800	1,329,881
Conversion during the year (Note)	(122,726)	(476,408)	(599,134)
Loss on fair value changes	–	123,969	123,969
Interest expense	45,474	–	45,474
At 31 December 2017	263,829	636,361	900,190

Note:

On 30 March 2017, Ali Fortune Investment Holding Limited exercised the conversion rights attaching to the convertible bonds in the aggregate principal amount of HK$174,906,763 and an aggregate of 600,000,000 shares were allotted and issued at the then conversion price of HK$0.2915 per share.

The fair value of the conversion option embedded in convertible bonds at 31 December 2017 amounted to approximately HK$636,361,000 (2016: HK$988,800,000).

29 CONVERTIBLE BONDS (continued)

Valuation techniques

The fair value of conversion option embedded in convertible bonds was determined by using the binominal model.

Information about fair value measurement using significant unobservable inputs (level 3) – Embedded derivative of convertible bonds

As at 31 December 2017

Description	Fair value (HK$'000)	Valuation technique	Unobservable inputs	Range (Weighted average)	Relationship of unobservable inputs to fair value
Embedded derivative of convertible bonds	636,361	Binominal model	Expected volatility of share prices	38.345%	The higher the expected volatility, the higher the fair value

As at 31 December 2016

Description	Fair value (HK$'000)	Valuation technique	Unobservable inputs	Range (Weighted average)	Relationship of unobservable inputs to fair value
Embedded derivative of convertible bonds	988,800	Binominal model	Expected volatility of share prices	60.324%	The higher the expected volatility, the higher the fair value

30 PROVISION FOR WARRANTIES

	2017	2016
	HK$'000	HK$'000
Balance at beginning of year	**52,998**	50,002
Amount (credited)/charged to profit or loss	**(2,940)**	12,758
Amounts utilised	**(8,373)**	(6,516)
Currency translation differences	**3,915**	(3,246)
Balance at end of year	**45,600**	52,998

The Group provides warranties to its customers on certain of its products, under which faulty products are repaired or replaced. The amount of provision for the warranties was estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

At the end of the reporting period, the Group estimated that provision for warranties are expected to be utilised in three to six years.

Reversal of provision for warranties of approximately HK$2,940,000 (2016: provision for warranties of HK$12,758,000) was included in 'other operating expenses'.

31 SHARE CAPITAL

	Number of shares (in thousand)	HK$'000
Authorised:		
Ordinary shares of HK$0.002 each	20,000,000	40,000
Issued and fully paid:		
At 1 January 2016	4,606,519	9,213
Exercise of share options under share option scheme (Note (i))	162,699	325
Exercise of share options by Rainwood Resources Limited (Note (ii))	212,879	426
Subscription of shares (Note (iii))	5,502,724	11,006
Settlement of contingent consideration (Note (iv))	10,135	20
At 31 December 2016	10,494,956	20,990
Exercise of share options under share option scheme (Note (i))	142,208	284
Conversion of convertible bonds (Note (v))	600,000	1,200
Settlement of contingent consideration (Note (iv))	10,135	20
At 31 December 2017	11,247,299	22,494

Notes:

(i) During the year ended 31 December 2017, part of the options granted under the share option scheme for 142,533,355 (2016: 162,699,290) shares of HK$0.002 each were exercised at exercise prices ranging from HK$0.1006 to HK$1.3100 (2016: HK$1.1006 to HK$1.3100) per share, resulting in the issue of 142,208,355 (2016: 162,699,290) shares of HK$0.002 each. The shares rank pari passu in all respects with other shares in issue.

(ii) On 21 May 2013, Rainwood Resources Limited was granted a share option under general mandate by the Company entitling it to subscribe for up to 212,879,224 shares at an exercise price of HK$0.40 per share (subject to adjustments) exercisable within a period of three years. Such option had been exercised in full on 16 March 2016. The shares rank pari passu in all respects with other shares in issue.

31 SHARE CAPITAL (continued)

Notes: (continued)

(iii) On 10 August 2016, a total of 4,817,399,245 shares at a subscription price of HK$0.3478 per share and convertible bonds in the aggregate principal amount of HK$712,582,483 were allotted and issued to Ali Fortune Investment Holding Limited in accordance with the terms of the subscription agreement dated 4 March 2016. On the same day, Ali Fortune Investment Holding Limited exercised the conversion rights attaching to the convertible bonds in an aggregate principal amount of HK$205,347,555, and an aggregate of 685,324,748 shares were allotted and issued at the then conversion price of HK$0.2996 per share. The shares rank pari passu with all the existing shares in issue.

(iv) During the year ended 31 December 2017, the condition of part of the contingent considerations related to the acquisition of a subsidiary was fulfilled, and an aggregate of 10,135,135 (2016: 10,135,135) shares were allotted and issued to the vendors in accordance with the terms of the acquisition agreement dated 17 November 2014. The shares rank pari passu with all the existing shares in issue.

(v) On 30 March 2017, Ali Fortune Investment Holding Limited exercised the conversion rights attaching to the convertible bonds in an aggregate principal amount of HK$174,906,763 and an aggregate of 600,000,000 shares were allotted and issued at the then conversion price of HK$0.2915 per share. The shares rank pari passu with all the existing shares in issue.

32 DIVIDEND

The Board does not recommend the payment of a final dividend for the year (2016: Nil).

33 SHARE-BASED PAYMENT TRANSACTIONS

Share option scheme prior to 17 November 2014 ("2004 Share Option Scheme")

The 2004 Share Option Scheme was adopted pursuant to a resolution passed on 18 November 2004 for the primary purpose of providing incentives to Directors and eligible participants (as defined in the 2004 Share Option Scheme). Under the 2004 Share Option Scheme, the Board may at its discretion grant options to eligible employees, including Directors of the Company and its subsidiaries, certain consultants, suppliers or customers of the Group who, in the sole discretion of the Board, have contributed or will contribute or can contribute to the Group, to subscribe for shares in the Company from time to time. The maximum number of shares which may be issued upon exercise of all options to be granted under the 2004 Share Option Scheme and any other schemes shall not exceed 10% of the shares in issue at the date of approval of the 2004 Share Option Scheme, without prior approval from the Shareholders. The number of shares in respect of which options may be granted under the 2004 Share Option Scheme to any individual in any one year is not permitted to exceed 1% of the shares in issue at the date of approval of the 2004 Share Option Scheme, without prior approval from the Shareholders.

33 SHARE-BASED PAYMENT TRANSACTIONS (continued)

Share option scheme prior to 17 November 2014 ("2004 Share Option Scheme") (continued)

Options granted to a Director, the chief executive or substantial Shareholder of the Company or any of their associates (as defined in the GEM Listing Rules) require the approval of independent non-executive Directors (excluding an independent non-executive Director who is the prospective grantee in question). Options granted to substantial Shareholders or independent non-executive Directors or their respective associates in excess of 0.1% of the Company's share capital and with a value in excess of HK$5 million must be approved in advance by the Shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per option. Options may be exercised at any time from the date of grant of the share option to a period to be notified by the Board to each grantee at the time of making such offer, which shall expire in 10 years from the date of grant.

The subscription price of the share option is determined by the Board, and the amount will not be less than the higher of (a) the closing price of shares on the Stock Exchange on the date of grant; (b) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of grant; and (c) the nominal value of a Share on the date of grant.

The 2004 Share Option Scheme is valid for a period of 10 years commencing on the adoption date of 18 November 2004 and was expired in 2014. Thereafter, no further options would be granted under the 2004 Share Option Scheme but the subsisting options granted thereunder prior to the expiry date will continue to be valid and exercisable in accordance with the terms of the 2004 Share Option Scheme.

33 SHARE-BASED PAYMENT TRANSACTIONS (continued)

Share option scheme on or after 23 December 2014 ("2014 Share Option Scheme")

The 2014 Share Option Scheme was adopted pursuant to a resolution passed on 23 December 2014 for the primary purpose of providing incentives to Directors and eligible participants (as defined in the 2014 Share Option Scheme). Under the 2014 Share Option Scheme, the Board may at its discretion grant options to eligible employees, including Directors of the Company and its subsidiaries, certain consultants, suppliers or customers of the Group who, in the sole discretion of the Board, have contributed or will contribute or can contribute to the Group, to subscribe for shares in the Company from time to time. The maximum number of shares which may be issued upon exercise of all options to be granted under the 2014 Share Option Scheme and any other schemes shall not exceed 10% of the shares in issue at the date of approval of the 2014 Share Option Scheme, without prior approval from the Shareholders. The number of shares in respect of which options may be granted under the 2014 Share Option Scheme to any individual in any one year is not permitted to exceed 1% of the shares in issue at the date of approval of the 2014 Share Option Scheme, without prior approval from the Shareholders.

Options granted to a Director, the chief executive or substantial Shareholder of the Company or any of their associates (as defined in the GEM Listing Rules) require the approval of independent non-executive Directors (excluding an independent non-executive Director who is the prospective grantee in question). Options granted to substantial Shareholders or independent non-executive Directors or their respective associates in excess of 0.1% of the Company's share capital and with a value in excess of HK$5 million must be approved in advance by the Shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per option. Options may be exercised at any time from the date of grant of the share option to a period to be notified by the Board to each grantee at the time of making such offer, which shall expire in 10 years from the date of grant.

The subscription price of the share option is determined by the Board, and the amount will not be less than the higher of (a) the closing price of shares on the Stock Exchange on the date of grant; (b) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of grant; and (c) the nominal value of a Share on the date of grant.

The 2014 Share Option Scheme is valid for a period of 10 years commencing on the adoption date of 23 December 2014.

33 SHARE-BASED PAYMENT TRANSACTIONS (continued)

Share option scheme on or after 23 December 2014 ("2014 Share Option Scheme") (continued)

The following table discloses details and movements of the Company's share options held by Directors, eligible employees and other eligible participants of the Group during the years ended 31 December 2017 and 2016:

	Outstanding at 1 January 2017	Exercised during the year	Expired during the year	Forfeited during the year	Outstanding at 31 December 2017
Directors:					
2004 Share Option Scheme	625,000	–	–	–	625,000
2014 Share Option Scheme	3,000,000	(750,000)	–	–	2,250,000
Eligible employees:					
2004 Share Option Scheme	73,893,679	(20,497,500)	(16,137,059)	(5,702,500)	31,556,620
2014 Share Option Scheme	93,251,925	(17,103,700)	–	(18,664,625)	57,483,600
Other eligible participants:					
2004 Share Option Scheme	64,287,922	(31,408,961)	(125,000)	(20,000,000)	12,753,961
2014 Share Option Scheme	288,547,248	(72,773,194)	(10,045,532)	–	205,728,522
Total	523,605,774	(142,533,355)	(26,307,591)	(44,367,125)	310,397,703
Exercisable at the end of year	96,524,884				93,681,853
Weighted average exercise price	HK$1.0076	HK$0.8405	HK$1.1803	HK$1.2030	HK$1.0418

33 SHARE-BASED PAYMENT TRANSACTIONS (continued)

	Outstanding at 1 January 2016	Transferred during the year	Exercised during the year	Expired during the year	Forfeited during the year	Outstanding at 31 December 2016
Directors:						
2004 Share Option Scheme	63,622,883	(16,500,000)	(35,853,922)	–	(10,643,961)	625,000
2014 Share Option Scheme	47,944,800	(44,944,800)	–	–	–	3,000,000
Eligible employees:						
2004 Share Option Scheme	73,413,679	16,500,000	(15,757,500)	–	(262,500)	73,893,679
2014 Share Option Scheme	64,619,500	44,944,800	(16,124,875)	–	(187,500)	93,251,925
Other eligible participants:						
2004 Share Option Scheme	141,405,383	–	(72,417,461)	(4,200,000)	(500,000)	64,287,922
2014 Share Option Scheme	311,092,780	–	(22,545,532)	–	–	288,547,248
Total	702,099,025	–	(162,699,290)	(4,200,000)	(11,593,961)	523,605,774
Exercisable at the end of year	42,637,423					96,524,884
Weighted average exercise price	HK$0.9282	–	HK$0.6908	HK1.3100	HK$0.5299	HK$1.0076

Share options for 142,533,355 (2016: 162,699,290) shares exercised in the year ended 31 December 2017 resulted in 142,208,355 (2016: 162,699,290) shares being issued at a weighted average price of HK$0.8405 (2016: HK$0.6908) each. The related weighted average share price at the time of exercise was HK$1.4049 (2016: HK$1.7123) per share.

At 31 December 2017, the number of shares in respect of which options had been granted and remained outstanding under the 2014 Share Option Scheme was 265,462,122 (2016: 384,799,173), under the 2004 Share Option Scheme was 44,935,581 (2016: 138,807,601), totally representing approximately 2.8% (2016: 5.0%) of the Company's issued share capital as at that date.

33 SHARE-BASED PAYMENT TRANSACTIONS (continued)

Share options outstanding at the end of the year have the following expiry date and exercise prices:

		Number of share options per share option	
Expiry date	**Range of exercise price**	**2017**	2016
2017	HK$0.1006 - HK$1.3100	–	96,524,883
2018	HK$0.4250 - HK$1.3780	**93,681,853**	183,442,791
2019	HK$0.8580 - HK$1.3780	**117,293,952**	137,786,330
2020	HK$0.8580 - HK$1.3780	**99,421,898**	105,851,770
		310,397,703	523,605,774

No share options were granted during the year ended 31 December 2017 (2016: nil).

The fair values of options granted in previous years were calculated using the binominal model, details of which are as follows:

	Date of grant		
	7 July 2015	1 June 2015	20 January 2015
Number of shares to be issued upon exercise of options granted	300,312,280	72,944,800	52,200,000
Estimated fair values of options granted (rounded to HK$'000)	HK$143,454	HK$29,474	HK$22,915
Significant inputs into the model:			
Closing share price at date of grant	HK$1.0200	HK$0.8400	HK$0.9200
Exercise price	HK$1.1020	HK$0.8580	HK$0.9200
Expected volatility	66.39%-75.55%	66.59%-73.87%	65.85%-72.71%
Expected life of options	2-5 years	2-5 years	2-5 years
Risk-free interest rate	0.401%-1.156%	0.444%-1.104%	0.344%-0.971%
Dividend yield	Nil	Nil	Nil

Expected volatility was determined by using the historical volatility of the share prices of other companies in the similar industry over the expected life of the options. No other feature of the options granted was incorporated into the measurement of fair values.

33 SHARE-BASED PAYMENT TRANSACTIONS (continued)

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

On 22 June 2015, certain options previously granted to eligible employee were forfeited by cancellation. On 7 July 2015, the Company granted options carrying rights to subscribe a total of 19,219,500 shares under the Share Option Scheme to eligible employee and other eligible participants, options carrying rights to subscribe 19,219,500 shares were identified by the Company as replacement equity instruments for the cancelled equity instruments. The decreased value arising from the aforementioned cancellation and replacement was approximately HK$13,220,000, which represented the difference between the fair value of the replacement options and the fair value of the cancelled options at the date of the replacement options were granted. Then fair values of the replacement options and cancelled options were estimated using the binominal method. The following table lists the inputs to the model used:

	Number of shares in respect of the cancelled options	**Number of shares in respect of the replacement options**
Number of shares to be issued upon exercise of options granted	19,219,500	19,219,500
Estimated fair values of options granted (rounded to HK$'000)	HK$22,486	HK$9,266
Significant inputs into the model:		
Closing share price at date of the replacement options were granted	HK$1.2700	HK$1.0200
Exercise price	HK$0.1006	HK$1.1020
Expected volatility	65.10%-68.49%	66.39%-71.74%
Expected life of options	1.15-2.15 years	2-5 years
Risk-free interest rate	0.158%-0.464%	0.401%-1.156%
Dividend	Nil	Nil

Expected volatility was determined by using the historical volatility of the share prices of other companies in the similar industry over the expected life of the options. No other feature of the options granted was incorporated into the measurement of fair values.

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

33 SHARE-BASED PAYMENT TRANSACTIONS (continued)

Share award scheme ("Share Award Scheme")

The Company has adopted the Share Award Scheme on 17 March 2017 (the "Adoption Date") which allows the Company to grant award Shares to selected participants as incentives and/or rewards for their contribution to the Group.

On 15 May 2017, the Board granted a total of 100,618,500 award Shares to Directors and eligible employees. The 100,618,500 award Shares granted represent approximately 0.9% of the issued share capital of the Company as at 31 December 2017. Based on the closing price of HK$1.33 per Share on the date of the grant of the award Shares, the market value of the 100,618,500 award Shares in aggregate is HK$133,822,605.

All of the 100,618,500 award Shares shall be granted by way of acquisition of existing Shares from the market by the trustee of the Share Award Scheme (the "Trustee"). The Board shall cause to pay the Trustee the purchase price and the related expenses from the Company's cash resources. The Trustee shall purchase from the market the relevant number of award Shares and shall hold the award Shares on trust for the relevant selected participants until they are vested in such selected participants and delivered in accordance with the terms of the Share Award Scheme. There is no condition, performance target or lock up restriction attached to the award Shares.

In the event that the Board elects to issue new Shares to satisfy any award Shares to be granted under the Share Award Scheme in the future, the maximum number of new Shares so issued shall be limited to 3% of the total issued Shares as at the Adoption Date (i.e. 315,426,263 Shares). The total number of issued Shares as at the Adoption Date was 10,514,208,770.

33 SHARE-BASED PAYMENT TRANSACTIONS (continued)

Movement of award Shares is as follows:

	Directors	Eligible employees	Total
Outstanding at 1 January	–	–	–
Granted during the year	18,200,000	82,418,500	100,618,500
Vested during the year	(2,300,000)	(2,749,625)	(5,049,625)
Forfeited during the year	–	(4,940,000)	(4,940,000)
Outstanding at 31 December	15,900,000	74,728,875	90,628,875

The fair value of the award Shares was determined based on the published closing price of the Company's shares at the respective grant date. The expected dividends during the vesting period have been taken into account when assessing the fair value of these awarded shares. The weighted average fair value of award Shares granted during the year ended 31 December 2017 was HK$1.33 per share.

34 OPERATING LEASE COMMITMENTS

The Group as lessee

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

	2017 **HK$'000**	2016 HK$'000
Within one year	**19,711**	8,569
In the second to fifth years inclusive	**37,286**	–
	56,997	8,569

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for terms one to four years (2016: one to four years) and rentals are fixed over the lease periods. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

34 OPERATING LEASE COMMITMENTS (continued)

The Group as lessor

Property rental income earned during the year was approximately HK$2,475,000 (2016: HK$3,920,000). All of the Group's investment properties are held for rental purposes. All of the properties held have committed tenants for the next two and a half years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2017 HK$'000	2016 HK$'000
Within one year	3,399	1,900
In the second to fifth years inclusive	5,381	–
	8,780	1,900

35 RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in these consolidated financial statements, the following transactions were carried out with related parties:

(a) Sales of services

	2017 HK$'000	2016 HK$'000
Revenue of games and entertainment business from a fellow subsidiary	21,497	–

Note:

This represents the revenue received from a fellow subsidiary for games and entertainment business which is based on pre-determined fee basis as stipulated in the agreement.

(b) Purchases of goods and services

	Note	2017 HK$'000	2016 HK$'000
Recharge for operation of lottery distribution from fellow subsidiaries	(i)	2,194	–
Recharge for operation of games and entertainment business from fellow subsidiaries	(ii)	55,338	–
Purchase of marketing services for games and entertainment business from fellow subsidiaries	(iii)	37,892	–
Purchase of technology services from a fellow subsidiary	(iv)	1,160	–
Recharge for rental services from a fellow subsidiary	(v)	2,909	–
Recharge for management and administrative services from fellow subsidiaries	(vi)	5,112	–

35 RELATED PARTY TRANSACTIONS (continued)

Transactions with related parties (continued)

Notes:

(i) This represents the recharge for operation of lottery distribution from fellow subsidiaries which is based on pre-determined fee basis as stipulated in the agreement.

(ii) This represents the recharge for operation of games and entertainment business from fellow subsidiaries which is based on pre-determined fee basis as stipulated in the agreement.

(iii) This represents the marketing fees paid/payable to fellow subsidiaries for supply of products or services offered to individual users on certain online platforms operated by the Group at a discounted price.

(iv) This represents the service fee on technology services and resources provided by a fellow subsidiary which is charged based on the actual usage of those services.

(v) This represents the recharge of rental services from a fellow subsidiary which is fully exempted from the connected transaction requirements under Rule 20.74 of the GEM Listing Rules.

(vi) This represents the recharge of management and administrative services from fellow subsidiaries which is fully exempted from the connected transaction requirements under Rule 20.96 of the GEM Listing Rules.

(c) Key management compensation

The remuneration of the Directors (who are the key management personnel of the Group) during the year was as follows:

	2017	2016
	HK$'000	HK$'000
Short-term employee benefits	**7,101**	8,330
Share-based payments	**10,677**	5,483
Post-employment benefits	**333**	69
	18,111	13,882

35 RELATED PARTY TRANSACTIONS (continued)

(d) Loan to related party

	2017 HK$'000	2016 HK$'000
Loan to an officer	2,671	–

Note:

This represents the loan to an officer of the Company for a period of 2 years repayable by monthly instalments at interest rate with reference to market rate and secured by the Company's shares held by the officer. The transaction is fully exempted from the connected transaction requirements under Rule 20.74 of the GEM Listing Rules.

36 DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The remuneration of every Director and the chief executive is set out below:

For the year ended 31 December 2017

	Fees HK$'000	Salaries and other benefits in kind HK$'000	Share-based payments (Note (v)) HK$'000	Contributions to retirement benefit schemes HK$'000	Total emoluments HK$'000
Executive Directors:					
Mr. Sun Ho	3,870	990	2,865	194	7,919
Mr. Zhou Haijing	420	1,320	7,512	139	9,391
Non-executive Directors:					
Mr. Zhang Qin	–	–	–	–	–
Mr. Yang Guang	–	–	–	–	–
Mr. Ji Gang	–	–	–	–	–
Mr. Zhang Wei (Note (iv))	–	–	–	–	–
Mr. Zou Liang (Note (iii))	–	–	–	–	–
Independent non-executive Directors:					
Ms. Monica Maria Nunes	171	–	38	–	209
Mr. Feng Qing	165	–	131	–	296
Mr. Gao Jack Qunyao	165	–	131	–	296
Total emoluments	4,791	2,310	10,677	333	18,111

36 DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (continued)

For the year ended 31 December 2016

	Fees HK$'000	Salaries and other benefits in kind HK$'000	Share-based payments (Note (v)) HK$'000	Contributions to retirement benefit schemes HK$'000	Total emoluments HK$'000
Executive Directors:					
Mr. Sun Ho	3,600	800	–	45	4,445
Mr. Zhou Haijing (Note (i))	589	200	–	–	789
Mr. Bai Jinmin (Note (ii))	912	83	875	12	1,882
Mr. Liang Yu (Note (ii))	737	60	481	–	1,278
Mr. Cheng Guoming (Note (ii))	876	80	4,871	12	5,839
Non-executive Directors:					
Mr. Zhang Qin (Note (i))	–	–	–	–	–
Mr. Yang Guang (Note (i))	–	–	–	–	–
Mr. Ji Gang (Note (i))	–	–	–	–	–
Mr. Zhang Wei (Note (i))	–	–	–	–	–
Mr. Ho King Fung, Eric (Note (ii))	73	–	(1,276)	–	(1,203)
Independent non-executive Directors:					
Ms. Monica Maria Nunes	120	–	90	–	210
Mr. Feng Qing	100	–	221	–	321
Mr. Gao Jack Qunyao	100	–	221	–	321
Total emoluments	7,107	1,223	5,483	69	13,882

Notes:

(i) Appointed on 10 August 2016.

(ii) Resigned on 10 August 2016.

(iii) Appointed on 10 November 2017.

(iv) Resigned on 10 November 2017.

(v) Share-based payments represent estimated money value of the share options and share awards granted to the Directors and chief executive.

Mr. Sun Ho is also the chief executive and his emoluments disclosed above include those for services rendered by him as the chief executive.

During the year ended 31 December 2017, 9,200,000 award shares were granted to Mr. Zhou Haijing as an inducement to join the Group, and the estimated money value of approximately HK$6,080,000 was included in share-based payments. Save as above, no emoluments were paid by the Group to any of the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors waived their emoluments during the year ended 31 December 2017 (2016: Nil).

There are no loans, quasi-loans or other dealings in favour of Directors, their controlled bodies corporate and connected entities with such Directors (2016: Nil).

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2016: None).

37 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017 HK$'000	2016 HK$'000
Non-current asset		
Investments in subsidiaries	–	–
Current assets		
Amounts due from subsidiaries	3,875,464	3,946,272
Deposits and prepayments	833	355
Cash and bank balances	26,393	53,359
	3,902,690	3,999,986
Total assets	3,902,690	3,999,986
Current liabilities		
Accruals and other payables	5,719	20,105
Amounts due to subsidiaries	–	170
Contingent consideration payables	147,504	62,471
	153,223	82,746
Non-current liabilities		
Convertible bonds	900,190	1,329,881
Contingent consideration payables	–	113,797
	900,190	1,443,678
Total liabilities	1,053,413	1,526,424
Net assets	2,849,277	2,473,562
Equity		
Share capital	22,494	20,990
Reserves	2,826,783	2,452,572
Total equity	2,849,277	2,473,562

The financial statements were approved by the Board of Directors on 23 March 2018 and were signed on its behalf by:

Sun Ho
Director

Zhou Haijing
Director

37 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Reserve movement

	Share premium HK$'000	Shares held for share award scheme HK$'000	Share options reserve HK$'000	Share awards reserve HK$'000	Contributed surplus HK$'000	Other reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at 1 January 2016	1,540,597	–	168,549	–	47,191	60,811	(768,325)	1,048,823
Profit for the year	–	–	–	–	–	–	471,487	471,487
Recognition of equity settled share-based payments	–	–	86,576	–	–	–	–	86,576
Issue of shares upon exercise of share options under share option scheme	156,245	–	(44,176)	–	–	–	–	112,069
Issue of shares upon exercise of share options by Rainwood Resources Limited	123,358	–	(38,632)	–	–	–	–	84,726
Lapse of share options	–	–	(4,025)	–	–	–	4,025	–
Issue of shares upon subscription	648,911	–	–	–	–	–	–	648,911
Issue of shares upon settlement of contingent consideration	9,101	–	–	–	–	(9,121)	–	(20)
Balance at 31 December 2016	2,478,212	–	168,292	–	47,191	51,690	(292,813)	2,452,572
Loss for the year	–	–	–	–	–	–	(264,905)	(264,905)
Recognition of equity settled share-based payments	–	–	47,971	48,529	–	–	–	96,500
Issue of shares upon conversion of convertible bonds	597,934	–	–	–	–	–	–	597,934
Issue of shares upon exercise of share options under share option scheme	165,117	–	(45,842)	–	–	–	–	119,275
Lapse of share options	–	–	(33,467)	–	–	–	33,467	–
Issue of shares upon settlement of contingent consideration	9,102	–	–	–	–	(9,122)	–	(20)
Purchase of shares under share award scheme	–	(174,574)	–	–	–	–	–	(174,574)
Transfer of shares upon vesting of share awards under share award scheme	(451)	7,167	–	(6,716)	–	–	–	–
Lapse of share awards	–	–	–	(231)	–	–	231	–
Balance at 31 December 2017	3,249,914	(167,407)	136,954	41,582	47,191	42,568	(524,020)	2,826,782

38 PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2017 and 2016 are set out as follows:

Name of subsidiary	Form of business structure	Place of incorporation/ registration and kind of legal entity	Principal place of operations	Issued and fully paid share capital/ registered capital/ paid-up capital	Proportion of nominal value of issued capital/registered capital held by the Company	Principal activities
Asia Gaming Technologies Limited	Incorporated	Hong Kong,limited liability company	PRC	Ordinary shares of HK$5,122	51% (held indirectly)	Sales and distribution of software games and system and provision of maintenance, after-sales, training and consultancy services for such products
亞博泰科科技(北京)有限公司 (Asia Gaming Technologies (Beijing) Co., Ltd.*)	Wholly-foreign owned enterprise	PRC, limited liability company	PRC	Paid-up capital of HK$13.8 million	51% (held indirectly)	Sales and distribution of software games and system and provision of maintenance, after-sales, training and consultancy services for such products
亞博泰科科技(天津)有限公司 (Asia Gaming Technologies (Tianjin) Co., Ltd.*)	Wholly-foreign owned enterprise	PRC, limited liability company	PRC	Paid-up capital of RMB10 million	51% (held indirectly)	Sales and distribution of software games and system and provision of maintenance, after-sales, training and consultancy services for such products
Maxprofit Management Limited	Incorporated	Hong Kong, limited liability company	Hong Kong	Ordinary shares of HK$600,000	100% (held indirectly)	Provision of management services for the Group
Beijing Systek	Wholly-foreign owned Enterprise	PRC, limited liability company	PRC	Registered capital of HK$21 million	100% (held indirectly)	Research and development of sports lottery information technology
世紀星彩企業管理有限公司 (China Lottery Management Co., Ltd.*)	Wholly-foreign owned Enterprise	PRC, limited liability company	PRC	Registered capital of HK$150 million	100% (held indirectly)	Provision of sports lottery management and marketing consultancy services and supply of sports lottery sales terminals (and accessories)
SYSTEK LTD	Incorporated	BVI, limited liability company	PRC	1 ordinary share of US$1	100% (held indirectly)	Investment holding
SHINING CHINA INC	Incorporated	BVI, limited liability company	PRC	50,000 ordinary shares of US$1 each	100% (held indirectly)	Investment holding
Exequs Co. Ltd.	Incorporated	BVI, limited liability company	PRC	50,000 ordinary shares of US$1 each	100% (held indirectly)	Investment holding
Fortune Happy Investment Limited	Incorporated	Hong Kong, limited liability company	Hong Kong	Ordinary shares of HK$10,000	100% (held indirectly)	Investment holding
北京世紀德彩科技有限公司 (Beijing Century Decai Technology Co., Ltd.*)	Domestic enterprise	PRC, limited liability company	PRC	Registered capital of RMB30 million	100% (held indirectly)	Investment holding

38 PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Form of business structure	Place of incorporation/ registration and kind of legal entity	Principal place of operations	Issued and fully paid share capital/ registered capital/ paid-up capital	Proportion of nominal value of issued capital/registered capital held by the Company	Principal activities
GOT	Domestic enterprise	PRC, limited liability company	PRC	Registered capital of RMB100 million	100% (held indirectly)	Research, development and production of sports lottery terminals and systems
深圳市銀溪數碼技術有限公司 (Shenzhen Silvercreek Digital Technology Co., Ltd.*) (Note)	Domestic enterprise	PRC, limited liability company	PRC	Paid-up capital of RMB30 million	100% (held indirectly)	Provision for lottery organisations with comprehensive phone and mobile betting solutions
Score Value Limited	Incorporated	BVI, limited liability company	PRC	50,000 ordinary shares of US$1 each	100% (held indirectly)	Investment holding
Sincere Honor Holdings Limited	Incorporated	Hong Kong, limited liability company	Hong Kong	Ordinary shares of HK$10,000	100% (held indirectly)	Investment holding
Shenzhen Subsidiary	Domestic enterprise	PRC, limited liability company	PRC	Paid-up capital of RMB5 million	100% (held indirectly)	Research and development, quality assurance and sale of handheld lottery sales equipment, provision of after-sales maintenance services
北京名影科漫科技有限公司 (Beijing MTC Creative Mind Tech Co., Ltd.*)	Domestic enterprise	PRC, limited liability company	PRC	Paid-up capital of RMB10 million	100% (held indirectly)	Research and development, quality assurance and sale of handheld lottery sales equipment, provision of after-sales maintenance services

* *For identification purpose only*

Note:

The equity interest of Shenzhen Silvercreek Digital Technology Co., Ltd. is held by individual nominees on behalf of the Group.

The above table lists out the principal subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities during the year and at the end of the reporting period.

The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand.

The Group had no subsidiaries which have material non-controlling interests for the years ended 31 December 2017 and 2016.